

A month of mixed fortunes for markets



There was some positive news mixed in with areas of concern for the world's major economies during August – from a positive jobs report in the US to disappointing growth figures for China's economy.

Markets stuck to a familiar road in August, contemplating the next move from major central banks in their efforts to tame inflation, but at the same time spare their economies severe knock-on effects.

Investors reacted positively to a strong jobs report from the US. The Nasdaq index gained ground early in August following the announcement, which showed a drop in the unemployment rate. Hopes of a less severe slowdown for the US economy were raised – bolstered by strong corporate earnings, although future earnings expectations look to be peaking (figure 1).

The news also strengthened speculation that the US Federal Reserve (Fed) could slow the pace of interest rate rises or even reverse course. However, markets dipped towards the end of August in the wake of central bankers warning investors to prepare for a more sustained period of rate rises.

Another optimistic takeaway for the US was the pace of inflation in July, which slowed more than expected to an annual rate of 8.5%, down from 9.1% in June. The S&P 500 index and Nasdaq again both reacted positively to the news, as did markets in Europe, mirroring hopes that inflation could be steadying in the US.

UK interest rates rise

The Bank of England raised interest rates in August by 0.5 percentage points, taking the rate to 1.75%. It's the biggest rate rise in 27 years, and the Bank hopes it will help to combat rising inflation, which climbed to 10.1% in July, higher than experts predicted.

The Bank believes that inflation in the UK could pass 13% in 2022 which is above previous forecasts, and expects it to remain high well into 2023. GDP is expected to fall, fuelling the possibility of a longer economic slowdown in the UK.

The Office for National Statistics revealed that Britain's GDP contracted in the second quarter, by 0.1% in the three months to June, compared with the previous quarter. The news adds to the existing challenges facing the UK economy.

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Economy slows in China but grows in Japan

There was a disappointing economic report from China in August, showing a lower-than-expected rate of growth in the industrial production and retail sectors in July. Markets in the US and China were subdued by the news, despite China's central bank reducing interest rates. It's thought the country's strict covid restrictions are hampering its economic recovery, along with a property market slump.

However, news was better in Japan, in what could be the result of an easing of covid-related restrictions – and increased consumer spending. Figures released in August showed the country's economy grew by 2.2% in the second quarter – its third consecutive quarter of economic expansion.

Figure 1: Company earnings forecasts

Although interest rates are rising and the economic outlook is deteriorating, earnings expectations have barely moved. Yet the 2023 and 2024 forecasts are off their peaks and could continue to fall if the outlook continues to weaken. Today's share prices reflect future earnings expectations, which is why we monitor any movements.



Source: Bloomberg.