HYMANS ROBERTSON

# Market brief

**August 2024**

## AUGUST HIGHLIGHTS

- Second-quarter US GDP growth rebounded to an above-forecast annualised pace of 3.0%, easing fears about a US recession, which had been stoked by July's weak labour-market report and ISM manufacturing survey data.
- Composite purchasing managers' indices (PMI) data indicate continued-but-slowing expansion, with marked divergence between decent service-sector activity and renewed weakness in the manufacturing sector.
- July's inflation data, released in August, came in lower than expected, with US and eurozone CPI falling to 2.9% and 2.2%, respectively, and UK CPI rising less than expected, to 2.2%.
- Developed-market sovereign bond yields generally fell. However, despite a Bank of England (BoE) rate cut at the start of August, UK yields were little changed, given sticky underlying inflation and a rebound in the economy.
- Global equities fell sharply at the beginning of August, on the back of disappointing US economic data and a Bank of Japan (BoJ) rate hike, but recovered to rise 1.7%. The unwind of yen carry trades, which exacerbated the global selloff, contributed to Japan's notable underperformance, while more defensive sectors outperformed globally.
- The Japanese yen rose a further 3.3% versus the US dollar – the currency has now risen 11% since its July nadir.
- Slowing growth and renewed weakness in global manufacturing contributed to an oil-price fall of 2.2%. Gold, meanwhile, rose a further 3.4% to hit new record nominal highs.

### Market performance to end August 2024

| UK | Aug 24 | Q2 24 | 2024 |
|---|---|---|---|
| **EQUITIES** | 0.5 | 3.7 | 11.3 |
| **BONDS** | | | |
| Conventional gilts | 0.5 | -0.9 | -0.3 |
| Index-linked gilts | -0.2 | -2.1 | -2.2 |
| Credit | 0.4 | -0.1 | 1.9 |
| **PROPERTY**** | n/a | 1.7 | 2.8 |
| **STERLING** | | | |
| v US dollar | 2.3 | 0.1 | 3.1 |
| v euro | 0.0 | 0.8 | 2.9 |
| v Japanese yen | -1.0 | 6.4 | 6.5 |

| GLOBAL | Aug 24 | Q2 24 | 2024 |
|---|---|---|---|
| **EQUITIES** | 1.7 | 3.5 | 16.8 |
| North America | 2.5 | 3.9 | 19.1 |
| Europe ex UK | 1.3 | 0.6 | 12.3 |
| Japan | -2.7 | 1.4 | 16.4 |
| Dev. Asia ex Japan | -0.7 | 0.6 | 5.2 |
| Emerging Markets | 1.1 | 6.9 | 12.6 |
| **GOVERNMENT BONDS** | 1.0 | -0.9 | 1.1 |
| High Yield | 1.5 | 1.4 | 6.8 |
| Gold | 3.4 | 5.1 | 21.3 |
| Oil | -2.2 | -1.1 | 1.5 |

Percentage returns in local currency ($ for gold and oil). All returns to 30/08/2024, *apart from property and hedge fund data 31/07/2024 Source: DataStream and Bloomberg. FTSE Indices shown: All Share, All World, North America, AW Developed Europe ex-UK, Japan, AW Developed Asia Pacific ex-Japan, Emerging, Fixed Gilts All Stocks, Index-Linked Gilts All Maturities, iBoxx Non-Gilts, S&P GSCI Light Energy, Crude Oil BFO, ICE BofA Global High Yield, Gold Bullion LBM, MSCI UK Monthly Property and BBG Aggregate Government Total Return.

## Fixed income markets

### Sovereign bond yields fell, and inflation expectations eased slightly

Ten-year US bond yields fell 0.1% pa to 3.9% pa, while 2-year bonds fell 0.3% pa, as markets moved to price in a faster pace of interest-rate cuts from the US Federal Reserve (Fed). Ten-year Japanese yields also fell 0.1% pa, to 0.9% pa, despite the BoJ's announcing that it will reduce the pace of Japanese government bond purchases. UK bonds underperformed, given sticky underlying inflation and a rebound in the economy: UK 10-year bond yields rose slightly, while front-end and longer-term yields fell less than their US counterparts.

