

Markets Stay Steady Amid Biden's Announcement, Investors expect a Fed rate-cutting cycle, and the Corporate Earnings Parade in Focus.

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The U.S. and European stock markets opened the week with gains as the market absorbed the shift in Washington as President Biden Declines Re-election Bid.

On Sunday afternoon, President Joe Biden announced that he will not seek re-election in November as the Democratic nominee. Instead, he endorsed Vice President Kamala Harris as the Democratic nominee, though other contenders may still enter the race. This unexpected development adds a new layer of uncertainty to the U.S. election landscape. Despite the political shake-up, the stock market has responded calmly, with equity markets closing higher and bond yields slightly better. This reaction suggests investors do not anticipate significant policy changes from the new Democratic nominee.

On the Republican side, Donald Trump remains the leading candidate at 60, according to PredictIt. However, his odds diminished following the announcement. On the Democratic side, Kamala Harris began at 41 as she entered the race 24 hours ago. Over the past two weeks, small-cap stocks have outperformed, driven by expectations of deregulation and optimism about a potential start to the Federal Reserve's rate-cutting cycle.

Key Takeaways from the Weekend Developments:

1. **Policy Continuity Expected:** The change in the Democratic nominee is not expected to drastically alter the policy landscape. Market focus will likely remain on taxes and tariffs. The Trump administration's proposals include lower taxes, deregulation, and higher tariffs, which have been seen as pro-growth but could pose inflation risks. On the Democratic side, significant deviations from current trade and tax policies are not anticipated.
2. **Short-term Volatility:** The process of selecting the new Democratic nominee and the news surrounding the Democratic convention may introduce short-term volatility. Historically, volatility increases about two months before the election but tends to subside afterward.
3. **Positive Investment Outlook:** The investment environment remains favorable, supported by rising corporate profits, ongoing economic expansion, and the potential for lower yields if the Federal Reserve moves towards interest-rate cuts. Investors might consider using short-term market pullbacks as opportunities to invest in quality assets aligned with their long-term goals.

How did markets perform under different presidents? 2001-2024:

George W. Bush (2001-2009)

- **S&P 500 Performance: -39.0%**
- **Key Events:** 9/11 attacks, Iraq War, Financial crisis of 2008.

Barack Obama (2009-2017)

- **S&P 500 Performance: +182.9%**
- **Key Events:** Recovery from the Great Recession, Affordable Care Act, End of Iraq War.




Donald Trump (2017-2021)

- **S&P 500 Performance: +67.8%**
- **Key Events:** Tax cuts, Deregulation, Trade wars, COVID-19 pandemic.

Joe Biden (2021-Present)

- **S&P 500 Performance: 44.46% Data as of July 22, 2024**
- **Key Events:** COVID-19 recovery, Infrastructure bill, Inflation concerns, Russia-Ukraine conflict.

How did the market react to Trump's election vs. Biden's election?

	 Trump	 Biden
		
<i>S&P 500 Performance:</i>		
Day after Election Day	1.11% 11/09/2016	2.20% 11/04/2020
~2 Months After Election Day (Day after Election through Inauguration Day)	6.16% 11/09/2016 - 1/20/2017	14.33% 11/04/2020 - 1/20/2021

Fundamentals Over Politics

While political uncertainty can cause short-term market volatility, it's important to remember that market fundamentals such as economic growth, interest rates, and corporate earnings are the primary drivers of long-term performance. For instance, despite harsh rhetoric and tariffs on China under Donald Trump, the MSCI China Index gained 114% during his administration. Conversely, under Biden, with a softer stance towards China, the index has declined by approximately 48%. This underscores the importance of focusing on fundamentals rather than political noise.

Earnings in Focus

This week, markets will be analyzing numerous corporate earnings reports, with about 30% of the S&P 500 companies set to report. The S&P 500 is expected to see a 10% year-over-year earnings growth in the second quarter, driven by solid performances in the communication services, information technology, financials, and healthcare sectors. Looking ahead to the entire year, the S&P 500 is projected to achieve nearly 12% earnings growth in 2024, the highest since 2021. Unlike in 2023, where strong profit growth was limited to a few sectors, 2024 is expected to see earnings growth across almost all sectors except energy and materials. This broad-based profit growth could extend the current bull market and lead to a more diversified market leadership.

Key Economic Data:

- **U.S. Retail Gas Price:** rose to \$3.614, up from \$3.608 last week, a change of 0.17%.

Eurozone Summary:

- **Stoxx 600:** Closed at 514.79, up 4.76 points or 0.93%.
- **FTSE 100:** Closed at 8,198.78, up 43.06 points or 0.53%.
- **DAX Index:** Closed at 18,407.07, up 235.14 points or 1.29%.

