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# YOUR MARKET REVIEW AUGUST 2024

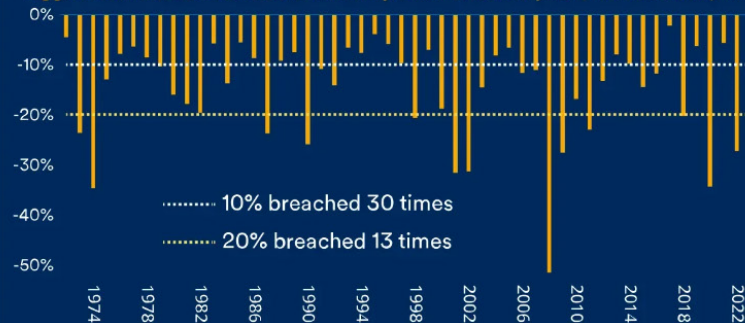


# INFOGRAPHIC: THE GLOBAL ECONOMY

## Did markets overreact to one month of weak US jobs data?

**10%+ falls happen in more years than not – it's not unusual**

**Biggest stock market falls in each of the past 52 calendar years, MSCI World (USD)**



Source: LSEG Datastream and Schroders. Data to 31 December 2023 for MSCI World index in USD terms

Equity markets were vulnerable to a correction and we're reassured that company fundamentals remain sound...



...a "soft landing" for the US economy remains our central scenario, despite the weaker-than-expected July US jobs data which largely triggered these events...

...and at times like this it's worth remembering that 10%+ market falls happen in more years than they don't



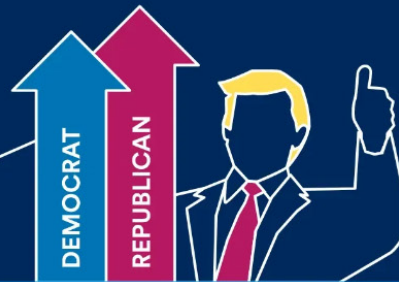
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## The changing US election dynamics and their possible economic impact

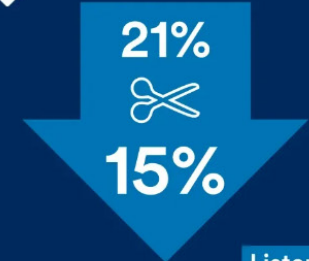
Arrival of new Democrat nominee Kamala Harris increases the chances of a divided Congress...



...but if Republicans under Trump were to gain control of both arms of the legislature, corporate tax cuts might take centre stage...



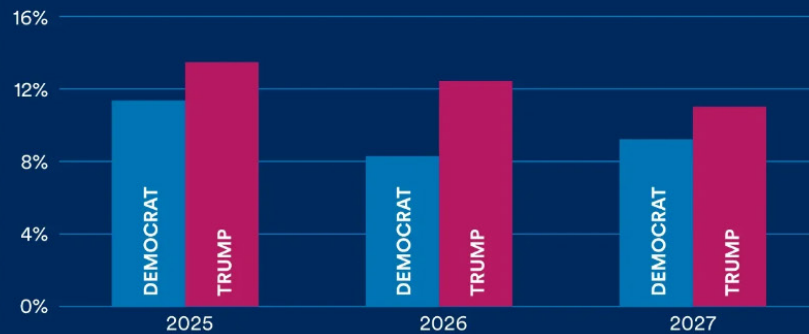
...with the possibly Trump might cut the rate as low as 15% from the current 21%



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## How might a Trump election win impact US corporate earnings?

S&P 500 earnings growth is expected to be stronger under a Trump presidency



Source: Schroders Economics Group, 25 July 2024



We would anticipate a more favourable regulatory environment and further tax cuts under a second Trump presidency...



...which based on our current forecasts would translate into double-digit growth in S&P 500 earnings in the coming years

Source: [Schroders as at August 2024.](#)





