Market Review

Global Market Strategy, NIM Solutions

August 2023

Macroeconomic developments

The US saw strong economic activity last month. Employment remained strong, with job gains nearing 200,000 and unemployment dropping from 3.6% to 3.5%. Headline inflation rose to from 3.0% YoY to 3.2% in July, mostly influenced by food and energy costs, and core inflation decreased from 4.8% to 4.7%. Both the last FOMC minutes as well as the Jackson Hole Summit indicated concern about inflation and reiterated a 'higher for longer' stance, not excluding additional rate increases. Fitch reduced the US' long-term credit rating from AAA to AA+, pointing to concerns about debt sustainability and governance standards.

Economic prospects remained weak in the Euro area in August with the composite PMI dropping to 46.7, its lowest level since 2020. Headline inflation surprised on the upside in August, as it stabilised at 5.3% YoY when expectations were looking for it to decrease to about 5.1%. However, this was due to a rebound in energy prices that offset disinflation in the other broad components of the HICP. Core inflation eased from 5.5% to 5.3% driven by both manufactured goods and services inflation. July's unemployment rate stayed unchanged at its historical low of 6.4%. This data all contributed to expectations for additional policy rate hikes by yearend.

UK's GDP growth surprised to the upside after showing a 0.2% QoQ increase in Q2.23 instead of the stagnation expected. However, the composite PMI dropped from 50.8 to 48.6 in August. Headline inflation dropped from 7.9% YoY to 6.8% in July, in line with expectations and influenced by the Energy Price Cap, while core inflation was unchanged at 6.9% YoY. UK's regular pay growth, excluding bonuses, between April and June 2023, reached 7.8% YoY, up from 7.5%, marking the highest since 2001. As anticipated, the Bank of England raised its base rate by 25bps to 5.25%. The BoE raised its policy rate by 25bp to 5.25% and signalled more rate hikes due the very elevated level of nominal wage growth.

Chinese economic data released in August came in below expectations. The deflation in producer prices lingered for the tenth consecutive month, declining 4.4% YoY; headline inflation came at -0.3% YoY in July, down from 0.0%, but core inflation increased to 0.8% YoY, a six-month high. Retail sales grew only 2.5% YoY, below the expected 4.5% increase, with little sign of near-term recovery due to the very weak consumer confidence. Private investment declined 2.3% in July, with investment in the real estate sector experiencing an 8.5% YoY drop. Additional negative news came from the country's property sector, with major developer Country Garden nearing default and financial concerns spreading as Zhongzhi Group missed payments. In response, the PBoC cut its Medium-Term Lending Facility Rate by 15bp to 2.5%, marking the second cut in two months, yet credit demand remains sluggish.

Japan's GDP growth in Q2.23 outperformed expectations and advanced by 1.5% QoQ, largely driven by positive net trade. Signs that Japan is moving past its deflation phase continued with headline inflation steady at 3.3% YoY in July and core inflation ticking up 0.1pp to 4.3%.

Market reaction

During the first three weeks of August, the main equity indices were losing over 4%, led by technology stocks and with summer's low liquidity likely contributing to amplify the downturn. The main driver was the sell-off in the bond market which was arguably triggered which an unprecedented issuance of US Treasuries following the resolution of the debt ceiling impasse. EM equities underperformed the most driven by the renewed concerns coming out from China and its real estate sector. The energy sector outperformed both in Europe and the US against the backdrop of higher oil prices. On the other hand, the consumer staples sector performed the worst in Europe, as the utilities sector did in the US.

Global bonds did not help to cushion equity losses, with the Global Agg index falling 1.4% in August. The US 10-year sovereign yield hit a new cyclical high after the Treasury announced higher-than-expected short-term bond issuing intentions. Credit markets had a relatively weak month, with high yield outperforming investment grade even as spreads for lower quality bonds widened more.

The US dollar strengthened against all other major currencies due to resilient domestic growth amid a weak global backdrop.

