

# WEEKLY UPDATE

## A rocky financial summer waiting for the start of the rate cut cycle of the Fed.

Financial markets experienced strong downward and upward swings during the months of July and August. Initially, equity markets fell significantly in a context of the unwinding of carry-trades in Japan and labour market data in the United States falling short of expectations, then markets recovered strongly with good consumer and inflation data. These moves reflect investors' expectations whether the US economy can effectively perform a soft landing and hence the expected rhythm of the Fed interest rate cut cycle. We continue to favour the scenario of a soft landing for the US economy, The Jackson Hole symposium which begins on August 22 will be closely monitored as Jerome Powell is likely to shed light on the expected rate cut cycle.

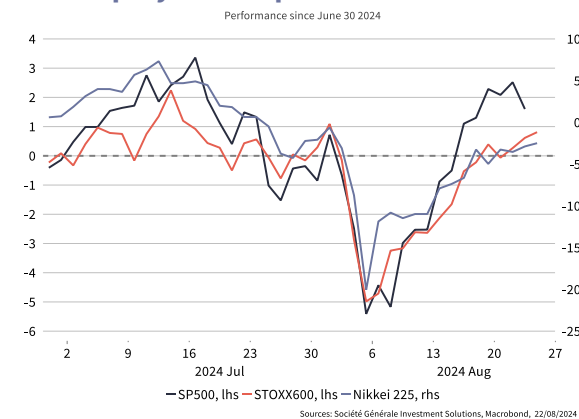
**From fears of a near recession in the United States...** Equity markets started the summer with a sharp downward movement. Indeed, equity indices in major economies fell by nearly 5% between July 1 and August 7, with the Nikkei 225 in Japan falling by more than 20% over this period. Among the sectors, the "Growth" indices fell the most during this period, while the "Value" indices held up in an environment of overvalued "Growth" stocks. The declines were triggered by the unwinding of carry-trades in Japan and weaker-than-expected U.S. labor market data. The rise in the unemployment rate in July to 4.3%, above the level forecast by the Fed at the end of the year, increased investors' fears that the US economy is close to a recession.

**... To the expectations of a soft landing.** However, equity markets recovered significantly from the week of August 12, with the SP500 back in positive territory over the quarter (+2%), the STOXX 600 erased its losses for the quarter and the Nikkei down only 5%. The rally was supported by several factors such as better-than-expected services survey data in July, persistently resilient retail sales data, inflation that continues to move closer to the 2% target, and a strong corporate earnings season beyond large-cap tech stocks. Thus, the markets have gone in the space of two weeks from a fear of an imminent recession to expectations of a soft landing for activity with an easing of financial conditions.

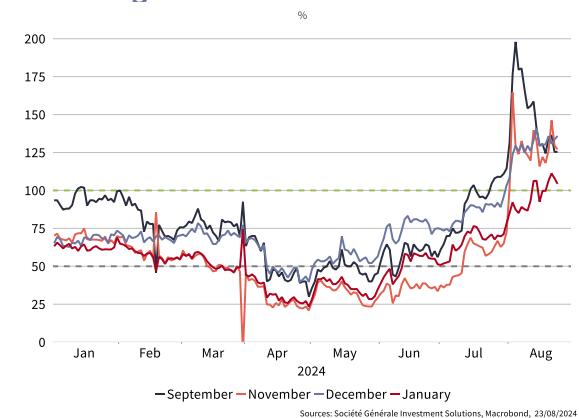
**A start of the rate cut cycle in September in a context of resilient growth.** We continue to favour the scenario of a soft landing for activity and inflation in the United States, supported by a still positive outlook for household and corporate incomes and an easing of financial conditions. Indeed, while the labour market is slowing down in terms of job creation and wages, this slowdown is in line with the dynamics of the US economy before the Covid crisis. In addition, the continued decline in inflation should support household purchasing power. On the corporate side, the corporate margin rate remains at a high level, while the revenue outlook published by companies remains positive, thereby supporting the labour market. In this context, Jerome Powell's speech at the Jackson Hole symposium is widely anticipated. Given the stabilisation of inflation close to target and the slowdown in the labour market, it is likely that Powell will confirm a first rate cut for the September 18 meeting, with the focus of the monetary authority returning to the employment target. Markets will also be attentive to the pace of rate cuts, with the latter expecting 3 rate cuts of 25bps in 2024, cuts that are close to our scenario.