# MULTI-ASSET INVESTMENT VIEWS

KEY

▲ Up from last month ▼ Down from last month

● Long / Positive

● Neutral

● Short / Negative

	Category	View	Comments
Main Asset Classes	Equities	●	We maintain a positive outlook on equities as the fundamental backdrop remains resilient and supportive. Following recent corrections caused by poor nonfarm payrolls data, technical factors suggest oversold conditions.
	Government Bonds	● ▼	We have downgraded our view to negative. Relative to our soft-landing base case valuations look expensive, and we believe yields may move higher in the short term.
	Commodities	●	While broad commodities have sold off significantly given growth concerns, we maintain our neutral score as supply remains resilient while the demand outlook from China continues to look poor.
	Credit	●	We stay neutral overall. Moderate growth, easing financial conditions and improved valuations are supportive, but potential macro weakness leaves us on the side lines.
Equities	US	●	We retain our positive view, which is consistent with our view of a soft landing. The expansion of US reserves and expectations for positive earnings growth should lead to favourable financial conditions.
	UK	● ▲	Within Europe we maintain our preference for the UK. The recent election should lead to a period of stability and improved sentiment. We believe that this should allow prices to return to historic norms.
	Europe	●	Our view is unchanged. Equity market performance remains narrow, the earnings outlook in Continental Europe is deteriorating and the fundamental backdrop remains a concern.
	Japan	●	Given the recent correction, we believe there is the potential for the market to rally. However, we stay neutral as the risk/return profile is less appealing.
	Global Emerging Markets <sup>1</sup>	●	We remain positive as many emerging economies have brought inflation under control, are running prudent fiscal policies, and should benefit from the manufacturing recovery that is currently under way.
	Asia ex-Japan: China	●	We maintain our neutral score as the domestic economy remains sluggish, weighed down by the property sector.
	EM Asia ex China	●	Cyclical markets such as Taiwan and South Korea should continue to benefit from the manufacturing recovery.
Government Bonds	US	●	Relative to our soft-landing base case, valuations look extremely expensive. We expect bonds to underperform after the recent rally.
	UK	●	We maintain a neutral score. Although inflation is falling and the Bank of England cut interest rates in August, we prefer to stay on the sidelines.
	Germany	●	We remain neutral. Markets have priced in three interest rate cuts by the end of the year. Persistently weak manufacturing data supports the case for more rate cuts by the European Central Bank.
	Japan	●	We remain neutral as although yields look attractive, the market is pricing in two rate hikes by the end of the year as headline inflation is increasing.
	US Inflation Linked	● ▼	We have downgraded our view to neutral. Signs of a hard recession are low and the labour market has stabilised.
	Emerging Markets Local	●	We remain neutral as although valuations appear attractive, wider spreads (the difference in the yield on two different bonds or two classes of bonds) are concentrated among a few distressed issuers.

<sup>1</sup> Global Emerging Markets includes Central and Eastern Europe, Latin America and Asia.

	Category	View	Comments
Investment Grade Credit	US	●	We remain neutral as although valuations have improved, they are not yet compelling.
	Europe	●	Although valuations look attractive we remain neutral due to the mixed macro data.
	Emerging Markets USD	●	Valuations remain expensive, so we remain neutral.
High Yield Bonds (Non-IG)	US	●	We stay neutral. Although valuations have improved they are not yet sufficiently attractive, and fundamentals have continued to weaken slightly.
	Europe	●	Valuations look attractive in Europe, and financial conditions are easing. However, the potential for macro weakness leaves us neutral.
Commodities	Energy	●	We maintain our neutral score. Price sensitive purchases from China and OPEC's reaction to price moves should mean that the current range holds, while the rest of the market remains balanced.
	Gold	●	We expect yields to fall as we enter the interest rate cutting cycle.
	Industrial Metals	●	Although policy is supportive in China this is not being reflected in the demand for metals, while supplies remain robust.
	Agriculture	●	We maintain our neutral score. The latest data has revealed a bumper harvest across several key grains, alongside promising crop conditions in the US, leading to strong supply.
Currencies	US \$	● ▲	We tactically upgrade our view on the dollar as it will benefit if interest rates rise, consistent with our view of a soft-landing.
	UK £	● ▼	We have downgraded sterling to neutral. While the pound should benefit from political stability and improved sentiment, recent volatility leaves us on the side-lines.
	EU €	●	We maintain our negative view as the macro outlook is weak.
	CNH ¥	●	While there has been an uptick in the global goods cycle, weak economic growth leaves us neutral.
	JAP ¥	●	Although the recent large moves leave valuations cheap, we prefer not to chase the current trend and stay neutral.
	Swiss F	●	We maintain our negative score as the SNB's recent rate cuts aims to prevent franc strength.



Past performance is not a guide to future performance and may not be repeated. The value of investments and the income from them may go down as well as up and investors may not get back the amounts originally invested. Source: [Schroders, August 2024](#). The views for equities, government bonds and commodities are based on return relative to cash in local currency. The views for corporate bonds and high yield are based on credit spreads (i.e. duration-hedged). The views for currencies are relative to US dollar, apart from US dollar which is relative to a trade-weighted basket.



