AUGUST 2024

Monthly Market Commentary

For those of us residing in the Midwest, the summer's end is quickly approaching. Make sure to take time to get outside, have a few more grill outs, and maybe take a dip in the pool! Although summer is coming to an end, we have a lot to look forward to such as football and fall weather!

Just as the clouds were settling in Q2, cross asset volatility is back on the rise once again with various risks in the market taking the front seat all at once. A popular carry trade used in the financial markets to harvest yield with a low borrow cost had to be unwound at the most inopportune time as the Bank of Japan raised interest rates by 15 basis points catching a lot of market participants off guard. With major indexes already extended, a sudden shift in perception of risk caused a spike in equity volatility exhibited by the loss of over 19% in the Japanese Stock Market Index NIKKEI on Friday July 31st. Further, elevated geopolitical risks and with the election around the corner, markets were already showing signs of elevated uncertainty which markets usually do not like. A lot of dislocation has been caused by mechanical flows and not necessarily all fundamentally driven, which warrants us to be patient for the time being. It remains a fluid situation as these imbalances are cleared out and volatility subsides.

On the fundamental side, economic data showed signs of a slowdown with the latest ISM manufacturing index that came in at 46.8 which is contractionary, and the employment report showed a slowdown in hiring with unemployment ticking up slightly to 4.3% sparking fears of a recession. The FED maintained its policy rates at current levels in their latest meeting and did not signal any definitive move in their next meeting in September as markets expected. We are approaching the end of the second quarter earnings season with 85% of companies reporting an aggregate earnings and revenue growth of 13.8% and 5.5% YoY respectively, in-line with expectations. Despite a strong earnings season, guidance for the third quarter has been a tad bit light with respect to consensus expectations with valuations extended. We believe the economy will continue to grow at trend growth rate of around 2% despite a slowdown in the second half of the year with a trough in inflation in the third quarter unless there is some exogenous shock.