

Month Overview

At the beginning of August, the financial markets experienced a notable correction, characterized by a period of high volatility that led to a decline in stock indices. However, much like a brief but intense storm, the markets quickly regained stability. Investor confidence was restored, bringing stock markets back to levels close to their highest since the beginning of the year. The two main factors blamed for causing this volatility are the rise in unemployment figures in the United States and the Bank of Japan's stated determination to continue raising its interest rates, after surprising nearly everyone by increasing its key rate on the last day of July. The BOJ's change in monetary policy immediately raised concerns about the viability and attractiveness of the carry trade - a strategy of borrowing in a low-interest-rate currency to invest in higher-yielding markets - leading to the unwinding of existing positions. On the economic front, the priority of central banks is gradually shifting from a fight against inflation to taming rising unemployment.

Economic Environment

The annual central banker's meeting in Jackson Hole this month confirmed that the fight against inflation is nearing its end and that the focus must shift to maintaining reasonable growth to prevent a rise in the unemployment rate, which has recently begun to increase, as well as a decline in household consumption - the unexpected driver of growth last year, particularly in the United States.

The transition to a more accommodative monetary policy, after a period of restriction, will result in a reduction in interest rates. While the European Central Bank has already lowered its rates for the Eurozone, the Federal Reserve, who kept rates unchanged for nearly a year, has announced that it is considering a reduction at its next meeting in September. Although the Fed has not yet specified the extent of this reduction - between 25 and 50 basis points - economists and markets are speculating on the exact amount. It is, however, widely expected that rate cuts will occur at each of the remaining three meetings of the year. At the end of last year, it was anticipated that the Fed would be required to implement seven rate cuts. This anticipation has largely contributed to, if not strongly supported, the rally in equity markets this year.

Economic developments over the coming months will determine the direction of central bank monetary policies. In the event of rapid deterioration, significant and immediate rate cuts may be considered. Conversely, if the economic slowdown does not lead to a recession, adjustments will be more gradual, with central banks aiming to avoid rates close to zero to maintain flexibility for facilitating a soft landing or avoiding a recession.

Predicting how major global economies will evolve by the end of the year is challenging, but the situation appears

increasingly complex. China is struggling to revive its economy, while Japan, which has benefited from a significant influx of tourists due to the weak yen this year, is now concerned about a potential decline in consumption.

Equity market

The sharp decline in equity markets during the beginning of August was recovered at a remarkable speed. Although concerns about the US consumer's health rose over the past few months, household's net wealth has grown significantly, cash reserves are sufficient to cover high interest rates, and debt service ratios are near historic lows. Although US equity valuations are expensive, they are supported by still strong demand and earnings growth. We would agree that the S&P500's potential for this year is somewhat reached. However, positive real economic inputs from lower rates are yet to become visible in the data and may give further support for equity markets.

Fixed Income Market

The market had anticipated confirmation of the Federal Reserve's interest rate cut, resulting in a downward movement in the U.S. yield curve. However, the decline was relatively modest, with only about 25 basis points on the 10-year rate. In fact, it slightly rebounded following Powell's speech at the Jackson Hole gathering. Interest rates are expected to continue to decline and, following the anticipated Fed funds rate cut in September, a more pronounced downward movement on the yield curve could occur.

