



R&R Weekly Column
By Brunello Rosa



A Global Market Rout Masks a Healthy Repricing

Global markets have been shaken by large and sudden moves during the last few days, to an extent unseen since the pandemic crisis (2020-21), global financial crisis (GFC, in 2008-09) or even earlier than that. On Monday August 7th, for example, Japan's Nikkei 225 index dropped by 12.4%, its sharpest one-day decline since the 1987 Black Monday selloff. US equity markets fell by a similar amount: in particular, the Nasdaq composite fell by 13% since last month's peak. European markets, which had lagged behind in the market run-up, have declined less, so far. Conversely, recession fears resulted in lower rates across the US curve: the 2-year US Treasury yields fell to 3.8%, causing the gap against the effective federal funds rate of 5-5.25% to widen by a greater amount than at any time since the GFC.

There are four main causes for this global repricing. *First, recession fears in the US.* These were sparked by an NFP reading of 114k in July that was well below expectations and recent averages, and by an increase in the unemployment rate from 4.1% to 4.3%. This increase in the unemployment rate has triggered the so-called Sahm Rule recession indicator. This rule "posits that a recession has begun once the three-month moving average of the unemployment rate exceeds its low from the prior year (2023) by at least half a percentage point."

Second, there have been disappointing earnings from the tech sector. As reports suggest, the US "magnificent seven" high-tech stocks, including Nvidia and Apple, have accounted for most of the market price gains over the past year or so, significantly stretching their market valuations. Their recent disappointing earnings reports have triggered the correction, shedding nine hundred billion dollars in market value."

Third, central banks' pivot. In our latest column, titled "The World's Major Central Banks Are At A Turning Point", we discussed how the Bank of England had cut rates in August, the ECB had signalled a further cut in September, and the Fed signalled its readiness to beginning to cut its Fed funds rate in September. All this, while the Bank of Japan had increased its policy rate for the second time this year (after the hike in March from -0.1% to 0-0.1%), reaching "around 0.25%" (as the BoJ put it) for the first time since the GFC. The increase in Japanese rates coupled with the fall in DM – and EM – market yields implied an unwinding of the so-called Yen carry trade. The BIS estimated the "upper bound" of the yen carry trades conducted "on-balance sheet" to be JPY 40 trillion (around USD 270bn). The largest "victims" of this un-winding have been the Mexican and the Colombian pesos.

Compounding macro-financial reasons, *the fourth cause is the rise in geopolitical tensions* in the Middle East after the assassination of Hamas leader Ismail Haniyeh in Tehran, which Iran blames on Israel; there are increasing concerns of the extension of the conflict at regional level.

What has seemed like a global market rout in the last few days has been a healthy repricing of market valuations, the result of some changes to the fundamentals of the economy (US possibly headed for a recession), company earnings (in particular in the frothy tech sector), and central bank future moves. We believe that upcoming rate cuts in the US, Eurozone and BoE will further help stabilise the situation in coming weeks.

Our Recent Publications

📖 [An Unprecedented Terrorist Attack in Oman](#), by Gulf State Analytics, 6 August 2024

📖 [Review: Bank of England Cuts Rates, With a Razor-Thin Majority](#), by Brunello Rosa and Nato Balavadze, 1 August 2024

📖 [Review: The Fed Remains on Hold in July, But Signals a Likely Cut in September](#), by Brunello Rosa and Nato Balavadze, 31 July 2024

📖 [Review: BOJ Raises Rates And Announces the Parameters of QT](#), by Brunello Rosa and Nato Balavadze, 31 July 2024



Looking Ahead

The Week Ahead: US Inflation To Ease Off; EZ QoQ And YoY GDP To Advance; UK Headline Inflation To Edge Up

In the US, in July, the headline and core inflation rates are seen easing off to 2.9% y-o-y (*p*: 3.0%) and 3.2% y-o-y (*p*: 3.3%). In August, Michigan Consumer Sentiment is expected to increase to 66.7 (*p*: 66.4).

