MONTHLY UPDATE

Latest views from the investment team

Policy pivot

August was another eventful month, to say the least. While the first UK rate cut since 2020 came with little fuss from asset markets, turmoil hit over the following few days. As described in our 'Market Volatility' note, global equities plunged, while the Japanese Yen rose sharply. The pain, amplified by low volume summer markets, was short-lived though. Stock prices recovered over the remainder of the month and US policymakers pivoted to a rate cutting stance.

The US was in focus in August as some economic data softened, prompting a strong, supportive message from the central bank. Inflation data was released which was below expectations – a welcome change. Meanwhile, the unemployment rate increased to 4.3%, nearly 1% above last year's low. While this is not good news, the details and response from the central bank are more reassuring. At the Jackson Hole Economic Symposium - an annual conference attended by central bankers and economists from around the world – Federal Reserve Chair Powell highlighted that upside risks to inflation have declined while downside risks to the jobs market have increased. He stressed their commitment to provide support, solidifying expectations that rate cuts will begin in September. He also stressed that, so far, the rise in unemployment has largely been driven by a greater supply of workers - partly driven by high migration and partly as domestic workers have returned to work - rather than layoffs. Powell's firm commitment to provide support comes at a time when there has been a moderation in data but not a significant deterioration. This should build confidence and help corporate profits; indeed, asset prices have enjoyed this pivot with bonds and equities making gains following his speech. Also, quarter-to-date, US equity performance has broadened with financials, healthcare and consumer staples outpacing the technology sector over this timeframe. News flow has been detrimental for the US dollar, however, as lower rates make cash less attractive while resilience displayed elsewhere has benefitted other currencies.

The Bank of England cut rates on 1st August for the first time since 2020, providing reason to be cheerful. Business activity indicators signal expansion, and have risen over recent months, for both the services and manufacturing sectors. This bodes well for ongoing gains in UK stocks and Sterling.

Over time, if economies remain healthy, as we expect under our base scenario, we may not see as many rate cuts as markets currently expect. This is reminiscent of patterns we have observed multiple times in recent years and provides fertile ground for active managers. However, a significant change to market pricing may also be unlikely while inflation is well-behaved. Over recent months, the oil price has proved stable, despite various adverse geopolitical headlines, and a rising supply of workers has dampened wage pressures. Therefore, we expect bond funds can continue to deliver modest gains over the remainder of the year.

Bottom line

External events such as the US election in November are hard to predict and may lead to short-term asset price volatility. However, we believe it is optimal to position for a longer horizon and expect that the start of US rate cuts will add support to economic growth and asset prices. Divergence between regions and sectors suggests that portfolio construction is key.

Month by numbers

Change in various markets over the month:

Asset		Change / Value
Equities		
UK	↑	0.98%
Europe	↑	1.79%
US	↑	2.37%
Emerging Markets	↑	0.40%
Japan	↓	-2.74%
Bonds/Rates *Absolute change (%)		
UK Base Rates	↓	-0.25%
		5.00%
Fed Funds Rate	-	0.00%
		5.50%
UK 10-Year Yield	↑	0.04%
		4.02%
US 10-Year Yield	↓	-0.14%
		3.92%
Currencies		
GBP/USD	↑	2.34%
		1.31
GBP/EUR	↑	0.13%
		1.19
DXY (USD Index)	↓	-2.30%
		101.70
Commodities		
Gold	↑	2.24%
		$2,503.36
Oil (Brent)	↓	-2.38%
		$78.80
Noteworthy		
Starbucks Corp	↑	21.32%

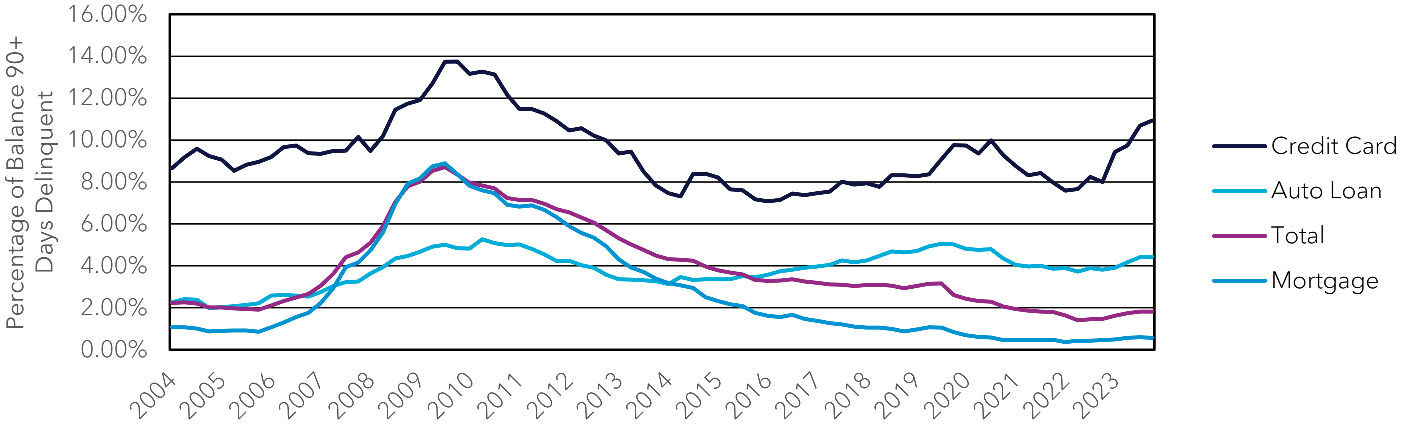
Q&A

Why is gold at all-time highs?

Gold has risen around 20% year-to-date, outperforming global equities and bonds. It is often viewed as a safe-haven asset so the appreciation of global assets so far this year begs the question of why gold is performing so well. The answer may lie in the long-term outlook for government bond issuance. In the US, Treasury bond issuance in 2024 is expected to increase above the lofty quantities that followed the 2008 financial crisis. The electorate has become used to high levels of government spending and higher rates has exacerbated the situation due to a greater interest expense burden. The US is now spending more on debt interest than defence, and some expect it to also overtake Medicare spending soon. With an aging population and more people retiring, it's hard to see this pattern change. This is a long-term headwind to the value of the US dollar and encourages investors to look towards supply constrained real assets, such as gold.

How strong is the US consumer?

The financial health of US consumers is a topic of fierce debate. While the jobs market remains robust, signs of softening, as noted earlier, may begin to affect consumer spending. Although exact figures are unclear, there is speculation that excess savings accumulated during the pandemic may now be depleted. Despite these challenges, large consumer facing retailers such as Target and Walmart posted strong Q2 earnings and a positive outlook, albeit some other consumer stocks did not fare as well. Retail sales also saw a sharp uptick in July with broad gains. However, as the below chart shows, worsening credit card delinquency data suggests that, at least some of this strength, has been credit fuelled. In this context, imminent interest rate cuts could provide a timely boost. US consumer spending accounts for almost 70% of US GDP so investors should pay close attention; however, it is wise to remember that it can be dangerous to underestimate the enduring resilience and hedonistic tendencies of the US consumer.



For more information, please contact your adviser.