Monthly Macro

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What were the biggest drivers of markets in August?

- Weak manufacturing and labour market data in the US sparked concerns over a potential downturn.
- The US unemployment rate ticked up to 4.3%, breaching the ‘Sahm Rule’, which suggest that a recession is underway when the three-month average unemployment rate rises by 0.5% from its lowest point in the past year.
- It was a positive month for government bonds, particularly US Treasuries, as the data cemented hopes that interest rate cuts are imminent.
- This view was reinforced as Federal Reserve Chair Jerome Powell used his speech at Jackson Hole to deliver a dovish message, stating that “the time has come for policy to adjust” and that the Fed does not “seek or welcome further cooling in labour market conditions”.
- Globally, inflation has continued to trend in the right direction, with core inflation in the US falling to 3.2%, the lowest since April 2021. Eurozone inflation also fell to its lowest level in over three years. In the UK, the CPI figure increased slightly from the previous month, coming in at 2.2%, having spent two months at the Bank of England’s 2% target.

- Last month’s ‘Monthly Macro’ was still being written as an extreme spike in volatility took hold across markets, and in Japan in particular.
- On the surface, this was driven by slightly softer data in the US, which caused Treasury yields to fall on expectations of earlier or deeper policy rate cuts. At the same time, interest rates had been increased in Japan (albeit by only 0.15%) and the yen appreciated versus the US dollar. Yen strength is, other things being equal, unhelpful for the Japanese equity market which has a large element of profits driven by exports.
- However, as I wrote last month: “The market moves in early August appeared to be excessive relative to the data that had been released.” Volatility in Japan and other stock markets seemed to be heightened by investors with high levels of leverage, trend following investment strategies, human psychology, or a combination of the three.
- Ultimately most equity markets fully unwound their declines of that episode, though by month-end, government bond yields remained lower and the US dollar weaker versus most major currencies.

What will you be looking out for in September?

- All eyes will be on the Federal Reserve’s September meeting, with the prospect of a ‘soft landing’ hanging in the balance. Markets will also look for any further weakness in the jobs market, assessing the potential for a recession and how deep and fast the Fed might need to cut rates.
- The European Central Bank is expected to cut interest rates, while the Bank of England and the Bank of Japan are both expected to pause.

- Markets appear to remain confident that US policy rates will decline, while proving relatively temperamental about the path for growth. The consensus seems to be for a ‘soft landing,’ though much attention is being paid to any signs of inflection.
- We would look for more signs that US equities are vulnerable to even moderate disappointment at current valuations. Some may point to Nvidia’s price decline after in-line earnings delivery, but that move was actually consistent with normal levels of volatility for that stock.

Key dates for the month ahead:

12 Sept: ECB interest rate decision **14 Sept:** Fed Interest rate decision **19 Sept:** BoE interest rate decision **27 Sept:** US PCE Price Index

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