

## What happened last week:

- **Reversion Price Action:** Year-to-date equity trends continued their reversal last week; small caps and internationals led U.S. mega-cap technology.
- **U.S. Debate:** Seemingly drove more of a reaction in U.S. rates than in equities
- **French Elections:** Tail outcome for markets seems to have been averted for now, with far-right posting results just short of a majority; European equity relief rally ongoing.

## What we're watching this week

- **Labor Market:** Friday's jobs report and Tuesday's job openings data are important markers for the outlook.
- **Politics:** Watching messaging from Democrats closely as well as the coming second round of the French election next weekend.
- **Monetary Policy:** Powell, Lagarde, and other global policymakers are speaking at the annual central banking conference in Sintra.

## Market Perspectives

- The investor rebalancing flagged in last week's recap was evident in equity price action as the strong second quarter came to a close. The NASDAQ 100 and the tech sector declined while many of the quarter's laggards, including domestic small caps and international equities, registered modest gains. Zooming out, it remains a very narrow market led by the largest U.S. tech names that also happen to be the market's preferred expression of the AI-theme. We think the last few weeks represent just a blip in the bigger picture, but investors will be watching to see if the coming earnings season, set to kick off on July 12th, can shake the overwhelming trend in equity markets for the last 18 or so months.
- In terms of news flow, last week was dominated by Thursday night's Presidential Debate. Prediction markets have moved heavily in favor of former President Trump after the event; in capital markets, bonds reacted more strongly than stocks to the debate. The 30-year Treasury yield climbed the most since the blowout jobs release in early April, with ~80% of last week's 16 bps move occurring in Friday's session. Small caps, another darling of the 2016 election, were also likely helped along by last week's debate, albeit to a much lesser extent. Notably absent from the beneficiary list was the dollar, which declined on Friday and was flat on the week despite its strong recent correlation with yields.
- Turning to this shortened week, the labor market will see fresh reports on payrolls Friday. On Tuesday, job openings beat expectations, indicating that there is still resilient demand for workers. Investors are keenly watching the Democrats' messaging, as well as any high-quality polling data, after last week's debate. Developments around the French parliamentary elections are also top of mind. Rounding out the week, the annual global central bank Sintra conference will feature the likes of the Fed's Powell and the ECB's Lagarde.

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

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