# MARKETS REVIEW

**A look back at markets in August when shares experienced extreme volatility at the start of the month.**

## THE MONTH IN SUMMARY

Global equities gained in August but the month began on a volatile note. In particular, shares in Japan suffered steep falls early in the month.

## THE US

US shares ended higher in August but the month began with extreme market volatility and some sharp stock market falls. These occurred as investors reacted to weak US economic data and priced in several interest rate cuts by the end of the year. However, data later in the month provided some reassurance, as did some resilient corporate earnings.

Read more: [What's behind the stock market sell-off?](#)

The market volatility was in part sparked by weak US jobs data. The non-farm payrolls report showed that 114,000 jobs were added in July, well below the consensus expectation of 175,000. The unemployment rate rose to 4.3%.

Meanwhile, the July ISM manufacturing report indicated further contraction in manufacturing activity, with a reading of 46.8, down from 48.5 in June.

Following the weaker economic data, investors grew worried that the US Federal Reserve (Fed) may have left it too late to cut interest rates, raising the risk of a "hard landing" or recession for the economy. However, data released later in the month proved

more reassuring. US retail sales rose by 1% in July, well above expectations of a 0.3% increase.

The stock market volatility abated and investors looked ahead to a speech by Fed chair Jerome Powell at the Jackson Hole central bank symposium towards the end of August. He indicated that the US labour market has indeed cooled but that the pace of rate cuts would depend on incoming data. This was interpreted as leaving the door open for a 50 basis point rate cut in September.

The S&P 500 ended the month higher with consumer staples, real estate and healthcare among the top performing sectors. Energy and consumer discretionary registered negative returns.

## EUROZONE

Eurozone shares gained in August. Real estate and communication services were among the strongest performing sectors while energy and information technology lagged. Expectations of further interest rate cuts helped to boost rate-sensitive sectors such as real estate.

Data showed that annual inflation in the eurozone was estimated at 2.2% in July, down from 2.6% in August. The drop in inflation towards the European Central Bank's 2% target was perceived to make it more likely that the ECB would cut rates at the September meeting, following a 25 bps cut in July.

Meanwhile, the flash eurozone purchasing managers' index (PMI) ticked up to 51.2 in August, from 50.2 in July. The expansion was supported by the services sector, while the manufacturing reading remained below 50.



The service sector was boosted by the staging of the Olympic Games in Paris. PMI data is based on surveys of companies in the manufacturing and service sectors. A reading above 50 indicates growth while below 50 indicates contraction.

## UK

UK equities rose over the month. The healthcare, consumer staples and industrials sectors were the top contributors over the period. Energy, basic materials and financials detracted the most.

UK Prime Minister (PM) Keir Starmer warned of a “painful” autumn budget. He signalled potential tax increases and spending cuts due to an estimated £22 billion shortfall in public finances. The PM added those with the “broadest shoulders” will bear the heaviest burden, sparking speculation around which taxes might be raised.

The Bank of England’s (BoE) Monetary Policy Committee (MPC) made its first rate cut in four years, reducing the Bank Rate by 25 basis points to 5.00%. However, there was caution around further reductions which drove sterling higher against the dollar and euro.

BoE Governor Andrew Bailey said the MPC would move ahead cautiously, while Deputy Governor Clare Lombardelli added that the BoE’s base case for inflation is benign, but risks remain of an “alternative world” in which inflation moves higher again.

It was revealed inflation ticked up slightly to 2.2% year-on-year in July. Meanwhile, the first second quarter estimate of GDP growth showed that output expanded by 0.6% quarter-on-quarter (q/q), only a touch slower than the 0.7% q/q increase achieved in the first quarter.

## JAPAN


The volatility of the Japanese equity market increased amid a sharp sell-off in the early part of the month. However, investor sentiment sharply improved towards the end of the month. The market ended August with a moderate decline of -2.9% for the TOPIX Total Return in yen terms. The market turbulence was associated with a sharp movement in the yen, which appreciated over the course of the month.

On 5 August, the Nikkei 225 stock market index recorded its largest decline in history in terms of index points. This decline surpassed the magnitude of the Black Monday crash in 1987. In percentage terms, the 12.4% drop was the second-largest single-day decline on record. The market sharply rebounded (+10.2%) on the following day, 6 August.

Despite the market turbulence, corporate earnings and macroeconomic figures showed solid progress. The April to June quarterly earnings were better than expected on aggregate. Real wage growth (which takes inflation into account) finally turned positive, although this was partially influenced by one-off bonus payments.

