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Investment Management

Weekly Investment Update

9th August 2024

News Headlines

Equity Market Volatility – Global equity markets experienced significant declines on Monday, driven by a combination of factors. One of the primary triggers was an unexpected interest rate hike by the Bank of Japan, which disrupted the popular Japanese Yen carry trade, a strategy in which investors borrow in Yen at low rates to invest in higher-yielding assets globally. The rate hike led to a sharp appreciation of the Yen and triggered a sell-off in global markets, particularly in Asia, where Japan's Nikkei 225 plummeted over 12% in one day (its largest daily decline since 1987). Another significant driver of the declines was weak US economic data, including a disappointing jobs report. The weak data spurred fears of an impending recession and led to panic among investors. The Cboe Volatility Index (VIX), which measures market volatility and is often referred to as the "fear gauge," also experienced a significant spike, peaking above 65 during the day, reflecting extreme market anxiety. By the end of the US trading session, the VIX had moderated slightly but still closed at 38.57, marking its highest close since the market turmoil of 2020 as a result of Covid-19.

US Economy – This week, the US reported several key economic indicators, which have helped eased some of the recession fears. The number of Americans filing new unemployment claims (Initial Jobless Claims) decreased to 233,000 for the week ending 3rd August. This was a drop of 17,000 from the previous week's revised level of 250,000 and was lower than the market expectation of 240,000. Furthermore, the ISM Services PMI (Purchasing Managers' Index) for July increased to 51.4 from 48.8 in the previous month. This rise indicates a small expansion in the service sector, moving above the 50.0 mark that indicates expansion rather than contraction. These figures offer a more positive picture of the US economy, with jobless claims indicating some stabilisation in the labour market, while the PMI suggests growth in the services sector.

Market Summary

Global Equities – Global equities experienced significant volatility this week. As detailed above, on Monday, there was a broad-based sell-off in global equities, with nearly all regions and sectors posting significant losses, particularly in Asia and the US technology sector. However, since Monday, equities have recovered somewhat, with the majority of global indices posting only small losses for the week as of Thursday's close. In the US, the technology sector was hit particularly hard earlier in the week, with the "Magnificent 7" stocks (A group of high performing/influential companies in the US, which include Alphabet, Amazon, Apple, Meta Platforms, Microsoft, NVIDIA, and Tesla) experiencing a significant decline. However, both the Nasdaq 100 and the S&P 500 indices have rebounded since, with the latter experiencing its best daily performance since 2022 on Thursday (+2.3%), supported by the positive labour market data detailed above. As a result, relatively modest weekly losses of -0.14% and -0.50% were recorded, respectively, as of Thursday's close. Similarly, in Asia, both the Nikkei 225 and TOPIX indices in Japan rebounded from over 12% losses on Monday, following dovish comments from the Bank of Japan, which were intended to calm the markets after the recent interest rate hike. Japan's Nikkei 225 and TOPIX indices, as well as the KOSPI (South Korean) index, finished the week with losses of -3%, -2.99% and -4.46% respectively, as of Thursday's close.

Commodities – Commodity prices generally saw a small increase for the week. Oil prices recorded significant weekly gains, with both Brent Crude and WTI Crude oil prices rising by over 3% as of Thursday's close, supported by positive US jobs data. Meanwhile, gold prices saw a small decline versus the US dollar as recession fears eased.

Fixed Income – In the US, Treasury yields fell sharply earlier in the week due to recession fears, and the US 2-year/10-year yield curve normalised (un-inverted) for the first time in over two years. However, on Wednesday and Thursday, yields rose due to weak demand for new 10-year notes and better-than-expected jobs claims data.

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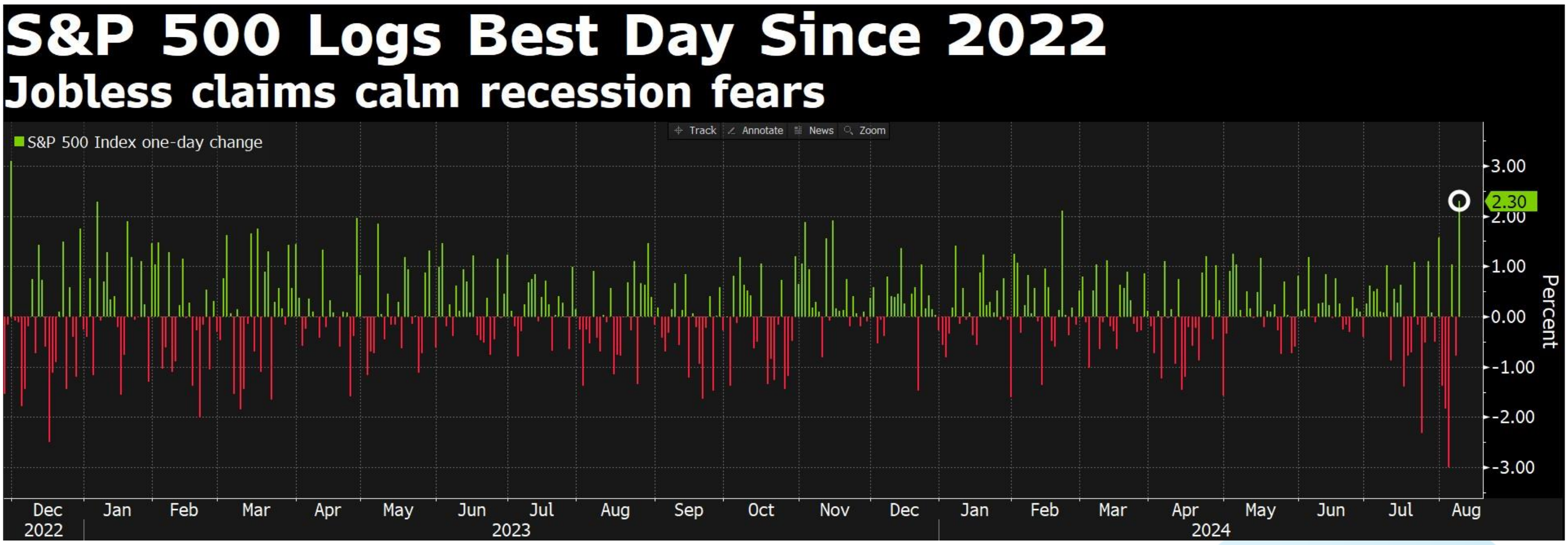
Chart of the Week



Source: Bloomberg – S&P500 Logs Best Day Since 2022

Key Economic Releases Next Week

Monday	Tuesday	Wednesday	Thursday	Friday
-	- US PPI Inflation mm	- UK CPI yy - US CPI mm/yy	- UK GDP - US Initial Jobless Claims	-

Market Performance – 09/08/2024

Global Market Indices	**2024 YTD %***
FTSE 100	7.97%
S&P 500	12.42%
STOXX 600	6.51%
Nikkei 225	4.99%
Hang Seng	2.37%
Fixed Income	**Yield %**
UK 10 Yr Gilt	3.97%
US 10 Yr Treasury	3.99%
Commodities	**2024 YTD %**
Gold	16.72%
Currency	
GBP/USD	1.27 (09/08/2024)
GBP/EUR	1.17 (09/08/2024)

Source: FE Analytics/ Bloomberg **Total Return/Local currency*