Wall Street Summary:

- **Dow Jones Industrial Average:** closed at 40,415.44, up 127.91 points or 0.32%.
- **S&P 500:** closed at 5,565.41, up 59.41 points or 1.08%.
- **Nasdaq Composite:** closed at 18,007.57, up 280.63 points or 1.58%.
- **Birling Capital Puerto Rico Stock Index:** closed at 3,786.39, up 21.18 points or 0.56%.
- **Birling Capital U.S. Bank Stock Index:** closed at 5,418.57, down 26.63 points or 0.49%.
- **U.S. Treasury 10-year note:** closed at 4.26%.
- **U.S. Treasury 2-year note:** closed at 4.50%.



Inflation Nowcasting PCE & Core PCE

Inflation Nowcasting	PCE Forecast	Core PCE Forecast
June	2.40%	2.39%

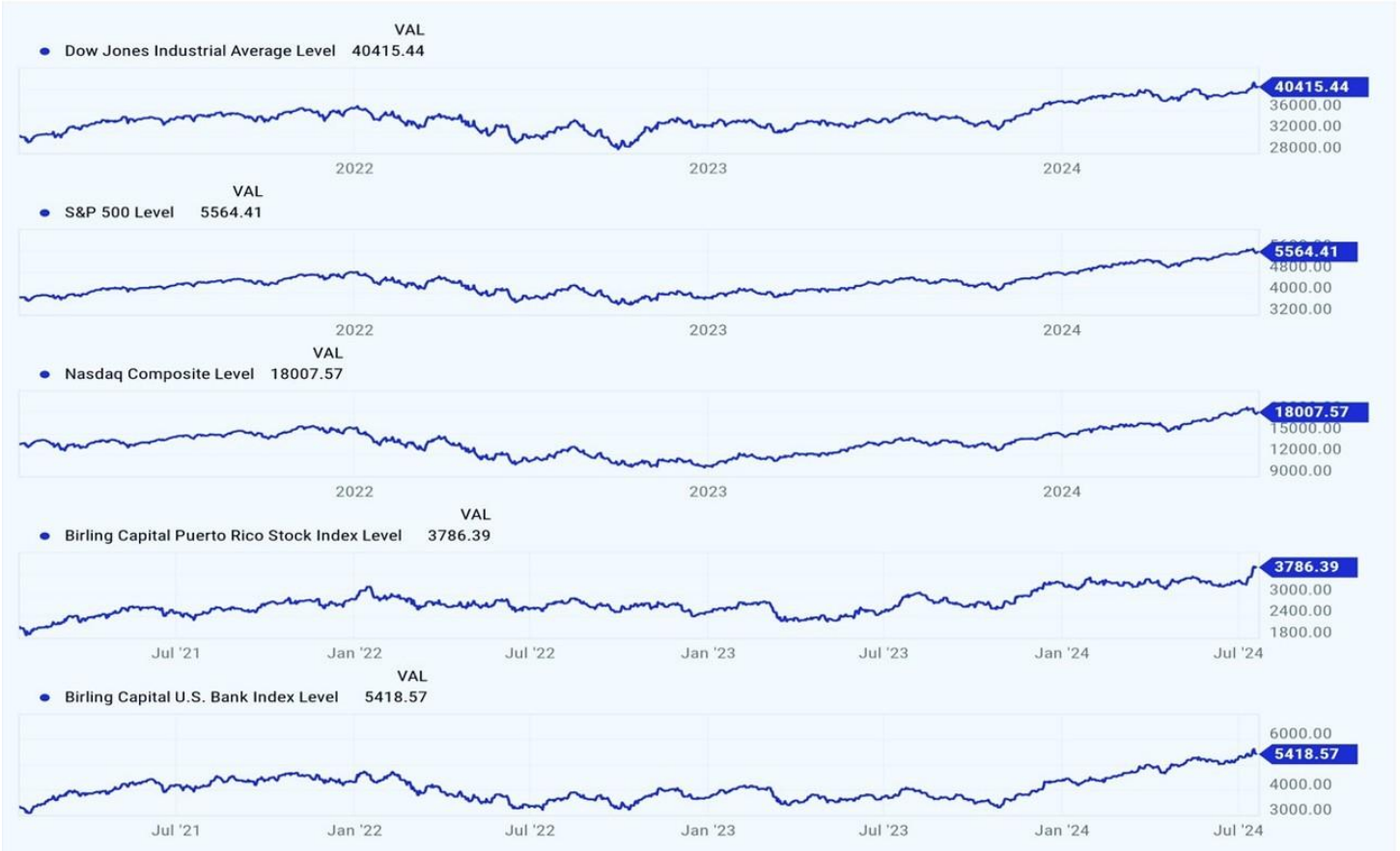
The next Report is due on July 26, 2024



Wall Street Recap

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