A poor August in the international stock markets sours the return from the holidays

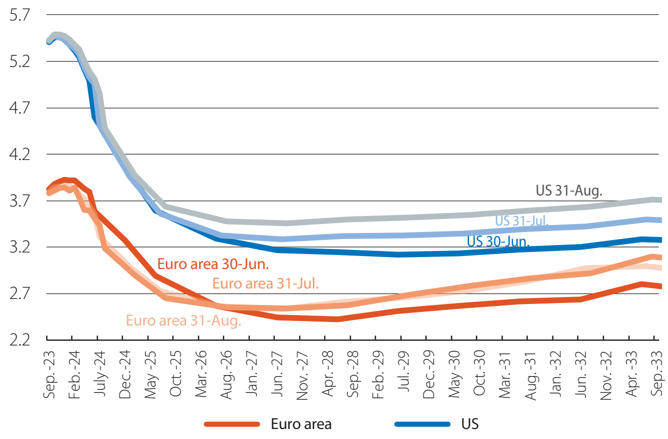
Investors once again expect higher rates for longer. One of the top stories of the summer has been the resilience that the US business cycle continues to show to the interest rate hikes of the last year and a half. This strength has once again fuelled the narrative that the economy could make a soft landing and that interest rates will remain high for longer. As a result, expectations for long-term rates rallied, as did those for sovereign debt yields. The other major story has been the state of the Chinese economy. Together with the rate hikes, this dampened investor sentiment for much of August, and amid the usual low trading volume the world's major stock markets registered falls. On this side of the Atlantic, the weakness of the euro area economy, in contrast to the US, has slowed the rise in European sovereign yields in the last two months.

The Fed and the ECB left their options open ahead of the summer break. Both central banks rose rates in July by 25 bps, with the Fed placing them in the 5.25-5.50% range and the ECB in the 3.75-4.25% range (the depo and refi rates, respectively), underscoring their commitment to bringing inflation under control. However, they left their options open in order to assess the economic data due to be released during the numerous weeks before the next meeting. In other developed countries, the Bank of Canada also raised rates in July by 25 bp, as did the Bank of England in August; only Australia and New Zealand chose not to continue their recent cycle of rate hikes. On the other hand, the Bank of Japan took a small step towards easing its yield curve control policy, with no change to its objectives (official rate of –0.1% and a 10-year sovereign rate that fluctuates, ideally, 50 bps around 0%) but introducing greater flexibility in terms of their implementation (it will be more tolerant of sovereign rate fluctuations, allowing it to reach 1.0%). This first step in the monetary normalisation process has raised investors' expectations of a gradual tightening of Japanese monetary policy in the face of the resilience of the economy, the persistence of inflation and the weakness of the yen in recent months.

The macroeconomic data drove sovereign rates. In the US, the yield on the 10-year sovereign bond experienced a sharp rally beginning in mid-July, prolonged by Fitch's downgrade of US debt in early August (from AAA to AA+, due to the deterioration of the fiscal accounts). By mid-August it had reached a high for the year of 4.34%, while the 10-2-year slope steepened by more than 40 bps. Towards the end of the month, and despite Powell's relatively hawkish statements at Jackson Hole, US rates fell (particularly the 2-year benchmark rate, which closed August almost flat compared to the end of June) in the face of the release of macroeconomic data which, while still good, fell somewhat short of expectations. In the euro area, short-term sovereign bond yields declined slightly, with the 2-year German benchmark rate ceding more than 20 bps since June. Also in Europe, expectations that ECB interest rates are approaching their peak kept interbank rates flat, with the 12-month Euribor

Expectations for Fed and ECB reference interest rates

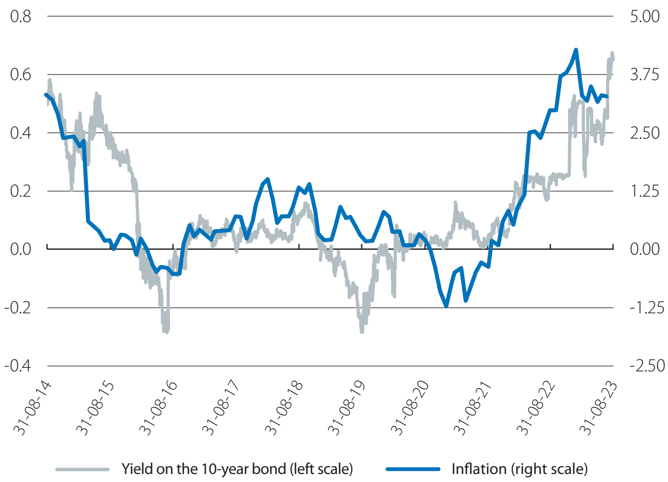
(%)