Ten-year implied inflation, as measured by the difference between conventional and inflation-linked bonds of the same maturity, eased 0.1% pa in the UK and US, to 3.4% pa and 2.2% pa, respectively. Eurozone implied inflation also fell 0.1% pa, to 1.8% pa – its lowest level since before the invasion of Ukraine in early 2022.

### Investment-grade credit spreads were little changed, while speculative-grade spreads fell slightly

After rising sharply at the start of August, credit spreads recovered over the course of the month. Sterling investment-grade spreads ended the month marginally wider, at 1.2% pa, while US speculative-grade credit spreads actually ended August 0.1% pa lower, at 3.1% pa. European speculative spreads were little changed at 3.5% pa.

### A weaker US dollar contributed to positive emerging market sovereign-debt returns

Hard-currency debt, as measured by the JPM EMBI Global Diversified Index, returned 2.3% pa in dollar terms, largely due to a decline in underlying US treasury yields. Local-currency emerging market debt, as measured by the JPM GBI-EM Global Diversified Traded Index, returned 3.1% pa in dollar terms, as yields fell 0.1% pa and index currencies, in aggregate, strengthened around 2% against the US dollar.

## Global equities

### Defensive sectors generally outperformed, and value stocks outperformed growth

Global equities recovered from the sharp selloff in early August to end the month in positive territory, as the FTSE All World Total Return Index rose 1.7%. The selloff was driven by disappointing US economic data (a weak July jobs report and ISM manufacturing survey data) alongside an interest-rate rise and hawkish guidance from the BoJ, leading to an unwinding of yen-carry trades, whereby investors take advantage of cheap Japanese borrowing costs to buy other assets. The VIX index, which measures options' implied volatility, leapt from subdued levels to reach its highest point since the Covid-19 pandemic, before falling back below longer-term averages over the month.

Amid an increase in volatility, defensive areas of the market generally outperformed, with healthcare, utilities and consumer staples the three top-performing sectors, in that order. Consumer staples and financials also outperformed, in that order. Consistent with this pattern, the more cyclical energy, basic materials and consumer discretionary sectors were the worst performers, in that order. A fall in oil prices and renewed signs of weakness in global manufacturing weighed on energy and basic materials, respectively, while consumers' caution dragged on consumer discretionary. Industrials, technology and telecoms also underperformed, in that order. Value stocks outperformed growth stocks, while minimum volatility and quality stocks outperformed, given the volatile market conditions.

### North American equities outperformed

North America was the top-performing region, with smaller companies and cyclical sectors benefiting from positive economic data, strong earnings reports and lower interest-rate expectations. Big technology stocks were a drag on North American returns, despite reporting stronger-than-forecast results; given high valuations, a moderation in the scale of earnings outperformance was enough to cause some high-profile tech stocks to fall. North America was the only region to outperform the FTSE All World.

### Japan notably underperformed

Japan's stocks fell 2.7% in August, having recovered from a sharp selloff earlier in the month, when Japanese equities dropped more than 12% in the biggest one-day fall since 1987. This selloff was prompted by the BoJ's decision to hike interest rates, further increasing the value of the yen and causing investors to begin unwinding their yen carry trades, through which they had borrowed the currency at very low rates to fund investments elsewhere. However, sentiment improved through the month amid reassurances from the BoJ that it would closely consider market stability in future policy decisions. While Europe ex UK, emerging markets and the UK all underperformed, they still produced positive returns over the month.

## Currencies, commodities and property

The yen appreciated a further 3.4% versus the dollar in August – since its nadir on 10 July, the yen has now risen around 10% versus the dollar. The unexpected interest-rate rise and intervention from the BoJ, alongside the unwinding of yen carry trades, contributed to the yen's gains. The trade-weighted dollar fell a further 1.6%, as investors began to price in more aggressive policy easing by the Fed. Oil prices fell 2.2% in August, as expectations of slowing growth and renewed weakness in global manufacturing weighed on the demand outlook. Gold rose 3.4% to hit new nominal highs, as interest-rate expectations fell.

