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Monthly Review and Outlook

August 2024

Review

- **Global equities gained in August** but the month began on a volatile note. In particular, shares in Japan initially suffered steep falls before recovering.
- Despite the market turbulence, corporate earnings and macroeconomic figures showed solid progress.

Company shares

- **US equities rose,** despite the month beginning with higher market volatility and some sharp stock market falls. These occurred as investors reacted to weaker US economic data raising recessionary risks. However, data later in the month provided some reassurance, as did some resilient corporate earnings.
- **The Japanese equity market** ended August with a moderate decline of -2.9%. The market turbulence was associated with a sharp movement in the Yen with the currency appreciating over the course of the month.
- **Eurozone shares gained** in August. Data showed that annual inflation in the eurozone was estimated at 2.2% in August, down from 2.6% in July. The drop in inflation towards the European Central Bank's 2% target was perceived to make it more likely that the ECB may cut rates at the September meeting.
- **UK equities rose** over the month. 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.
- **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.

Bonds

- August was a volatile, but broadly positive month for fixed income. US markets outperformed those in other major economies. Other major government bond markets saw more modest gains as investors focused on the potential 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 bonds. 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.

Commodities

The Bloomberg Commodity index, a benchmark for investment in global commodities, fell in August, with a modest decline. Energy and livestock were the weakest components of the index, while agriculture, industrial metals and precious metals achieved modest price gains. In agriculture, coffee and cocoa both achieved strong price gains. In precious metals, gold prices rose, while silver fell back slightly.

Outlook

We retain our positive overall stance on equities particularly in the US and UK, as we expect good company earnings growth supported by steady global growth. But we are more cautious on European equities due to political uncertainty. We have a slightly more cautious view of Government bonds as although we still anticipate further interest rate cuts there is still a high level of uncertainty around the number and timing of them.

Asset overview

Our general view of assets in the coming months is summarised as follows. These are our in-house views as at the end of August 2024.

Equities	● (green)	Positive overall stance on equities particularly in the US as growth remains resilient and inflation is falling under control, leading to expectations of interest rate cuts from the Fed next month.
Government bonds	● (red)	We now have a cautious view on Government bonds as markets have priced in more interest rate cuts than we believe is required given the benign economic backdrop.
Corporate bonds	● (amber)	We have increased our exposure to neutral due to recessionary risks being overplayed and company bonds being better value.
Commodities	● (green)	We retain our positive view on gold given its role as an inflation and geopolitical hedge, especially with the backdrop of increased Chinese demand and falling interest rates.

	Legend
● (green)	Positive outlook
● (red)	Negative outlook
● (amber)	Neutral outlook

Source: Schroder Investment Management and Schroders Personal Wealth, 9 September 2024

Important information