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August 2024
Market Pulse

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MARKETS RECOVER FROM RECESSIONARY FEARS

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Global stock markets began August with a significant selloff but recovered to finish higher for the month. At the start of the month, soft US labour market data raised recessionary fears, and slowing inflation data also increased expectations for interest rate cuts. Bond yields were pushed sharply lower. Federal Reserve (Fed) Chair Powell indicated monetary easing would begin in September. Subsequent economic data, however, suggested a 'soft landing' was still likely, and, despite being lower overall over August, US Treasury yields rose slightly from their lows. The US dollar fell against the euro as more Fed rate cuts in 2024 were priced in, which weighed on the dollar.

Macro

Concerns over a potential recession in the US were front and centre at the start of August. Economic data showed signs of a slowdown, which led to significant market volatility. However, subsequent data indicated that a 'soft landing' was still likely. The Fed also signalled that it would begin cutting rates at its September meeting, amid falling inflation.

US

The ISM manufacturing PMI unexpectedly fell in July to 46.8, from 48.5 in June. Of particular concern was the sharp decline in the employment subcomponent to its lowest level (43.4) since the pandemic. In the same week, the July labour report cemented these worries. It showed that 114,000 non-farm jobs were added, compared to a consensus projection of 175,000. The unemployment rate also unexpectedly rose to 4.3%, which meant that the Sahm rule indicated a recession. The Sahm rule states that if the three-month moving average of the unemployment rate moves 0.5 percentage points above its 12-month low, then a recession has begun. It is a rule that has coincided with every US recession since 1970.

However, subsequent data eased fears around recession risks. ISM services recovered in July, rising by more than expected. Many subcomponents also improved from June, including employment, new orders and business activity. In addition, initial jobless claims also declined during August. Moreover, US household consumption showed strength. Q2 GDP growth was revised higher to 3.0% quarter-on-quarter (q/q) annualised, supported by a 0.6% percentage point increase in consumption to 2.9%. The Conference Board's consumer confidence index also increased to a six-month high in August. Taken together, this was indicative of a healthy consumer.

Meanwhile, inflation showed further signs of cooling. July CPI rose by 2.9% y/y while core prices were up by 3.2%, both down marginally from June. The Fed's preferred measure of inflation (core PCE) was at 2.6% y/y, unchanged from July. This backdrop is set to enable the Fed to lower rates as inflation appears to be under control. Indeed, Chair Powell, in his Jackson Hole speech in August, effectively guided for a rate cut at the September meeting when he stated that "the time has come for policy to adjust."

Europe

In the Eurozone, economic conditions in Germany have continued to weaken, with the GfK consumer climate index falling in September amid concerns over job prospects. Although there was some positive data, with June industrial production and factory orders both rebounding somewhat from falls in May, data was still soft overall in Q2. However, economic conditions in the Eurozone overall are broadly healthy, with the unemployment rate in the region falling back to the record low of 6.4% in July and Q2 GDP being confirmed at 0.3% q/q. The European Commission's measure of consumer sentiment rose in August, aided by improved employment expectations.

Inflation data showed easing price pressures too, with consumer prices up by 2.2% y/y in August, decelerating from 2.6% in July. Core inflation also fell marginally, from 2.9% to 2.8%. This led to European Central Bank (ECB) speakers guiding to a further rate cut at the upcoming meeting in September, although Governing Council members also struck a cautious tone, suggesting monetary easing should be gradual and contingent on further disinflation.

MARKET ROUND-UP

Equities

Global stock markets recovered from significant losses at the start of August to finish higher for the month overall. At the start of August, a combination of economic data showing slowing activity and policy rates having already been high for a considerable period led to concerns that this could lead to recessionary conditions. As a result, riskier assets like equities fell. The moves were indicative of a broad de-risking of positions after markets had been priced for a soft economic landing.

The MSCI All Country World index rose by 1.8% (0.3% in euros) in August, with the MSCI USA rising by 2.4% (0.1% in euros). Disappointing Q2 earnings and guidance from some big tech companies in the US weighed on the index somewhat, with stocks outside the 'Magnificent Seven' performing well. European ex-UK equities rose by 1.4% (1.8% in euros), supported by improved earnings and further expected rate cuts from the ECB.

Bonds

The recessionary fears early in the month pushed bond yields sharply lower. Subsequent economic data, however, suggested a 'soft landing' was still likely, and, despite being lower overall over August, US Treasury yields rose slightly from their lows.

Eurozone government bond returns were positive because of interest rate carry, with the 10-year German bund yield unchanged over the month at 2.30%. The ICE BofA 5+ Year Euro Government bond index returned 0.3% over August.

Corporate bonds were supported by falling yields. European investment grade (IG) corporate bonds returned 0.3% as yields fell by 4 basis points (bps) to 3.52%. Spreads widened by 5bps to 114bps. Global high yield bonds returned 1.3% as yields declined by 21bps to 6.41%, while spreads fell by 8bps to 243bps over the month.

