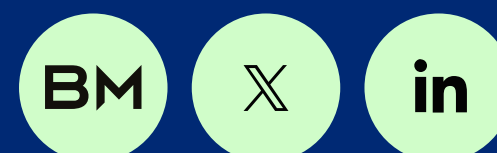


The *Monthly* *Edit* / August 2024

We examine the markets daily, and our monthly update is a selection of key global stories explained through an investment lens.





Market Headlines

There was **a shake-up** to the traditionally quiet summer month of August.

A **triple-punch** of disappointing US megacap technology results, fears of a US recession and a surprise Japan rate hike collectively proved to be a tipping point for investors.

Despite the early August hiatus, the resilience of equity markets was remarkable, as leading US and European equity indices headed back towards **record highs** by the end of the month.

Developed country government bond markets proved to be a relatively stable haven in August, offering a **degree of shelter** for investors amid, at times, huge equity market volatility.

In commodity markets, **oil prices fell** as the risks of a broader slowdown increased and worries over the potential for faltering demand from China, the world's second-largest economy.

The Big Topics

Japan's stock market rollercoaster

The global market meltdown early in August put Japan's assets in the spotlight when the interest rate hike by the Bank of Japan at the end of July caught markets by surprise. Foreign investors exited, having previously taken advantage of Japan's low interest rate and borrowing Japanese yen cheaply to invest funds in higher-yielding assets worldwide. The Japanese currency strengthened as a result, while a leading Japanese equity index recorded its worst three-day drop on record. Despite the market rollercoaster ride over the month, there are still signs of an economic recovery driven by stronger wage growth and consumer spending.

Nvidia fails to impress growth-hungry investors

The importance of the US megacap technology company Nvidia is hard to overstate in terms of its ability to move markets. As the poster child of the generative artificial intelligence (AI) boom, Nvidia's latest quarterly earnings report wasn't impressive enough to stop its share price from dropping. The fallout sent shockwaves through the tech industry and the broader market. The generative AI chipmaker has been the best-performing stock in the S&P 500 this year. However, while Nvidia exceeded Wall Street's expectations for earnings and profits, investors appeared disappointed that it didn't beat expectations by a wider margin, and issues with delays in producing its next-generation AI chip, Blackwell, raised concerns.



Fed poised for rate cut following jobs downturn

With the US Federal Reserve (Fed) more confident that inflation pressures are easing, it acknowledged the need to focus on the cooling job market, which had stoked fears of a US recession. The US central bank has a dual mandate to keep unemployment as low as possible while keeping consumer inflation near 2%. Given this backdrop, the Fed is widely expected to join most of the world's major economies in cutting key interest rates in September. For the global economy, that means a broadly lower interest rate outlook and significantly reduced pressures from inflation. Investors are pinning hopes that this could be a catalyst for further stock gains.

Gold continues to glitter

The price of gold hit an all-time high in August, topping \$2,500 per ounce, with the high price perplexing many investors. Rising geopolitical tensions in the Middle East and slowing US economic growth support the rise. However, the current scenario of rising 'real' interest rates, which consider inflation, should dampen its appeal. Why buy gold, which pays no interest, when there is competition from higher-yielding investments? Instead of investor demand, the rise appears driven by central banks looking to diversify their holdings away from the US dollar, notably China. The expected upcoming lower US interest rates and the weaker US dollar should continue to enhance its relative appeal.

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