

Month Overview

U.S. equity investors, who have enjoyed strong returns in recent months, may have been seeking an opportunity to take profits. Recent deteriorating labor and business data provided just that trigger to initiate sales. In the coming weeks, it will become clear whether the softness in the equity market observed in July was merely a temporary fluctuation or the beginning of a broader market correction in anticipation of an economic slowdown

Economic Environment

The U.S. recorded a robust 2.8% GDP growth rate in the second quarter, up 1.4% from the first quarter of 2024, aligning with annual forecasts. However, GDP figures inherently lag and may underestimate future performance due to declining business activity. Despite this, the opportunity for a rate cut, particularly in the U.S., was not seized. As expected, both the European Central Bank (ECB) and the Federal Reserve (Fed) decided to keep their key interest rates unchanged at their July meetings, citing persistent inflation levels above their 2% targets. The ECB, having already cut rates once this year, did not commit further reductions until inflation nears its target. In contrast, the Fed was less decisive. Fed Chair Jerome Powell did not confirm or deny the possibility of a rate cut at the September FOMC meeting, despite market expectations of a 25 basis point cut, with a 75% probability. The Fed remains optimistic about achieving a soft landing for the U.S. economy but has emphasized a renewed focus on its dual mandate of price stability and maximum employment. Recent employment data supports this strategy. The U.S. unemployment rate surpassed its three-month moving average, indicating a weakening in the labor market. While the current unemployment rate is not yet alarming, the trend suggests an economic slowdown. Additional indicators, such as the ISM Manufacturing PMI and consumer confidence, reinforce this outlook. A potential U.S. economic slowdown could pose challenges for the global economy, particularly at a time when China is struggling to boost domestic consumption. Despite efforts to stimulate growth, China has reported disappointing economic performance, including reduced production levels, necessitating new economic measures. In contrast to other central banks, the Bank of Japan has increased its key interest rate by 25 basis points, with further hikes projected to reach 75 basis points by year-end, as part of its normalization efforts. However, this policy may not support the economy and could lead to higher inflation. If the global economy is indeed at a turning point, beginning to slow down, it is crucial that the Fed demonstrates greater foresight in managing unemployment than in addressing inflation, which was initially deemed transitory. Although the Fed currently does not view the unemployment level as concerning, a rapid rise in unemployment could quickly alter this perspective.

Equity market

Many equity markets declined during the month. In the U.S., five of the seven "magnificent" stocks recorded negative performances, dragging down the S&P 500 and Nasdaq due to their significant weight in these indices. However, mid-cap and small-cap markets posted positive returns, indicating an ongoing rotation from large-cap to smaller-cap markets. North Asian markets, particularly those with large technology companies like Taiwan and Korea, underperformed in line with the tech companies they supply. Conversely, Indonesia, which had been lagging in performance for months, showed a net improvement, while India continued to rise.

Fixed Income Market

U.S. government bond yields continued their decline, which began in early May, as inflation risks diminished. The midsection of the yield curve experienced a more significant decrease compared to the short and long ends of the curve. A similar trend was observed in Euro and Swiss government bonds, albeit to a lesser extent due to their already lower yield levels. Later in the month, the contraction in yields was further exacerbated by renewed concerns of an economic slowdown. As in the previous month, the spread between government bonds and corporate investment-grade bonds widened, reflecting increased concerns about economic strength and rising political instability. This trend is likely to accelerate if the economy continues to cool. This pattern is evident in both U.S. and European credit bond markets.