Income drove a 0.4% rise in the MSCI UK Property Total Return Index in July, as capital values fell marginally for the first time since March. The 12-month total return to end July was 1.4%, as income more than offset a 4.2% fall in capital values. Capital values continued to fall in the office sector, finishing the month down 12.8% over 12 months. Retail-sector capital values have plateaued in recent months but are down 4.8% over 12 months. In contrast, industrial capital values rose a modest 0.3% year on year. In aggregate, annual nominal rental growth remained at 3.6% pa in July for the fourth consecutive month. Structural demand continues to support rental growth in the industrial sector, but it remains much weaker in the office and retail sectors. The aggregate vacancy rate across commercial sectors remains elevated relative to long-term averages, largely driven by the office sector.

## The global economy

The second estimate of US Q2 GDP released in August was revised up to an annualised rate of 3.0%, from 2.8%, surpassing economists' forecasts and confirming the US economy's strong rebound in Q2. July's jobs report, which showed the smallest increase in payrolls in more than three years, and a rise in unemployment to 4.3%, contributed to the early-August equity selloff. However, the rise in unemployment largely reflects an increase in labour supply, as opposed to large-scale layoffs.

UK data released in August showed the economy continued to grow at a decent pace in Q2, expanding 0.6% quarter on quarter in Q2, following Q1's 0.7% growth. The eurozone economy grew 0.3% quarter on quarter in Q2, unchanged from Q1. Elsewhere, the Japanese economy surprised to the upside by growing 0.8% quarter on quarter in Q2, driven by an increase in consumption and bouncing back from the -0.6% figure in Q1.

Divergence between ongoing expansion in the service sector and weaker manufacturing activity continues in most key regions. US flash PMI data pointed to robust expansion in August, albeit at a slower pace than in July. Growth disparities continued to widen, with the service sector expanding at a strong and increased rate, while manufacturing output declined at the fastest rate in 14 months. Eurozone flash PMI data suggested business activity continued to expand modestly in August, again driven by a solid increase in service-sector activity, while manufacturing production continued to fall markedly. Meanwhile, the UK's flash PMI data point to another solid expansion in private-sector output in August. In contrast to other regions, UK surveys suggest private-sector activity accelerated in both the manufacturing and service sectors. Global manufacturing showed renewed signs of weakness as its survey indicated a contraction for the first time this year. Production, new orders and employment all fell, and global trade flows deteriorated for the third month in a row.

Year-on-year US CPI fell more than expected in July, to 2.9% – the slowest pace since March 2021. The core measure, which excludes volatile food and energy prices, also fell slightly more than expected, to 3.2%. UK headline CPI rose, but less than expected, to 2.2%, while equivalent core CPI fell to 3.3%. Meanwhile, year-on-year eurozone headline inflation fell in line with expectations to a three-year low of 2.2%, down from July's reading of 2.6%. The equivalent measure of eurozone core CPI fell slightly to 2.8%, also in line with expectations.

Amid progress on inflation, market-implied interest rates generally fell, with markets moving to price in four 0.25% pa interest-rate cuts from the Fed, two or three 0.25% pa cuts from the European Central Bank, and at least one more cut from the BoE. The UK's central bank delivered a 0.25% interest-rate cut on 1 August, reducing the base rate from its 16-year high of 5.25% pa to 5.0% pa. However, the bank urged caution on future rate cuts. The Fed left interest rates unchanged at a two-decade high of 5.25–5.5% pa at its July meeting, but its strongly dovish comments suggested a rate cut in September. The BoJ unexpectedly raised its benchmark interest rate to 0.25% pa in July, triggering a stock-market selloff and unwind of yen carry trades. The BoJ subsequently outlined plans to halve its monthly bond purchases by Q1 2026, to help narrow an interest-rate gap that has driven record yen weakness.

## For and on behalf of Hymans Robertson LLP


### Chris Arcari

**Head of Capital Markets**

chris.arcari@hymans.co.uk
0141 566 7986



### Ross Rausch

**Investment Research Analyst**

ross.rausch@hymans.co.uk
0121 212 8109


## Additional Notes