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August Overview

There was an uptick in market volatility during August fuelled by increases in the yields of major sovereign bonds, continued Chinese economic weakness and an increase in natural gas prices due to the possibility of strikes at Australian liquified natural gas plants. Although they recovered towards the end of the month, both bonds and equities sold off globally.

In the **UK**, the Bank of England (BoE) hiked its policy rate by 0.25% at the beginning of August to 5.25%, whilst also highlighting its intention to hold rates at these levels for some time. Despite higher rates, the UK economy surprised to the upside with second-quarter GDP rising 0.2% quarter on quarter vs expectations of 0%. UK inflation eased further in line with expectations to 6.8% year on year, down from 7.9% in July, although core inflation remained flat at 6.9%, marginally higher than expectations. Salaries excluding bonuses were at their highest since records began in 2001, up 7.9% year on year in the period April to June.

At the beginning of August, the **US** saw its credit rating downgraded by rating agency Fitch from the highest level AAA to the second highest AA+ given concerns around increased political dysfunction and the sustainability of debt and deficit trajectories. This may have had some bearing on the increase of US treasury yields later in the month, but these were probably more driven by strong economic data and higher treasury issuance. Data came out showing unemployment ticked down to 3.5% during July (although job gains at 187,000 were slightly below expectations) whilst average hourly earnings were slightly above expectations. Retail sales increased 0.7% month on month in July, well above expectations of a 0.4% month on month rise. CPI inflation rose slightly to 3.2% but core CPI (which excludes food and energy) fell to 4.7%, from 4.8% in June. Central bank communication was consistent with market expectations of one more 0.25% rate increase before cuts begin next year.

In the **Euro** area, GDP grew an estimated 0.3% quarter on quarter in Q2 2023, with unemployment dropping to 6.4% in June, its lowest on record. The outlook remained muted, however, with the August composite purchasing manager index falling to 47, its lowest since 2012 (barring those associated with COVID). Although headline CPI remained flat at 5.3% year on year, core CPI did fall slightly in August to 5.3% from 5.5% in July. As this remains higher than the European Central Bank's target, markets are still pricing in further rate increases before the end of the year.

The **Japanese** economy expanded 6% quarter on quarter during Q2 2023, although this was due to strong net trade which masked weaker domestic demand. Nevertheless, business surveys remain strong with inflation rising to 4.3% year on year in July and wage negotiations leading to the biggest wage increases in 30 years (in contrast to most other countries, higher inflation is positive in Japan given its desire to break free from its deflationary past).

In **Emerging Markets**, Chinese economic data was much weaker than expected. CPI turned negative in July at -0.3% year on year with producer price index deflation continuing for the 10th month in a row. Retail sales also badly missed expectations, growing 2.5% year on year vs expectations of 4.5%, with consumer confidence remaining low. Private investment decreased 2.3% year on year in July with the property sector remaining the weakest sector, down 8.5% over the January to July period compared to the previous

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year. Symptomatic of problems in the property sector, two of its biggest developers suffered further issues during the month with Evergrande entering bankruptcy and Country Garden missing bond interest payments. On the plus side, Chinese officials kicked off further stimulus, with the People's Bank of China lowering its interest rate twice in August and Beijing cutting stamp duty on stock trading towards the end of the month.

Currencies - Sterling was mixed versus major developed market currencies over August, underperforming the dollar (down 1.5%) but flat vs the euro, 0.9% stronger vs the Japanese yen and up 2.5% vs the Australian dollar. Against emerging market currencies, the pound was up 4.9% versus the South African rand and up 2.5% against the Brazilian real.

Asset Classes

August was a negative month for most asset classes. Emerging market equities were the worst performing equity asset class whilst commodities were the best, due in part to a stronger dollar in which most commodities are priced (US equities also held up relatively well on the back of a stronger dollar).

Within UK equities, mid-sized larger companies performed roughly in-line. The large-cap FTSE 100 was down 2.5%, whilst the mid-cap FTSE 250 index was down 2.4%.

Bonds also sold off slightly over the month, with Emerging Market bonds worst hit in a difficult month for the region.

Cash & Short-Term Bonds	Global Government Bonds	Global Inflation Linked Bonds	Global Corporate Bonds	Global High Yield	Emerging Market Bonds	US Equities	Europe ex-UK Equities	UK Equities	Japan Equities	PACIFIC ex-Japan Equities	Emerging Market Equities	Global Infrastructure	Global Property	Commodities
£	HDG	HDG	HDG	HDG	HDG	£	£	£	£	£	£	£	£	£
0.43%	-0.08%	-0.78%	-0.35%	-0.20%	-1.56%	-0.33%	-2.48%	-2.50%	-0.92%	-4.41%	-4.72%	-4.00%	-2.22%	0.76%

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