CHARTS OF THE MONTH

Global Equities

Source: ILIM, Bloomberg. Data is accurate as at 31 August 2024.

Bonds – German 10-year yield

Source: ILIM, Bloomberg. Data is accurate as at 31 August 2024.

MARKET SNAPSHOT

Market returns (EUR)

Equity Markets (EUR)	MTD Return (%)	YTD Return (%)	2023 Return (%)
MSCI Ireland	-0.8	29.0	20.6
MSCI United Kingdom	1.0	14.9	10.3
MSCI Europe ex UK	1.8	12.1	18.5
MSCI North America	0.2	18.6	22.3
MSCI Japan	-1.7	13.0	16.7
MSCI EM (Emerging Markets)	-0.6	9.6	6.5
MSCI AC World	0.3	16.1	18.6
10-Year Yields	**Yield last month (%)**	**2023 Yield (%)**	**2022 Yield (%)**
US	3.90	3.88	3.87
Germany	2.30	2.02	2.57
UK	4.02	3.54	3.67
Japan	0.90	0.61	0.42
Ireland	2.67	2.38	3.13
Italy	3.70	3.69	4.70
Greece	3.36	3.06	4.62
Portugal	2.91	2.66	3.59
Spain	3.13	2.99	3.66
FX Rates	**End last month**	**2023 Rates**	**2022 Rates**
U.S. Dollar per Euro	1.10	1.10	1.07
British Pounds per Euro	0.84	0.87	0.89
U.S. Dollar per British Pounds	1.31	1.27	1.21
Commodities (USD)	**MTD Return (%)**	**YTD Return (%)**	**2023 Return (%)**
Oil (Brent)	-2.4	2.3	-10.3
Gold (Oz)	3.1	21.3	13.1
S&P Goldman Sachs Commodity Index	-1.7	5.3	4.3

Source: ILIM, Bloomberg. Data is accurate as at 1 September 2024.

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THE ILIM VIEW – LOOKING AHEAD

Sovereign bond yields have fallen overall since the peak in October 2023 as concerns around inflation have abated. Although yields have been volatile in 2024 amid sticky inflation earlier in the year, both German and US 10-year yields are below their 2023 highs. With inflation having fallen significantly and central banks now suggesting rates will be cut further in 2024, bond yields are expected to decline over the next 12 months. On a 12-month view, our base case is that German and US 10-year government bond yields fall from current levels of 2.30% and 3.90% to 1.75% and 3.50%, respectively. We believe fixed income offers a strong risk-reward profile at this stage in the cycle, with the potential to offer protection if the economy slows, and is attractive from an income perspective while also providing potential for capital gains via falling yields. We believe that the risks of materially higher bond yields have reduced, and, if the economy falters, major central banks will be able to cut rates to support growth. In that scenario we would expect bonds to outperform to a greater extent.

Global equities were resilient in 2023 as recession fears receded and a peak in central bank policy rates was anticipated. While global earnings fell by 0.2% in 2023, they are expected to grow by 11.0% in 2024 as growth remains firm and margins improve. Global equities valuations are above long-term averages, trading on a 12-month forward price-to-earnings (P/E) multiple of 17.9x against a long-term average of 16.0x. Equities remain expensive against both bonds and cash given the high yields currently available on these assets. Despite this, the outlook on a 12-month view is positive. Central banks are likely to pivot towards looser policy in 2024 as inflation falls. With growth expected to remain firm with a recession being avoided, earnings are forecast to rebound in 2024, which should be supportive. Over the medium term, the rollout of AI should boost efficiencies and earnings across the whole market and allow equities to trade at higher valuation levels. The ongoing green-related capex cycle could also boost earnings over the medium term. Any short-term volatility in markets is likely to be offset by the above factors, resulting in positive returns on a 12-month time frame.

THE MONTH AHEAD

SEPTEMBER

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
	03 US ISM Manufacturing PMI	04 US JOLTS Job Openings	05 US ISM Services PMI	06 DE Balance of Trade US Non Farm Payrolls US Unemployment Rate
	10 GB Unemployment Rate	11 GB Inflation Rate YoY US Inflation Rate YoY	12 EA ECB Interest Rate Decision US PPI MoM	13 US Michigan Consumer Sentiment (Prel)
	17 DE ZEW Economic Sentiment Index US Retail Sales MoM	18 GB Inflation Rate YoY US Fed Interest Rate Decision	19 GB BoE Interest Rate Decision	20 JP Interest Rate Decision GB Retail Sales MoM
	24 DE Ifo Business Climate		26 DE GfK Consumer Confidence US GDP Growth Rate QoQ Final	27 US Personal Spending MoM
30 US Fed Chair Powell Speech				

Source: tradingeconomics.com

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