Wealth Management
Weekly Market Update

Blog - LinkedIn - Twitter
Publications - Web
Contact Us

Published 29 August 2023

Market Update

Global equities rallied last week, recouping some of the losses seen during August, as markets carefully assessed the speeches made at the Jackson Hole Economic Symposium, hoping to gain insight into the Federal Reserve's current monetary policy stance. Mixed economic data, including robust US consumption figures and a weakening labour market, prevented any concrete statements from the Fed, and the trajectory of future interest rates remains heavily data dependent. Global stocks rose +1.7% over the week, while US stocks rose +2.1%. European stocks rose +1.4% despite the Eurozone Composite PMI Output Index plummeting to a 33-month low, as economic activity across the European continent declines at an accelerating pace. UK and Japanese equities also rose by +1.2% and +1.8% respectively. Gilts made a mild recovery, with the yield on the UK 10Y gilt falling by -23bps to end the week at 4.447%. Gold prices also rose +2.6%, while oil prices remained largely flat, with WTI crude ending the week at $80.5/barrel.

UK Stocks	US Stocks	EU Stocks	Global Stocks	EM Stocks	Japan Stocks	Gilts	GBP/USD
▲ +1.2%	▲ +2.1%	▲ +1.4%	▲ +1.7%	▲ +2.2%	▲ +1.8%	▲ +2.1%	▼ -1.0%

all returns in GBP to Friday close

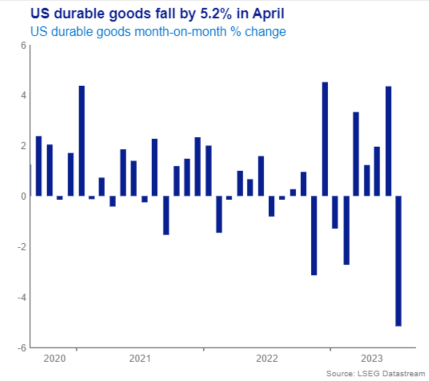
Macro News

- Preliminary purchasing manager index (PMI) data disappointed for the UK and US this week. The data, which is compiled from a monthly survey of supply chain managers, showed weaker than expected figures in both the manufacturing and services sectors of the US and UK. In the UK, both the manufacturing and services indexes fell into contractionary territory at 42.5 and 48.7 respectively (figures under 50 imply contraction). In the US, the manufacturing index fell to 47 and the services index fell to 52.3, below economist expectations for 49.3 and 52.2 respectively.
- Consumer confidence in the UK rebounded in August, recovering from a sharp drop in July. The improvement coincides with a recovery in real household incomes, and record wage growth.
- US durable goods orders sharply declined in July, falling by 5.2%. The figure from June was also revised lower to 4.4%. The fall was driven by a drop in demand in transport equipment.

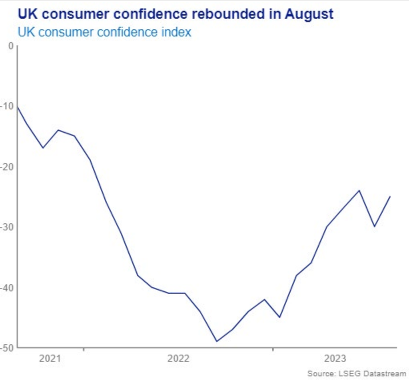
The Week Ahead

- Investors will be watching for personal consumption expenditures (PCE) data for the US, which includes the Federal Reserve's preferred measure of inflation, Core PCE. Employment data, including the change in non-farm payrolls and the unemployment rate, will also be in focus in the US.

Week in Charts



US durable goods orders fell by 5.2% in August, driven by a sharp drop in transport equipment demand. The fall is the largest since the aftermath of the Covid-19 outbreak.



UK consumer confidence rebounded in August, recovering from a sharp drop in July and returning to the levels seen at the start of 2022.

View From the Desk

Jerome Powell's speech at Jackson Hole had a little in it for everyone. Some hawkish talk about raising interest rates if consumption continues to be strong and some dovish talk about the labour market. As such, there was nothing of note. As far as markets are concerned, the central banking main event of the year had all the excitement of a corporate away day. So, let's talk a little bit about economic strength and consumption, as they affect interest rates, the velocity of money and thus financial markets. GDP, the standard measure of growth is a fairly simple calculation:

Government Expenditure + Investment + Consumption + Exports – Imports.

Yet GDP is highly unpredictable, primarily due to consumption. Not only is consumption a psychological process, it is also by far the biggest component of GDP. In the Western world, it accounts for 70%-85% of GDP.

The point is that we can't predict growth in a volatile economic environment, because we can't predict consumption. When the whole economy is unbalanced and volatile, our key theme from the beginning of the year, then this uncertainty translates into policy uncertainty. Add to the mix commodity uncertainty because of rising oil prices and the ongoing war in Ukraine, and one can understand why the Fed is so reticent to be more specific about the future.

What does this all mean for investors?

For one, it means more volatility to be sure.
Having said, that, volatility and uncertainty have always been part of the longer-term investment game. At the end of the day, consumers can only spend the money they have and only some that they don't. No one goes voluntarily bankrupt. The concentrated efforts of central banks to curb consumption usually work. We haven't bet against the Fed yet, and we don't intend to. And in this case, when consumption recedes, bad news for the economy will, all other things being equal, be good news for markets, who will finally see the cost of money recede.

And while we may not go back to zero interest rates anytime soon, a 2% downward move in the US 10y bond yield would still mean a 20% return for bondholders. Investors in less risky portfolios, dominated by bonds, have been patient for a long time. Some more patience might be required, but if we got anything from the Jackson Hole Symposium it is that, despite all the road bumps, we are seeing the beginning of the end of the era of higher interest rates.

George Lagarias – Chief Economist

mazars