Market review

August 2023

Overview

The seasonal weakness in August was evident again this year. Investors needed good nerves as the markets pointed only downwards for the first 2 1/2 weeks of the month. Since then we have seen a slight recovery at a low level. The major uncertainties lie mainly in the view on the strength of the global economy, the interest rate development, a possible recession and the economic problems in China.

With regard to the interest rate development in the western economic areas, the matter seems quite clear: We may have reached the interest rate peak, another interest rate hike in the autumn of 0.25% seems possible in the USA and is probable in Europe.

We may have reached the interest rate peak

Supportive for the interest rate peak are the inflation figures. Although we still see an increase on an annual basis (USA at 3.2%, EU at 5.3%), individual components of this are visibly weakening. However, a further cooling of the overall economy is needed for inflation to fall to a sustainable level.

The market expects interest rate cuts in the first quarter of 2024. This expectation ignores the current situation on the labour market. Unemployment rates remain at rock-bottom levels and there are too few (suitable) jobseekers to fill the vacancies.

Against this background, interest rate cuts are hard to imagine. While growth is still clearly visible in the USA, Europe seems to be on the verge of a recession.

It seems that the industrial sectors have apparently caught themselves at a low level. Nevertheless, industry complains about a lack of new orders. After a long period of stability, it is now the service sectors that are starting to show weakness. Although services are still benefiting from stable household incomes, concerns about a recession are making customers cautious.

Europe seems to be on the verge of a recession

Meanwhile, things are brewing in China. After a strong start to the year, the euphoria in the Chinese economy seems to have faded almost completely. Currently, calls for extensive government support measures are growing louder and louder. The export-driven Chinese economy is suffering from weakening global demand and persistently weak domestic consumption.

The latter is reflected in the increasingly gloomy sentiment in the service sector, which also deteriorated in August. In addition, the biggest crisis in the real estate sector threatens to drag down the entire economy. China's largest real estate company, with debts of around USD 300 billion, can hardly meet its obligations. Moreover, the second largest company in this sector also seems to be in trouble.

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Stock markets

The month of August showed its weak side again this year. On average, investors lost between 2% and 4% on the Western stock markets.

Investors in China fared even worse. Here, the markets dipped between 5% and 8% due to the multi-layered problems that are now coming to light almost simultaneously.

Although the markets were able to come off the lows, the general uncertainty remains omnipresent and makes investors act more cautiously.

Looking at the sectors, it is noticeable that only pharmaceutical and biotechnology companies were in demand.

Interest rates

The realisation is slowly gaining ground that interest rates (at least in the USA) will probably remain high for longer than desired.

The US economy remains robust, despite key interest rates of 5.5% - the highest in 22 years. As a result, bond yields have generally risen slightly.

The situation is different in Europe, where the EU is probably on the brink of recession. Nevertheless, a final interest rate step is currently expected in autumn.

In Switzerland, too, the market is expecting a final interest rate hike for the time being, from 0.25% to 2%.

Currencies and commodities

The US dollar has continued to recover and is now back at familiar levels. EUR/CHF remains unchanged.

Gold lost some ground due to the interest rate situation and the strengthening USD.

Oil continued to rise due to global production cuts.

Industrial metals, above all copper, had to accept lower prices.

The crisis in China is causing investors to doubt future demand. Here, everyone is hoping for an economic programme from the Middle Kingdom.

Bitcoin loses over 10% due to heavy selling.

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