

## AUGUST 2023 – MONTHLY MARKET REVIEW

Market Performance %	Aug 23	YTD*
S&P500	-1.77%	+17.40%
NASDAQ	-2.17%	+34.09%
DAX	-3.03%	+14.52%
Nikkei	-1.67%	+25.00%
Hang Seng	-8.45%	-7.07%
MSCI EM	-6.36%	+2.50%

\*Local Returns-to-date calculated as of month end

### Macro Developments

#### US: Strong Economic Activity, Moderate Core Inflation, and a Downgrade by Fitch

Core retail sales and industrial production both increased by 1% MoM in July, and 3Q GDP estimates are now tracking at an impressive 1.4% QoQ. The economy continued to be resilient last month. The ISM Manufacturing PMI barely grew to 47.6 in August, while the unemployment rate unexpectedly jumped to 3.8% in August. Survey data, however, was once again disappointing. Although core inflation declined slightly to 4.7% in July, overall inflation increased slightly to 3.2% YoY. The US' long-term credit rating was lowered by Fitch to AA+ owing to worsening budgetary and governance concerns. Powell also highlighted at the Jackson Hole Summit that interest rates will likely stay high for a while and did not rule out further rate increases.

#### Europe: A decline in business survey data, moderate inflation, and rate increases from the ECB.

The eurozone PMI declined even more quickly to 47.0, and the composite PMI entered contraction territory in August at 47.9. With both overall and core inflation remaining at 5.3% in August (unchanged for the former and lower for the latter), inflation in the eurozone as a whole continued to decline. In 2Q, the UK economy grew by a moderate 0.2%, which was somewhat more than anticipated. Due to the removal of the energy price

ceiling, the UK's total inflation rate dramatically decreased to 6.8% in July, while core inflation stayed at 6.9%. The BoE increased the benchmark interest rate by 25 basis points to 5.25%, as expected, and may continue to do so in the future given that nominal wage growth has not yet peaked despite a steady rise in the unemployment rate.

#### Rest of World: Mild Deflation, Chinese Real Estate Sector Concerns, Japan's GDP

Retail sales and industrial production unexpectedly contracted to 2.5% and 3.7% YoY in July, indicating that the Chinese economy continues to slow down. While the non-manufacturing PMI decreased to 51.0, the NBS Manufacturing PMI surprisingly increased to 49.7 in August. Country Garden, one of China's major private real estate developers, teetered on the verge of bankruptcy which caused the real estate "crisis" to grow worse. Although core inflation rose to 0.8% in July, the total inflation rate fell to -0.3%, indicating a deflationary condition. People's Bank of China reduced the rate on its medium-term lending facility for the second time in two months, this time by a modest 15 basis points to 2.5 percent. Japan's 2Q GDP grew 1.5% QoQ above expectations as a result of robust exports, while core inflation accelerated to 4.3% in July.

### Market Impact

Global government debt securities were down marginally by 0.1% in August, while global equities fell by 2.8%. In the fixed income market, rates on the benchmark 10-year government paper temporarily hit fresh cyclical highs in the US and the UK before most of the gains were lost. The performance of commodity prices in August was inconsistent: although oil increased by 1.5%, copper and gold decreased by 4.5% and 1.3%, respectively. Due to the potential for strikes in Australia, natural gas prices in Europe rose by 23%.

### Our Expectations

The Federal Reserve's stance on further rate hikes is tied to inflation containment, and there is still a debate over its future actions. However, New York Fed's U.S. recession probability index still projects a 66% chance of a recession within the next 12 months. Also, to note that September has consistently been the most challenging month for the U.S. stock market, with the S&P 500 experiencing an average decline of 1.1% since 1928.

**This Economic Outlook report was prepared by the Aris PrimePrime Asset Management Investment team.**

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