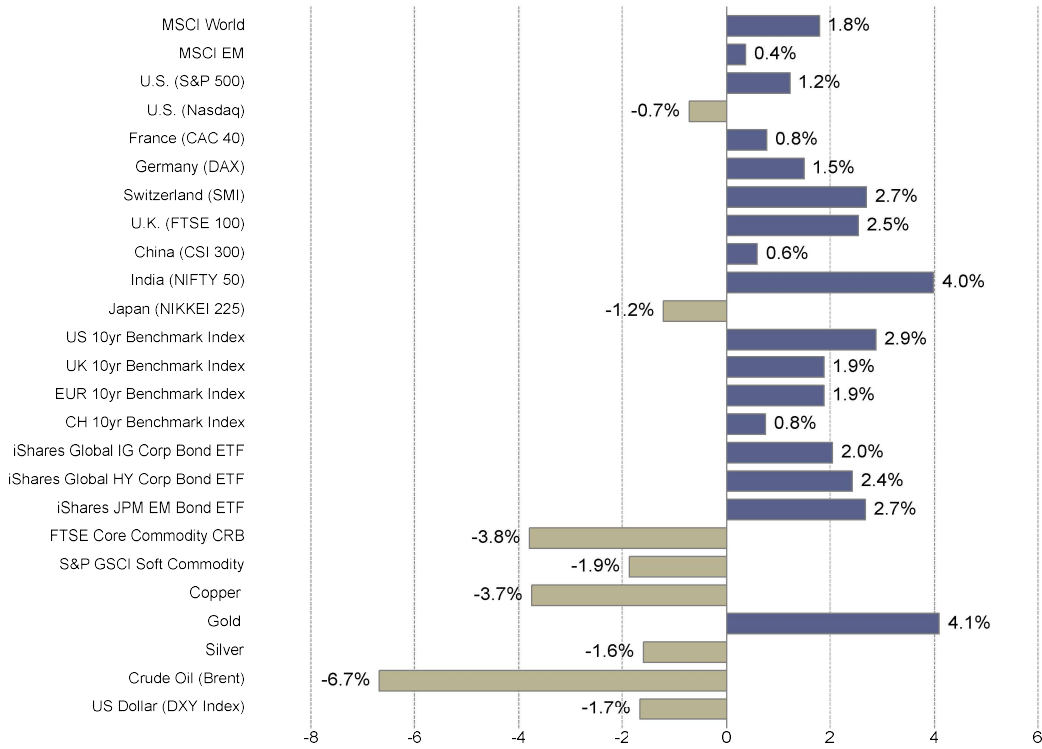
Commodity

If key commodity markets are indicators of the economy, then the July performance did not present a positive outlook. Oil prices, after a rebound last month, decreased by \$6 per barrel to end around \$80. Similarly, copper prices, which peaked in May, continued their decline. The Baltic Exchange Dry Index (BDI), a shipping and trade index that measures the cost of transporting raw materials, had been progressing for some time but has now begun to decline. With U.S. rate cuts on the horizon and inflation gradually subsiding, gold prices surged by more than 4%.

Currency

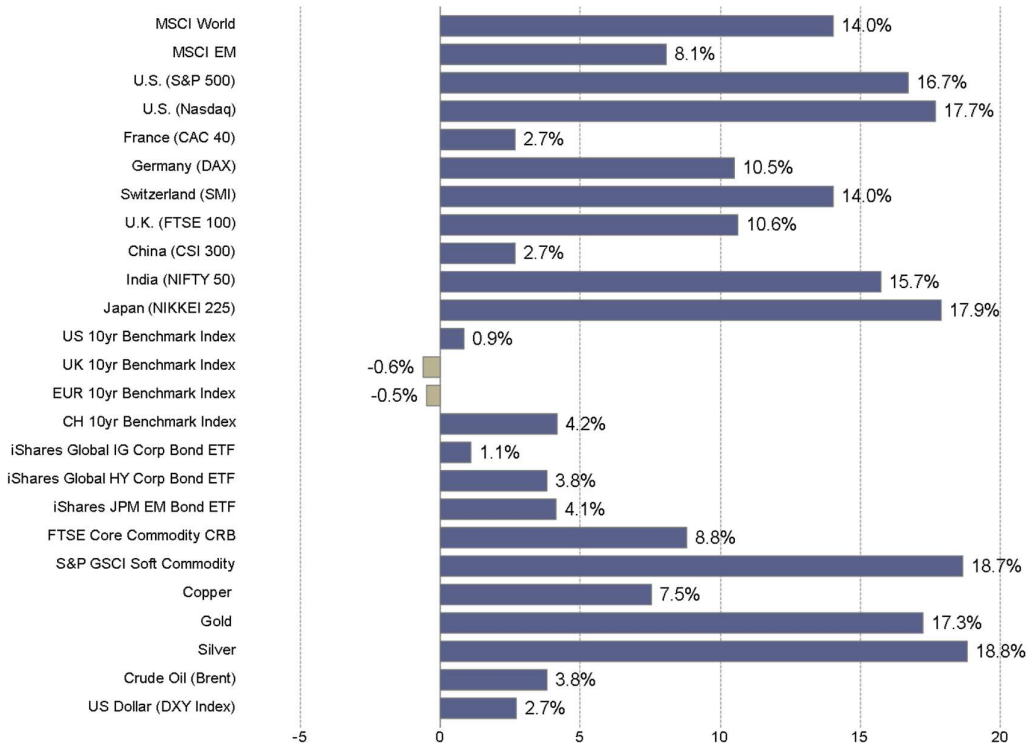
As the likelihood of a Fed funds rate cut in September increased, the dollar began to weaken against major currencies. Conversely, the yen strengthened due to the Bank of Japan's monetary policy normalization. The euro also fell against the Swiss franc after the ECB meeting. It is becoming evident that upcoming changes in interest rate differentials among countries will impact global exchange rates. There is hope that the depreciation of the euro and dollar will not lead to a resurgence of inflation.

July 2024 Performance



Source: LSEG Datastream, Anarosa Asset Management AG

Year-To-Date Performance (until 31.07.2024)



Source: LSEG Datastream, Anarosa Asset Management AG

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