Japanese GDP growth also provided evidence of solid economic growth, supported by domestic demand, with an expansion of 0.8% q/q for the second quarter. The Bank of Japan adjusted its message to a more moderate tone, while the Fed indicated its intention to cut interest rates in September. These developments supported investor sentiment in both the Japanese and US stock markets.





The news of Prime Minister Kishida's decision not to run for the presidential election for the LDP, the ruling party, did not have a material effect on the equity market. This is because there will not be a significant shift in economic policies by the new prime minister, who will be determined at the end of September.

### ASIA (EX JAPAN)

Asia ex Japan equities gained in August. The Philippines, Indonesia and Malaysia were the best-performing markets in the MSCI AC Asia ex Japan Index. South Korea, India and China were the worst-performing markets in the index. South Korea was the only market to end the month in negative territory, as technology stocks gave up some of their recent gains. Shares in Taiwan achieved modest gains. Taiwan remains the best-performing index market in the year-to-date period.

Share price growth in China was muted in August as the country's slow recovery from the Covid-19 pandemic and the ongoing real estate crisis continued to weigh on sentiment, with many investors remaining on the sidelines as they wait for stronger fiscal support from the Chinese government.

Hong Kong stocks performed well in the month, with hopes that the US Fed will start cutting interest rates in September helping to boost investor sentiment. However, Hong Kong is the weakest performer in the index in the year-to-date period, with a negative overall return.

### EMERGING MARKETS

Following sharp declines at the start of the month on the back of US recession fears and a Bank of Japan interest rate hike, emerging market (EM) equities recovered to finish August in positive territory, albeit behind developed market peers. Dovish

comments from Fed Chair Jerome Powell at the annual Jackson Hole summit later in the month were helpful for EM returns, as was a weaker US dollar.

Some of the smaller Asian emerging markets were the top performers in the month, including the Philippines, Indonesia, Malaysia and Thailand, all of which were boosted by local currency appreciation against the US dollar. Brazil's outperformance was also helped by local currency strength. In South Africa, the rand rallied too, and better inflation data prompted optimism about the potential for interest rate cuts in the coming months. The Taiwan market recovered following July's global sell-off of technology-related stocks.

Index heavyweights India and China both posted positive returns but lagged the EM index, with the latter negatively affected by softer economic activity data releases. Korea fell in US dollar terms with some memory-related technology stocks particularly hard hit.

Meanwhile, peso weakness weighed on equity market returns in Mexico, raising concerns about potential inflationary pressure in the months ahead. The central bank also cut its policy rate by 25bps to 10.75%. Turkey posted the biggest losses in US dollars among its EM peers given local currency depreciation, some weaker-than-expected Q2 earnings results and ongoing foreign equity outflows.

### GLOBAL BONDS

August was a volatile, but broadly positive, month for fixed income. US markets outperformed those in other major economies as investors focused on the imminent start of interest rate cuts from the US Fed amid increasing concerns



about weakness in the US economy. Corporate bonds outperformed, again led by the US, with high yield returns ahead of those for investment grade. High yield bonds are more speculative than their investment grade counterparts, with a credit rating below investment grade.

Following the Fed's meeting on the last day of July, chair Jerome Powell gave markets a steer that the mid-September meeting would deliver the first interest rate cut of the cycle. That guidance was followed by a decline in leading manufacturing indicators globally and a weaker-than-expected non-farm payrolls figure at the start of August. The combination sent US Treasury yields plunging (meaning prices rose), the VIX index (a measure of market volatility) spiking to levels last seen during 2020, and the market pricing 125bps of US interest rate cuts by early 2025.

This reaction in markets was partly reversed in the first two weeks of August. However, US Treasury yields continued to move lower again though the second half of the month, reflecting softer inflation figures, weak housing data, and dovish Fed comments focused on the downside risks to employment. Powell's Jackson Hole speech on 23 August noted "ample room to respond to any risks" and was again widely interpreted as signalling the Fed's intention to cut rates in September. The US yield curve steepened over the month as yields on shorter maturity bonds fell by more than those at the long end.

Other major government bond markets saw more modest gains. European data – in particular, weak manufacturing PMIs – continued to point towards a downturn in the eurozone economy and its potential vulnerability to shocks. Interest rate expectations consequently moved lower, with a further 25bps cut from the ECB fully priced in for September.

In the UK, the Bank of England cut interest rates on 1 August. A decline in the unemployment rate, a rise in job vacancies, and further improvements in PMI survey data suggest that the UK is now in a growth recovery phase. Market expectations currently point to three interest rate cuts in the UK over the next six months, with the first of these likely to happen only in November.