In the EZ, in Q2, according to the second estimate, the GDP growth is likely to advance by 0.3% q-o-q (*p*: 0.3%) and 0.6% y-o-y (*p*: 0.5%). IP is expected increase by 0.7% m-o-m (*p*: -0.6%). In July, the headline inflation is likely to increase to 2.6% y-o-y (*p*: 2.5%), with core inflation remaining unchanged at 2.9%.

In the UK, in July, headline inflation rate is expected to increase to 2.3% y-o-y (*p*: 2.0%), while core inflation is seen easing off to 3.4% (*p*: 3.5%). In June, unemployment rate is expected to edge up to 4.5% (*p*: 4.4%).

The Quarter Ahead: Massive Sell-Off Rattled Global Markets; Presidential Elections In the US

Massive sell-off shook global markets. Japan's Nikkei Stock Average plunged 12.4%, its worst drop since 1987, due to disappointing US economic data and a surge in the yen. The sell-off, which spread across global markets, followed a worse-than-expected US jobs report. Investors are also worried that the Federal Reserve may have been too slow in cutting interest rates. Adding to concerns are rising geopolitical tensions in the Middle East after the assassination of Hamas leader Ismail Haniyeh in Tehran, which Iran blames on Israel, raising fears of regional conflict.

The US Presidential elections. Donald Trump and Kamala Harris have confirmed their participation in the scheduled September 10 debate hosted by ABC. Meanwhile, Vice President Harris has selected Minnesota Governor Tim Walz as her running mate for the 2024 presidential race. Together, Harris and Governor Walz attended a United Auto Workers event in Michigan to garner support from union workers.

Last Week's Review

Real Economy: Composite PMI Increased In UK And Decreased In US And EZ; Inflation Rose In Germany And Italy

In the US, in July, S&P Global Services and Composite PMIs decreased to 55.0 (*c*: 56.0; *p*: 55.3) and 54.3 (*c*: 55.0; *p*: 54.8).

In the EZ, in July, HCOB Global Services and Composite PMIs decreased to 51.9 (*c*: 51.9; *p*: 52.8) and 50.2 (*c*: 50.1; *p*: 50.9). In June, retail sales shrank by 0.3% y-o-y (*c*: 0.2%; *p*: 0.5%).

Among the largest EZ economies, in July, headline inflation rate: *i*) rose by 2.3% y-o-y (*p*: 2.2%) as expected in Germany; *ii*) increased by 1.3% y-o-y (*p*: 0.8%) as expected in Italy.

In the UK, in July, S&P Global Services and Composite PMIs increased to 52.5 (*c*: 52.4; *p*: 52.1) and 52.8 (*c*: 52.7; *p*: 52.3).

Financial Markets: Stock Prices Are Mixed; Yields Edged Up; Dollar Decreased, While Oil And Gold Prices Rose

Market Drivers: Major indexes ended the week slightly lower, recovering from the biggest sell-off in nearly two years. The week began with a global sell-off driven by concerns over US economic growth following last Friday's jobs report. Japan's Nikkei plunged 12% on Monday, triggering a significant drop in US equities, largely due to the rapid strengthening of the yen against the dollar. Eurozone government bond yields also rose from earlier lows as global market turmoil fueled concerns about economic growth.

Global Equities: virtually unchanged w-o-w (MSCI ACWI, 0.0%, to 787.16). The US S&P 500 index edged down marginally (-0.0% w-o-w, to 5,344.16). In the EZ, share prices increased (Eurostoxx 50, +0.8% w-o-w, to 4,674.55). In EMs, equity prices increased (MSCI EMs, +0.2%, to 1,063.43). Volatility rose to 19.59 (VIX S&P 500, 52w avg.: 14.6; 10y avg.: 18.1).

Fixed Income: w-o-w, the 10-year US Treasury yields edged up (+15 bps to 3.94%). The 2-year US Treasury yields increased (+19 bps to 4.06%). The German 10-year bund yields increased (+6 bps to 2.22%).