Sources : Bloomberg & NIM Solutions

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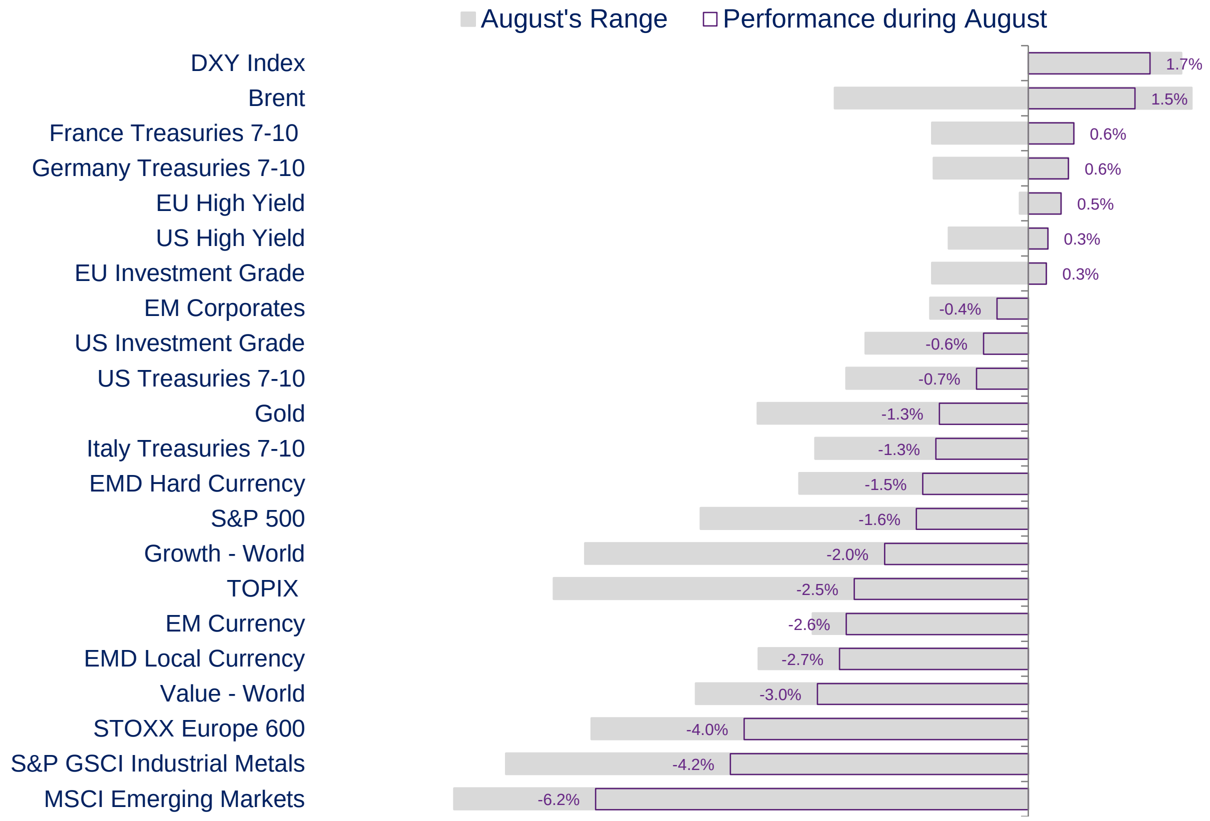
Cross Asset Performance in August – USD

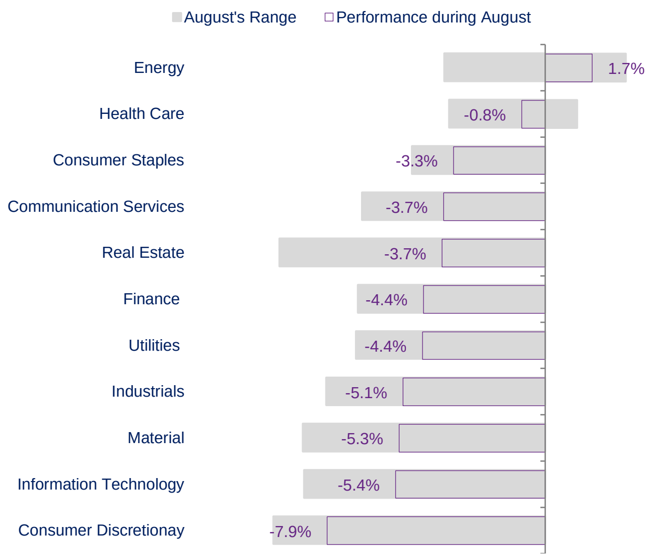
Past performance information presented is not indicative of future performance.



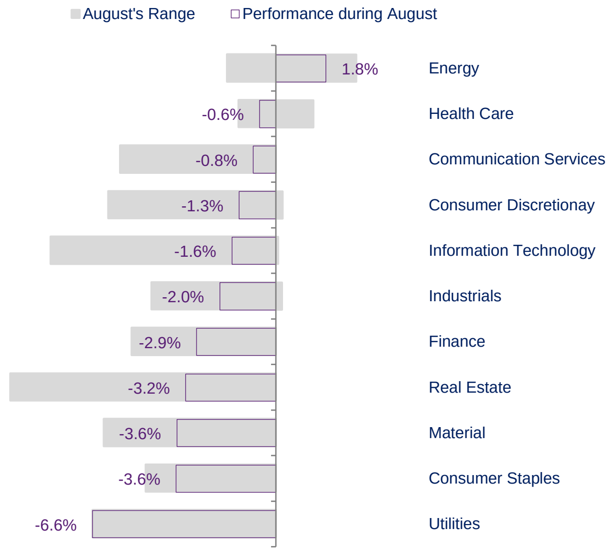
Sector Performance in August – USD

Past performance information presented is not indicative of future performance.