### Main equity indices performance



### Implicit probability of a Fed rate cut according to markets



Past performance should not be seen as a guarantee of future returns.

All data taken from Bloomberg and Macrobond on the 27/07/2024, publication achievement date. In accordance with the applicable regulation, we inform the reader that this material is qualified as a marketing document.

# Our Macro Comments

## Events of the week



Euro area PMI indices suggest resilient activity overall, but with wide disparities between sectors and countries. The composite indicator for the eurozone rose to 51.2 (a level above 50 means activity is expanding), with the services sector rising to 53.3 but the manufacturing sector still contracting to 45.6. This resilience in the service sector is due in particular to the strong acceleration in the French service sector in August, with an expansion to 55 benefiting from the Olympic Games effect. In Germany, on the other hand, the indices suggest that activity remains sluggish, with the services index decelerating to 51.4 and the manufacturing index remaining in sharp contraction at 42



Chinese economic data continues to disappoint, with the economy still under pressure from real estate tensions. Industrial production and retail sales for July were above expectations, with growth of 5.1% and 2.7% respectively. In the same vein, credit data for the private sector also continued to slow, with household credit growth at 3.8% year-on-year in July, its lowest level since 2008. Against this backdrop, sovereign yields continue to decline, with the yield on the 10-year government bond falling to 2.1%

## The week in data

Country	Data	Month	Consensus	Actual	Prior
United Kingdom	CPI YoY	Jul	2,3%	2,2%	2,0%
United Kingdom	CPI Core YoY	Jul	3,4%	3,3%	3,5%
Euro area	Industrial Production WDA YoY	Jun	-2,9%	-3,9%	-2,9%
United States	CPI YoY	Jul	3,0%	2,9%	3,0%
United States	CPI Ex Food and Energy YoY	Jul	3,2%	3,2%	3,3%
United Kingdom	GDP YoY	2Q24	0,9%	0,9%	0,3%
United States	Retail Sales Advance MoM	Jul	0,4%	1,0%	0,0%
United States	Retail Sales Ex Auto MoM	Jul	0,1%	0,4%	0,4%
United Kingdom	Retail Sales Ex Auto Fuel YoY	Jul	1,4%	1,4%	-0,8%
France	HCOB Manufacturing PMI	Aug	44,5	42,1	44
France	HCOB Services PMI	Aug	50,3	55	50,1
France	HCOB Composite PMI	Aug	49,2	52,7	49,1
Germany	HCOB Manufacturing PMI	Aug	43,3	42,1	43,2
Germany	HCOB Services PMI	Aug	52,3	51,4	52,5
Germany	HCOB Composite PMI	Aug	49,2	48,5	49,1
Euro area	HCOB Manufacturing PMI	Aug	45,8	45,6	45,8
Euro area	HCOB Services PMI	Aug	51,7	53,3	51,9
Euro area	HCOB Composite PMI	Aug	50,1	51,2	50,2
United Kingdom	S&P Global Manufacturing PMI	Aug	52,2	52,5	52,1
United Kingdom	S&P Global Services PMI	Aug	52,8	53,3	52,5
United Kingdom	S&P Global Composite PMI	Aug	53	53,4	52,8

## Key events next week

### Monday August 26 2024

Germany	August IFO survey
US	Durable goods command

### Wednesday August 28 2024

France	Consumer confidence survey
Euro area	Monthly banks balance sheet

### Thursday August 29 2024

Spain	August inflation
Germany	August inflation
Euro area	Confidence indices

### Friday August 30 2024

France	Payroll growth, 2Q24
France	August inflation
Italy	August inflation
Euro area	August inflation
US	Monthly personal accounts
US	August PCE inflation