FX: w-o-w, the US Dollar Index decreased (DXY, -0.1%, to 103.15; EUR/USD +0.1%, to 1.09). In EMs, currencies rose (MSCI EM Currency Index, +0.7% w-o-w, to 1,741.82).

Commodities: w-o-w, oil prices increased (Brent, +3.7% to 79.66 USD/b). Gold prices increased w-o-w (+0.1% to 2,473.40 USD/Oz).



@RosaRoubini



Rosa & Roubini



Rosa&Roubini Associates

For more information, please call us on +44 (0)207 1010 718 or send us an email to info@rosa-roubini-associates.com

www.rosa-roubini-associates.com

118 Pall Mall, London SW1Y 5ED

Abbreviations, Acronyms and Definitions

a	Actual	LN	Northern League, Italy
AKP	Justice and Development Party, Turkey	MSS	Five Star Movement, Italy
ann.	annualized	m-o-m	Month-on-month
ARS	Argentinian Peso	mb	Million barrels
avg.	Average	mb/d	Million barrels per day
bn	Billion	MENA	Middle East and North Africa
BoC	Bank of Canada	MHP	Nationalist Movement Party, Turkey
BoE	Bank of England	mn	Million
BoJ	Bank of Japan	MPC	Monetary Policy Committee
bpd	Barrels per day	NAFTA	North-American Free Trade Agreement
bps	Basis points	NATO	North Atlantic Treaty Organization
BS	Balance sheet	OECD	Organization for Economic Cooperation and Development
c	Consensus	Opec	Organization of Petroleum Exporting Countries
C/A	Current account	p	Previous
CB	Central bank	P2P	Peer-to-peer
CBB	Central Bank of Bahrain	PBoC	People's Bank of China
CBK	Central Bank of Kuwait	PCE	Personal Consumption Expenditures
CBT	Central Bank of Turkey	PE	Price to earnings ratio
CDU	Christian Democratic Union, Germany	PM	Prime minister
CNY	Chinese Yuan	PMI	Purchasing managers' index
CPI	Consumer Price Index	pps	Percentage points
DIJA	Dow Jones Industrial Average Index	pw	Previous week
DJEM	Dow Jones Emerging Markets Index	QCB	Qatar Central Bank
d-o-d	Day-on-day	QAR	Qatari Riyal
DXY	US Dollar Index	QE	Quantitative easing
EC	European Commission	q-o-q	Quarter-on-quarter
ECB	European Central Bank	RE	Real estate
ECJ	European Court of Justice	RBA	Reserve Bank of Australia
EIA	US Energy Information Agency	RRR	Reserve Requirement Ratio
EM	Emerging Markets	RUB	Russian Rouble
EP	European Parliament	SWF	Sovereign Wealth Fund
EPS	Earnings per share	tn	Trillion
EU	European Union	TRY	Turkish Lira
EUR	Euro	UAE	United Arab Emirates
EZ	Eurozone	UK	United Kingdom
Fed	US Federal Reserve	US	United States
FOMC	US Federal Open Market Committee	USD	United States Dollar
FRB	US Federal Reserve Board	USD/b	USD per barrel
FX	Foreign exchange	UST	US Treasury bills/bonds
FY	Fiscal Year	VAT	Value added tax
GCC	Gulf Cooperation Council	VIX	Chicago Board Options Exchange Volatility Index
GBP	British pound	WTI	West Texas Intermediate
GDP	Gross domestic product	WTO	World Trade Organisation
IMF	International Monetary Fund	w	Week
INR	Indian Rupee	w-o-w	Week-on-week
IPO	Initial public offering	y	Year
IRR	Iranian Rial	y-o-y	Year-on-year
JPY	Japanese yen	y-t-d	Year-to-date
k	thousand	ZAR	South African Rand
KSA	Kingdom of Saudi Arabia	2y; 10y	2-year; 10-year