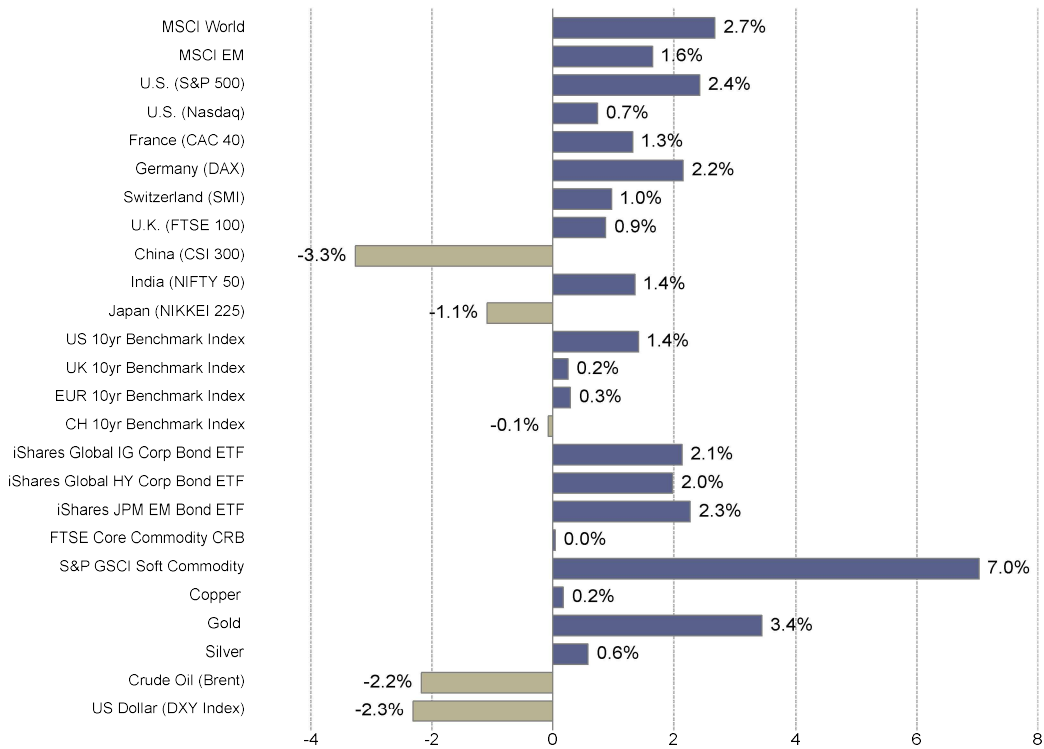
Commodity

Commodity markets confirm slowing economic activity as oil prices continued to decline to USD 76.5\$ a barrel of ICE Brent Crude Oil. However, oil was trending sideways during August. Gold prices, on the other hand, reached new highs with 2'524\$ per ounce. While oil prices reflect a potential cooling of the global economy, economic uncertainty and a weakening US dollar justify increased demand for gold.

Currency

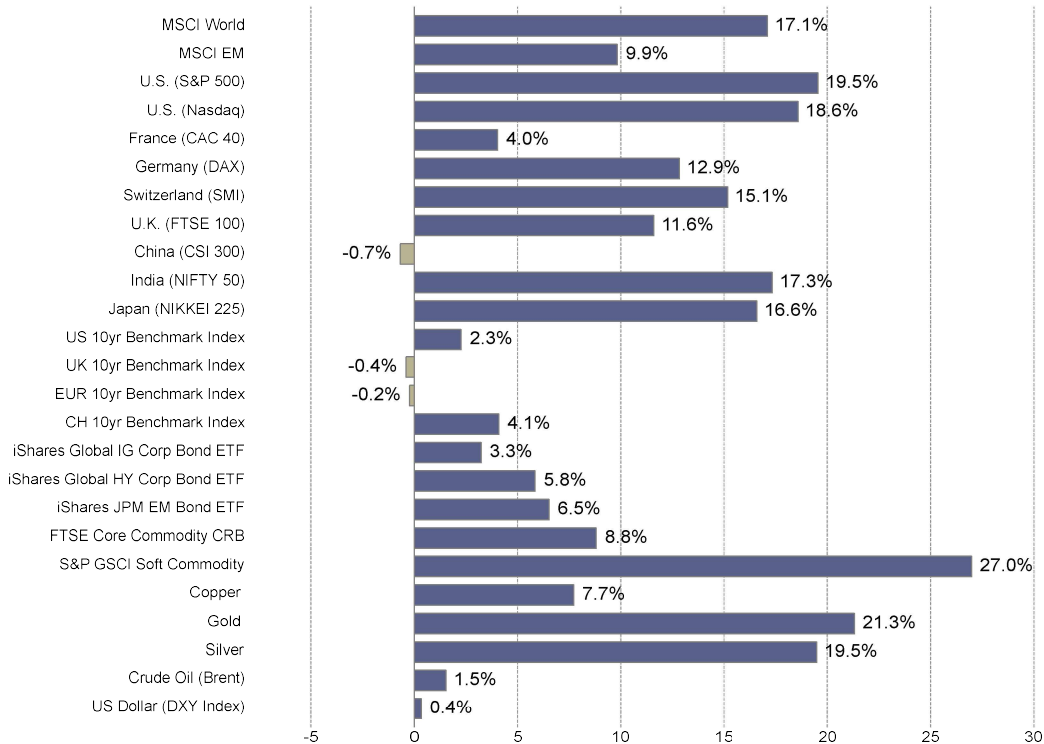
The currency market is expected to experience periods of volatility due to central banks' interest rate adjustments in the coming months, especially now that the United States is ready to lower its rates. Although a cut will occur only in September, the dollar has depreciated against all major currencies. The DXY, which measures the strength of the dollar, has declined by about 2.3% over the month. Meanwhile, the Swiss franc has strengthened significantly.

August 2024 Performance



Source: LSEG Datastream, Anarosa Asset Management AG

Year-To-Date Performance (until 31.08.2024)



Source: LSEG Datastream, Anarosa Asset Management AG

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