Monthly Macro

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What were the biggest drivers of markets in August?

- August was far from a typical relaxing summer month in bond markets amid concerns about 'higher for longer' interest rates, elevated budget deficits and a weakening economic outlook. There was a sharp sell-off at the start of the month, which saw the 10-year US Treasury yield spike to the highest level since 2007.
- Towards the end of the month, bond markets recovered somewhat, buoyed by expectations that the Federal Reserve (Fed) might be at or close to the peak in rate hikes and hopes that policymakers might have engineered a 'soft landing'. In his Jackson Hole speech, Fed Chair Jerome Powell said the Fed remained focused on bringing inflation down but there was little indication that rates might be cut soon.
- Against this background, US Treasuries ended the month down 0.6%, extending their recent run of declines.UK gilts also fell, whereas German bunds gained. In credit, global corporate bonds fell as spreads widened slightly over the month, while global high yield bonds were broadly flat. The recent rally in emerging market debt ran out of steam in August.
- Moves in US Treasury yields were arguably the most important driver of financial markets in August. While inflationary pressures continued to ease in the US, the apparent resilience of the US economy confounded those who had previously forecast recession and falling policy rates.
- Increased issuance and a ratings downgrade of US government debt by Fitch coincided with rising yields on longer maturity Treasuries early in the month. Subsequent growth and jobs data prompted further increases across the whole curve.
- These rising yields put pressure on equity markets, though there was a reversal of the worst of the moves in both assets toward the end of the month. By month end, signs of rising unemployment reinforced confidence that policy makers may have engineered a 'soft landing.'
- The upward pressure on US yields and softer growth data elsewhere in the world supported the US dollar versus most major currencies, while Chinese economic weakness resulted in underperformance of stockmarkets in Asia relative to the broader global market. There were further steps by Chinese policy makers to support the property sector and lending.

What will you be looking out for in September?

- The market consensus seems to be that we will have a plateau of higher rates ahead. This could be a big bet to make given that we are at a time of some danger for the global economy. First, there is continued uncertainty about the lag in monetary policy and a potential recession. The US housing market has also slowed with new mortgage rates reaching 7%, while China's economy has been far weaker this year than expected.
- Low trading volume in the summer months is sometimes posited as creating the conditions for unusual or changeable market moves. This may have been the case in August, although it has been the case for some time that government bond yields have swung from one macro datapoint to the next as the market grapples with the near-term path of policy.
- In the next month we will be looking for more pronounced moves toward panic or complacency in either direction.

Key dates for the month ahead:

13 Sept: US inflation data **20 Sept:** Fed interest rate decision **21 Sept:** BoE interest rate decision **29 Sept**: Eurozone inflation data

Continued on page 2