# Market Performances

## Interbank rates

%	21/08/2024	23/07/2024	23/05/2024	01/01/2024	23/08/2023
United States SOFR	5,350	5,35	5,32	5,34	5,29
Euro area €ster	3,663	3,67	3,91	3,88	3,65
United Kingdom SONIA	4,950	5,20	5,20	5,19	5,19
Switzerland SARON	1,206	1,21	1,45	1,70	1,70
Japan TONAR	0,227	0,08	0,08	-0,04	-0,06

## Sovereign rates 10 years

%	22/08/2024	23/07/2024	23/05/2024	01/01/2024	23/08/2023
United States Treasuries	3,86	4,25	4,47	3,88	4,19
France OAT	2,95	3,10	3,09	2,55	3,05
Germany Bund	2,24	2,42	2,61	2,02	2,52
Italy BTP	3,61	3,76	3,90	3,70	4,17
Spain Bonos	3,05	3,19	3,37	2,98	3,54
Switzerland	0,40	0,55	0,77	0,66	0,97
United Kingdom Gilts	3,99	4,16	4,26	3,60	4,47
Japan JGB	0,87	1,05	0,99	0,62	0,66

## Credit & emerging markets

%	22/08/2024	23/07/2024	23/05/2024	01/01/2024	23/08/2023
United States IG	4,94	5,30	5,54	5,06	5,72
United States HY	7,39	7,61	7,93	7,59	8,60
Europe IG	3,65	3,84	4,09	3,72	4,53
Europe HY	6,41	6,59	6,63	6,80	8,05
Emerging markets (FX)	6,45	6,73	6,92	6,77	7,50

## Equity markets indices

22/08/2024 vs	-1w	-1m	-3m	01/01/2024	-1y
World	0,36	-0,140	3,681	14,52	24,18
United States	0,34	0,146	5,819	16,40	27,58
Euro area	0,90	-0,996	-3,203	8,72	15,86
France	1,00	-0,495	-6,081	2,56	7,05
Germany	0,90	-0,873	-1,293	8,80	15,86
United Kingdom	-0,17	2,119	0,774	10,28	19,68
Japan	-0,25	-5,465	-2,775	14,19	21,64
Emerging (USD)	0,53	0,281	2,225	12,33	19,04
China (USD)	0,50	0,958	-5,952	4,43	1,42
India (USD)	1,82	2,713	9,334	22,33	40,95
Latin America (USD)	-1,84	1,650	-5,392	-11,89	2,14

## Foreign exchange rates

	22/08/2024	23/07/2024	23/05/2024	01/01/2024	23/08/2023
EUR/USD	1,11	1,08	1,08	1,11	1,08
GBP/USD	1,31	1,29	1,27	1,27	1,27
EUR/CHF	0,95	0,97	0,99	0,93	0,95
USD/JPY	146,29	156,03	157,07	141,03	144,76
USD/CNY	7,14	7,27	7,25	7,08	7,21

## Commodity prices

	22/08/2024	23/07/2024	23/05/2024	01/01/2024	23/08/2023
Brent, USD/BL	77	82	81	77	83
Copper, USD/Metric t.	9 061	9 053	10 291	8 476	8 378
Gold, USD/Troy o.	2 485	2 409	2 329	2 063	1 916
Silver, USD/Troy o.	30	29	31	24	24
Palladium, USD/Troy o.	949	911	988	1 136	1 282
Platinum, USD/Troy o.	959	950	1 038	1 000	929

Source: Bloomberg, on 23 August 2024, 1W = 1 week change, 3M = 3 month change, 12M = 12 month change, YTD = year to date change. Equities; total return in local currency. Government bonds = 10 year returns. Figures are rounded..

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