# Monthly Macro

## August 2024


**Jim Leaviss**
CIO of Public Fixed Income

**Stuart Canning**
Fund Manager, Multi Asset


## What were the biggest drivers of markets in July?

- In July, the US consumer price index (CPI) showed inflation slowing to 2.9%, its lowest level in over three years. As a result, in the last weeks of July, markets repriced the Fed funds rate for January 2025 down from their prediction in April. Both US Treasuries and euro sovereigns had their strongest month in 2024 so far.

- July also saw the US report stronger-than-expected economic growth in the second quarter, relative to consensus.

- On the final day of the month, the Bank of Japan raised its benchmark interest rate, bringing it to its highest level since 2008. As a result, the yen gained sharply against the dollar. The BoJ also announced that it would reduce the pace of Japanese Government Bond purchase to 3.0 trillion yen (from 6.0 trillion yen currently) by early 2026.

- Elsewhere in July, Labour secured a strong victory in the UK parliamentary elections, while France saw a hung parliament as a left-wing alliance snatched victory from the mouth of the right-wing National Rally.

- The market narrative changed dramatically during July and through to the early days of August, bringing increased volatility.

- Initially there had been growing confidence in the prospects for US growth. This confidence was associated with much discussion of a ‘rotation,’ whereby smaller US companies began to outperform the large tech companies that had been so strong in the first half of the year.

- However, weakness in some tech stocks in and around earnings announcements appeared to reveal a market pricing in relatively optimistic expectations. Furthermore, investors moved very quickly to worrying about a potential inflection point in the US economy after softer jobs data at the end of the month. These forces created elevated uncertainty in how to price assets.

- Government bond yields fell markedly in the US and elsewhere, while stocks began to decline relatively sharply. Most notable were the falls in Japan, where falling US yields and an increase in the Japanese policy rate caused the yen to appreciate. Those moves, and the associated stock market declines intensified dramatically in the first few days of August.

## What will you be looking out for in August?

- With the job report coming in softer than expected in the first days of August, all eyes are on the Federal Reserve as to whether it will react to the weakness.

- The next Federal Open Market Committee meeting will take place in September and some investors now expect the central bank to trim interest rates, with the futures market pricing in at least a 25 basis point ease from the current 5.25%-5.50% fed funds rate.

- To see such dramatic shifts in markets on very little news could presage further reversals and potentially, a broadening out and intensification of the volatility seen thus far.

- The market moves in early August appeared to be excessive relative to the data that had been released, and could be revealing of market pricing that left very little room for negative surprise. We will be looking out for ongoing responses to macro data to assess the balance of sentiment.

### Key dates for the month ahead:

**20 Aug:** Eurozone CPI  **14 Aug:** Federal Open Market Committee meeting minutes  **30 Aug:** Core PCE Price index numbers



*Continued on page 2*