John Detrixhe: With tech, elections, and the health of the consumer in focus, it's been a busy week. This is The Markets. I'm John Detrixhe, and today I'm joined by Bobby Molavi, head of EMEA Execution Services at Goldman Sachs Global Banking and Markets. Let's get to it.

We got several pieces of economic data this week, including jobs numbers, housing data. What's your take on that?

Bobby Molavi: Yeah, I think that there's a healthy debate around whether good news is bad news or bad news is good news. I think in general there is concern around a slowing economy and whether that be in the US and on the consumer side of the equation or more globally when you look at regions like China. I think for now a slowing economy and marginal weakening strengthens the view that we're going to get rate cutting before the end of the year. I think if you begin to see an acceleration in that slowing or a ramp in unemployment or something in the market we'd get more nervous about, that begins to touch on bad news being bad news. But for now, we seem to be navigating that softening data as being net okay and the market being able to absorb that and it being part of that inflation cooling narrative, but that's breaking as a result of it.

John Detrixhe: July has historically been a fantastic month for US stocks. The S&P has rallied for nine straight Julys. Do you think the market will make it ten this year?

Bobby Molavi: Yeah, the S&P seems to have a good month every month in recent years, but there's a seasonal tailwind and I think some people expect to see that again. I think that the other factor that maybe some people are worried about is when you look at the absolute levels, whether it be multiples, valuations, concentration. Those historical July themes have tended not to come off the back of as hot a rally as we've had in the context of 10-15 years, but also in the context of Q1 where you saw huge amounts of equity appreciation, particularly out of the US. Less so as you move into kind of other regions, particularly in Europe, given the recent kind of events in France, the dampening of that European outperformance.

So I think it's totally possible. I think that seasonality effect is probably going to be a little bit weaker this year than what we saw last year where Q1 was a much more challenging backdrop versus this year, and the equity multiples were lower than we find ourselves today.

John Detrixhe: We've also had quarter-end rebalancing of investment portfolios. How is that filtering through the markets?

Bobby Molavi: Yeah, I think when you look at year to date, most strategies have had a good start to the year, whether that be systematic quants, long-short hedge funds, long-only passive or active, people have got P&L and performance to play with. So your mind, as you started off with, begins to tilt towards locking in some of the gains you've got, and I think we've seen that in some of our flows of late. The marginal rotation into defensives, a bit more of a flight to quality and safety, a little bit of de-grossing or selling in spaces of the market where the anxiety has built, particularly consumer-exposed stocks. And so I think that's begun to play out in the last couple of weeks, but I wouldn't say that any of it's been at a particularly large scale.

John Detrixhe: And AI is still driving a lot of momentum, recently driving some volatility in this sector. Is the volatility we're seeing a sign that investors are reassessing the fundamentals of this market move of the economy? Or is it something else that's going on?

Bobby Molavi: There are certain bits of the AI story that are firmer now. And for example, the CapEx that is going into building these language models or investing in the potential of AI is here, as people look for the products required to kind of experiment with AI and have the GPUs and CPUs with the opportunities that AI may present.

I think AI CapEx, semis, then you move into the private sphere. There's been a huge amount of value creation and kind of pricing in. Some of it's been in revenues; some of it's been in estimates. I think that theme stays front and center in people's minds. The question or debate now is how much of that has been pulled forward and priced in now? And how quickly will the monetization come? And have we priced too much in too quickly? I don't know if there's a debate about the transformational tech that AI is. I think the debate is where will the value be created in the long term? Is it going to be with a handful of players, the bigger players? Or is it going to be with players that have yet to emerge? And how distributed will that value be across the market and the kind of tech sector or the players, the kind of traffic in AI in the tech sector?

John Detrixhe: We have a number of elections taking place right now, including in the UK and in France. How is the market assessing those elections?

Bobby Molavi: We've seen some volatility in the markets, particularly from a European context, on the back of geopolitical volatility. And so the European parliamentary elections resulting in the French snap election triggered both volatility and some trading activity on the back of that volatility, with some people reviewing that their kind of expectations and risk appetite for Europe.

And then we move into the first round of French elections, the UK general election, and then the French second rounds in the coming days and weeks. So I think all of that will result in changes in the market that will translate to different views when it comes to sectors and single names, depending on the outcomes and the makeup of governments and/or policies of those governments. And we'll have a better read on that for the UK, for the US, and also for France over the course of the next ten days, so I think that's important and very much in focus for investors.

John Detrixhe: Is there anything else that you think is notable?

Bobby Molavi: I'd say what the market has been most focused on is the feeling that growth is slowing, the consumer is weakening, and we continue to get anecdotal data of both China slowdown, consumer slowdown, and that's translating into segments of the market that are more cyclical coming under pressure. Luxury being a great case in point, and I think that's been very topical over the course of the last week. To what degree these are the first warning signs that demand is beginning to slow to a point that companies are being affected in either margin or volumes? And I think that's something as we head into earnings season and you begin to get companies giving guidance that the market is extremely focused on, and we're seeing some signs of weakness ahead of that window in the markets this week and in several of the more cyclical segments.

John Detrixhe: And what are you watching next week?

Bobby Molavi: Heading into the summer, we'll get the natural diminishing of liquidity. I think you have a small window before earnings start as you move through into July and August. I think next week, the focus is very much on that kind of political catalyst events. And I think that those will set the tone in terms of risk and activity for the next week at least.

And then moving forward, I think there'll be a huge amount of focus around these earnings, particularly when it relates to the consumer and strength of the consumer, as some concerns around slowdown, unemployment, and consumer strength and consumption trends begin to weaken and create a little bit of anxiety in both share prices and investor sentiment.

John Detrixhe: Bobby, it was great to have you.

That does it for another episode of The Markets. Be sure to follow us on Spotify, Apple, or wherever you get your podcasts. And to learn more, subscribe to Briefings, our weekly newsletter on the global economy. I'm John Detrixhe. Thanks so much for listening.