Credit markets recovered from their sharp sell-off at the start of August to outperform government bonds over the month. Corporate bonds performed better in the US (supported by a focus on materially lower interest rates in the US) than in Europe (given more signs of a weakening European economy). High yield corporate bonds generally outperformed investment grade, again led by the US.

Currency markets also reflected expectations of more substantial interest rate cuts in the US than elsewhere, with the US dollar weakening significantly against other major currencies.

Convertible bonds protected investors in the early August market falls. However, in the subsequent rally, equities overtook convertibles. At the end of what was a positive month for equities, convertibles once more had a participation in the upside that was well below average. The FTSE Global Focus index, hedged in US dollars, ended the month with a gain of 0.9%.

## COMMODITIES

The S&P GSCI Index registered a modest decline in August. Energy and livestock were the weakest components of the index, while agriculture, industrial metals and precious metals achieved modest price gains. Within energy, all sub-components ended the month in negative territory.





In agriculture, coffee and cocoa both achieved strong price gains. In industrial metals, the price of zinc and aluminium were sharply higher, while gains for copper and nickel were more muted. The price of lead was modestly lower. In precious metals, gold prices rose, while silver fell back slightly.

### DIGITAL ASSETS

Cryptocurrencies were not immune to the wave of volatility in early August with certain tokens falling by more than 30% in a single day. While much of the sell-off was subsequently reversed, August nevertheless proved to be a challenging month for the asset class, with Bitcoin down nearly 9% and Ethereum down 22%.

Throughout the month, and despite the sell-off, there was high dispersion of returns between different sectors as markets rewarded protocols with strong fundamentals (a crypto protocol is a set of rules governing participants' behaviour in a decentralised network).

Looking forward, crypto markets seem to be increasingly looking to the US election as the next potential catalyst.

# TOTAL RETURNS (NET) % – TO END AUGUST 2024



Equities	1 MONTH			12 MONTHS		
	USD	EUR	GBP	USD	EUR	GBP
MSCI World	2.6	0.3	0.3	24.4	22.0	20.0
MSCI World Value	2.8	0.5	0.5	21.5	19.2	17.2
MSCI World Growth	2.5	0.2	0.1	27.2	24.7	22.6
MSCI World Smaller Companies	0.5	-1.8	-1.8	16.1	13.9	12.0
MSCI Emerging Markets	1.6	-0.7	-0.7	15.1	12.8	10.9
MSCI AC Asia ex Japan	1.9	-0.3	-0.4	15.7	13.5	11.6
S&P500	2.4	0.1	0.1	27.1	24.7	22.6
MSCI EMU	3.9	1.6	1.6	17.6	15.3	13.4
FTSE Europe ex UK	3.9	1.6	1.5	20.1	17.7	15.8
FTSE All-Share	2.8	0.5	0.5	21.3	19.0	17.0
TOPIX*	0.3	-1.9	-1.9	19.0	16.7	14.7

Government Bonds	1 MONTH			12 MONTHS		
	USD	EUR	GBP	USD	EUR	GBP
JPM GBI US All Mats	1.3	-1.0	-1.0	6.0	4.0	2.2
JPM GBI UK All Mats	2.8	0.5	0.5	10.8	8.7	6.9
JPM GBI Japan All Mats**	4.6	2.2	2.2	-2.0	-3.9	-5.5
JPM GBI Germany All Traded	2.7	0.4	0.4	5.8	3.8	2.0
Corporate Bonds	USD	EUR	GBP	USD	EUR	GBP
BofA ML Global Broad Market Corporate	1.9	-0.3	-0.4	9.6	7.5	5.7
BofA ML US Corporate Master	1.5	-0.7	-0.8	9.4	7.3	5.5
BofA ML EMU Corporate ex T1 (5-10Y)	2.5	0.2	0.2	10.7	8.6	6.8
BofA ML £ Non-Gilts	2.6	0.3	0.3	13.6	11.4	9.5
Non-investment Grade Bonds	USD	EUR	GBP	USD	EUR	GBP
BofA ML Global High Yield	2.0	-0.3	-0.3	13.5	11.3	9.5
BofA ML Euro High Yield	3.5	1.2	1.1	14.7	12.5	10.6

Source: LSEG DataStream. Local currency returns in August 2024: \*-2.9%, \*\*1.2%.  
Past performance is not a guide to future performance and may not be repeated.







**Source: [Schroders, August 2024](#):** The value of investments and the income from them may go down as well as up and investors may not get back the amounts originally invested. Past performance mentioned is not a guide to future performance and may not be repeated. The sectors, securities, regions and countries shown are for illustrative purposes only and are not to be considered a recommendation to buy or sell.

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