

What happened last week:

- **AI vs. the Rest:** Year-to-date equity trends reversed last week as small-caps led mega-cap tech; quarter/month-end and specific product rebalancing flows likely contributed to the atypical price action.
- **Softening U.S. Data:** Weaker retail sales added another tally to the string of softening consumer data.
- **European Woes:** Equity and fixed-income markets continue to price in increased risk, stemming from a pivot towards more extreme politics in France.

What we're watching this week

- **Politics:** Thursday's presidential debate could weigh on interest rates in the event of a decisive performance by either candidate.
- **End of Quarter Flows:** Potential rebalancing out of the recent outperformers (growth, China, and broad equities) into the laggards (small caps, dividends, and bonds).
- **Economic Data:** PCE for the month of May (the Fed's preferred inflation gauge), CPI in Tokyo, and various EM central bank meetings round out the week.

Market Perspectives

- The narrow market leadership that has been the story of 2024 (and much of '23) took a pause last week. Both small caps and the average S&P 500 stock outperformed the mega-cap tech-heavy NASDAQ 100, while eight of the eleven sectors bested the market-cap index. For context, only two sectors have managed to beat the index this year. There was little in the way of market-relevant news behind last week's price action; investor rebalancing flows after such a strong run are likely the culprit.
- Three macro developments were interesting to us outside of the price action in equities. In the U.S., a weaker-than-expected retail sales print was not met with lower bond yields, indicating that fixed-income markets may have already discounted the recent slow patch in growth. In Europe, both fixed income and equity risk ticked higher ahead of the first round of the French elections on June 30th, a sign of investor nervousness. And in China, year-to-date lows for their currency raise the odds that policymakers will turn to that old stalwart, exports, to stabilize GDP growth at their upcoming plenum meeting in July.
- This week, investors are closely monitoring a few important catalysts. The Fed's preferred inflation gauge (PCE) and consumer confidence are top of mind in U.S. data. The first Presidential debate on Thursday may impact markets. Politics could prove to be impactful on interest rates; as a decisive debate showing from either side raises the odds of an election-day sweep and may push long-end yields meaningfully higher as investors price in a higher probability of sweeping fiscal changes. Outside the U.S., inflation data from Japan and several emerging market (EM) central bank policy meetings provide global context to the policy backdrop.

CPI = Consumer Price Index, PPI = Producer Price Index, PMI = Purchasing Managers' Index, PCE = Personal Consumption Expenditures Price Index.

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