



ECONOMIC COMMENTARY

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YOUR WEEKLY
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*For every one to attain
financial well-being*

MAKING INFORMED INVESTMENT DECISIONS

This week we focus on the economic principles of market sentiment, interest rate impacts, and investor behaviour in response to central bank actions. Understanding these principles is critical when making investment decisions.

As the weekend drew to a close, investors around the globe braced themselves for another week of renewed market volatility. Concerns are mounting that the Federal Reserve's sluggish response to the cooling US economy will soon lead to rapid interest rate cuts to catch up. The stage was set for a dramatic Monday market reopening.

Friday's disappointing US jobs data intensified the sell-off in an already jittery market. The Nasdaq index fell into correction territory, while haven assets like Treasuries experienced a sharp rally. Investors asked whether Friday's jobs numbers were a statistical anomaly or indicative of a severe economic slowdown.

The Federal Reserve's decision to hold rates steady last week only fuelled the fire. The market's severe reaction to the jobs data suggested that investors believed the Fed had erred in not cutting rates. Over the weekend, many began advocating for a 0.5 percentage point rate cut (to around 4%) at the Fed's next two meetings. Bullish sentiment on volatility emerged, echoed in the Vix index, Wall Street's fear gauge, which spiked to 29 points, the highest since the regional banking crisis of 2023.

This week started with a sell-off in richly valued big-tech stocks. The Nasdaq Composite fell by 3.4% for the week, marking a more than 10% decline since its all-time high in July. Treasuries, conversely, saw yields on the 10-year note drop to their lowest levels since December, settling at 3.82%.

Major investors disclosed significant reductions in tech holdings while increasing cash positions to record levels and buying Treasuries. This move underscored the broader market uncertainty and the fleeing to safer assets. Despite recession fears and the likelihood of additional Fed rate cuts, equity valuations have not yet signalled an economic catastrophe.

On Monday, markets initially dropped across global indices. The Stoxx Europe 600 fell by 1.6%, led by a significant decline in semiconductor manufacturers following major job cut announcements. Asian markets had already endured a bruising session, with Japan's Nikkei 225 experiencing its second-worst point decline ever, shedding 2,216 points.

Japan's economy added another layer of complexity to the global market scenario. The Bank of Japan surprisingly decided to raise its benchmark interest rate to 0.25% last week, the highest level in 15 years. This signifies a shift in Japan's monetary policy, traditionally characterized by ultra-low rates. The decision to hike rates was driven by concerns over a weak yen and negative terms of trade, impacting the nation's economic stability. The yen strengthened against the dollar, reaching ¥148.56 during early Thursday trading, putting pressure on Japanese exporters and large multinational companies like Toyota and Panasonic, whose shares saw significant declines.

US manufacturing data, suggesting a labour market slowdown, compounded global market weakness. A significant share price plunge further spooked investors in Tokyo, highlighting the interconnectedness of global markets and the impact of US economic health on worldwide investor sentiment.

The US labour market showed more signs of cooling than expected, with only 114,000 jobs added in July and the unemployment rate rising to 4.3%. This led traders to increase their bets on significant rate cuts by the Fed before year-end. Treasury yields fell further, with the two-year yield dropping below 4% for the first time since May.

August's market narrative is dominated by concerns over a slowing US economy, the Federal Reserve's next moves, and the broader implications for global markets. Investors are closely watching for any signals from the Fed that could alleviate or exacerbate these fears, with the potential for renewed volatility on the horizon.

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