MSCI Europe



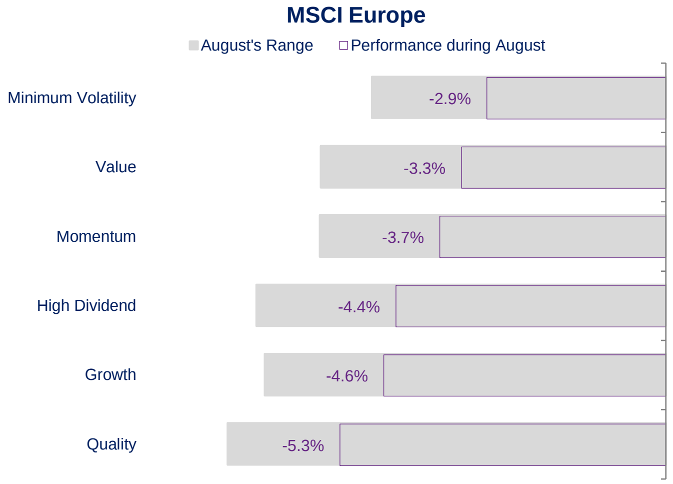
MSCI US

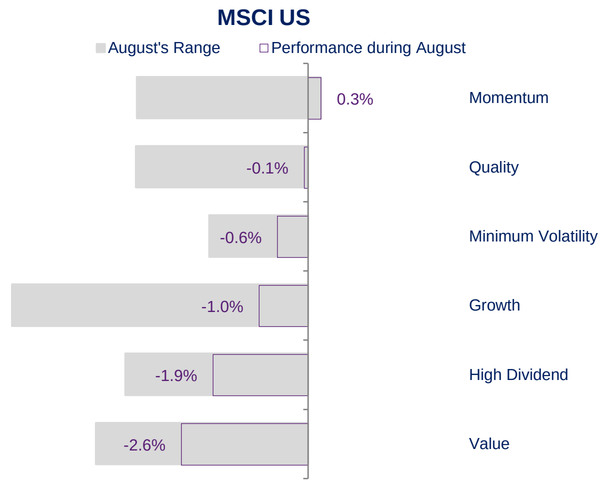


Source: Bloomberg & NIM Solutions

Style Performance in August – USD

Past performance information presented is not indicative of future performance.





Net Yield Change in August

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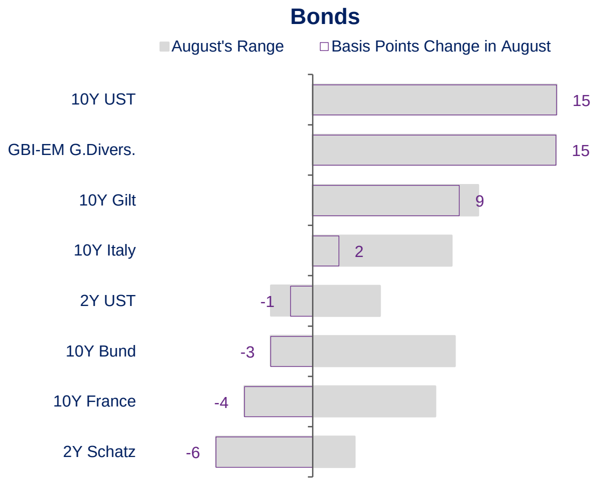

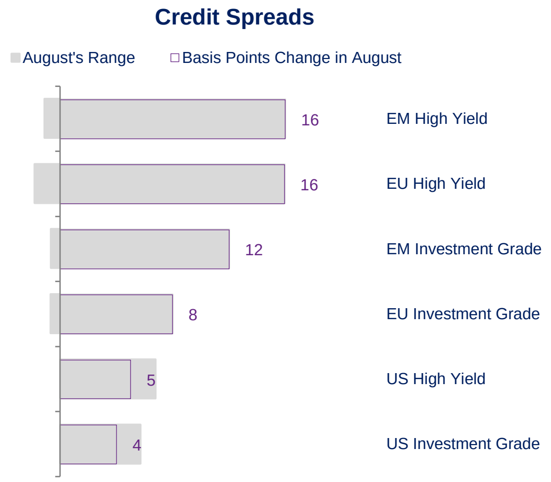

Source: Bloomberg & NIM Solutions