



Markets Roll With It

Not everyone had a relaxing beach based first week in August as stock markets took a tumble. This was driven by higher interest rates in Japan, an appreciating yen and increased recession fears in the US. Nevertheless, they soon rebounded as expectations for interest rate cuts rose and as buoyant company profit announcements emerged. The UK stock market appears to be gaining investor interest, as inflation subsides and the political picture clears.

The first week of the month saw large swings in global share prices - led by the Japanese market which had its worst day since 1987, falling 12%. It then went on to have its best day since 2008 the following day, rising 10%. There were similar moves in other major global markets, but not nearly to the same magnitude. It was widely viewed that two of the drivers of these moves were the Bank of Japan raising interest rates to 0.25% and the Japanese yen's recent increase in value; typically seen as a negative for Japanese stocks. However, the scale of the reaction suggests some aggressive repositioning by investors, especially those with more computer-led processes.

The trickier start to the month for stock markets was also due to increasing fears of a US recession. The main catalyst for this was the latest unemployment rate, which rose further than expected. However, this also led to hopes that interest rates will soon be cut in order to support the labour market and economy, a view that was endorsed by Federal Reserve Chair Jerome Powell later in the month. Furthermore, US companies have generally been reporting better than forecasted profits across a wide range of sectors - a broadening which was positive to see. It is worth noting that one company in particular, Nvidia, a major player in Artificial Intelligence (AI) and recent market darling, saw its share price fall despite reporting sales of more than double compared to last year; more on this below. By the end of the month most major stock markets had recovered their earlier losses, with the US once again nearing all-time highs.

In the UK, the Bank of England's decision to cut interest rates at the start of the month, highlights its response to an improved inflationary environment, mirroring trends in the US, where inflation has continued to moderate. This action, coupled with a growing sense of political stability in the UK following the centrist Labour Party's recent election victory, has rekindled investor confidence in UK equities. In one recent investor survey, the UK stock market has become the most favoured amongst its European counterparts. The UK's stock market did prove more stable compared to other markets over the month.

Bottom Line

The longer interest rates remain high the greater the risk of a more severe recession, a fact those with the power to lower them are increasingly acknowledging. It now appears more likely that interest rates will continue (for some) to be cut in the months ahead. Although, one clear risk is that interest rates are reduced less than markets would like. Therefore, it is important not to let hope triumph over sense, and to ensure portfolios are not pointing too much in one direction.

Month by numbers

Change in various markets over the month:

Asset	Change Value
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Equities

UK	↑	0.98%
Europe	↑	1.79%
US	↑	2.37%
Emerging Markets	↑	0.40%
Japan	↓	-2.74%

Bonds / Rates

* Absolute change (%)

UK Base Rates	↓	-0.25%	5
Fed Funds Rate	—	0.00%	5.5
UK 10-Year Yield	↑	0.04%	4.02
US 10-Year Yield	↓	-0.14%	3.92

Currencies

GBP / USD	↑	2.34%	\$1.31
GBP / EUR	↑	0.13%	€1.19
DXY (USD Index)	↓	-2.30%	101.7

Commodities

Gold	↑	2.24%	\$2503.36
Oil (Brent)	↓	-2.38%	\$78.8

Noteworthy

Super Micro Computer	↓	-37.60%
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Q&A

What's on your mind?

The Bank of England cuts rates, now what?

The Bank of England's (BoE) recent decision to cut interest rates reflects a strategic response to shifting economic conditions, such as slow growth and lower inflation. By lowering interest rates, the BoE aims to stimulate economic activity by making borrowing cheaper, thereby encouraging investment and consumer spending. However, this move also comes with potential risks, including the possibility of stoking inflation if demand increases too rapidly. Looking ahead, the BoE's outlook will likely hinge on key economic indicators, such as inflation, employment and economic growth. It will need to carefully balance its obligations to control inflation with a desire to support the economy.

What happened on Nvidia's big day?

Over the past year, Nvidia's quarterly earnings reports and outlooks have become the climactic moment of each earnings season, and Wednesday August 28th, was no exception. As of Wednesday's market close, the stock had more than doubled since the start of the year, following a remarkable 239% increase in 2023. This rapid rise has been fuelled by consistently exceptional earnings reports, leading investors to hope for more of the same. However, when expectations are set so high, anything less than perfect can be seen as a let-down. Nvidia projected third-quarter revenue of about \$32.5 billion, surpassing the consensus estimate of \$31.9 billion. Yet, this expectations beat was not enough. Compounding concerns, Nvidia acknowledged investor worries regarding delays to a new chip and related production issues. As a result, shares fell more than 6% on Thursday, perhaps dampening the ever-growing AI hype.

Why has Robert F Kennedy Jr endorsed Donald Trump?

Robert F Kennedy Jr, known for his environmental activism and family's deep Democratic roots, has made headlines by expressing support for Donald Trump, a move that has surprised many given their political differences. Kennedy's endorsement is largely driven by shared concerns over government overreach, particularly in areas such as vaccine mandates and censorship, where both men have been vocal critics. Kennedy has long championed personal freedoms and been sceptical of centralised power, aligning with Trump's stance against what he views an encroaching "deep state." By backing Trump, Kennedy may attract a segment of independent voters who are similarly disillusioned with the status quo, possibly strengthening Trump's appeal beyond his traditional base.

For more information, please contact your adviser.

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