Note: *Forwards on the EFFR and the OIS of the euro area based on market yield curves.*
Source: *CaixaBank Research, based on data from Bloomberg.*

Japan: sovereign rates and inflation

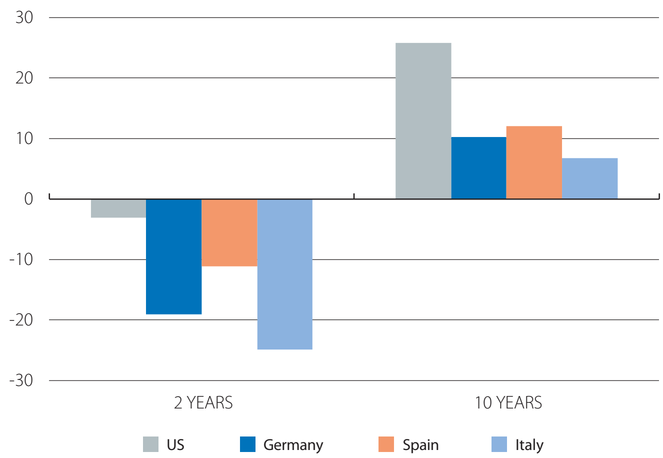
(%) *(%)*



Source: *CaixaBank Research, based on data from Bloomberg.*

*Evolution of sovereign debt by country and term **

(bps)



Note: ** From 30 June.*
Source: *CaixaBank Research, based on data from Bloomberg.*

stable at around 4.1% since June, following its upward march which began at the start of 2022.

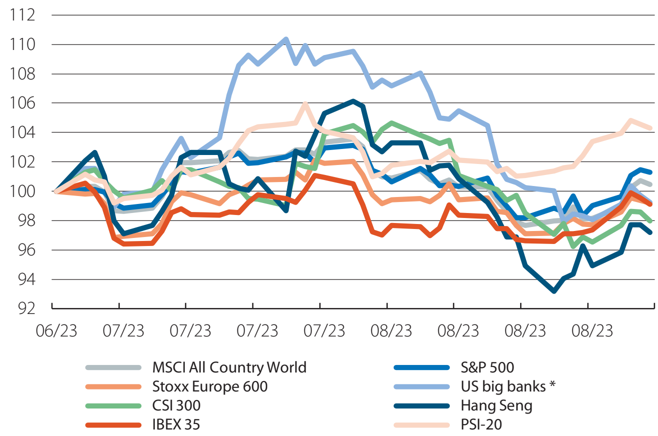
International stock markets suffer a bad month in August. Whereas the major international stock markets saw widespread gains in July, this trend reversed in August, with the MSCI All Country World index registering a 3.0% setback in the month. This performance is explained, on the one hand, by the weakness of the S&P500: after reaching 12-month highs and recording gains for five consecutive months at the close of July, it closed the month of August down 1.8%, weighed down by the poor performance of blue chip companies such as Apple and Tesla and the larger financial institutions. On the other hand, Chinese stocks also suffered losses in August, penalised by difficulties in the real estate sector (Country Garden, one of the country's biggest developers, failed to pay coupons on some of its debt issues) as well as by investors who were sceptical of the public stimulus announced in July, when the authorities promised to shore up the real estate sector's liquidity problems and boost consumer confidence. Shanghai's CSI 300 index and Hong Kong's Hang Seng closed the month down 6.2% and 8.5%, respectively. The European indices registered declines too, especially after the weakness of the business cycle became apparent in the closing weeks of the month. In this respect, the Iberian indices have performed somewhat better than their peers.

The dollar moves back and forth. Investor expectations in early July regarding the Fed's course of action – anticipating one additional rate hike followed by sharp rate cuts in 2024 – weighed heavily on the dollar in the first two weeks of that month, when the US currency depreciated by 3.1% globally according to the DXY index (–3.0% also against the euro). However, the narrative of higher rates for longer has led to a gradual appreciation of the dollar since then, in parallel with long-term rates. This allowed the US currency not to lose its footing over the summer and to close August slightly up versus the levels of June, both globally (+0.7% per the DXY index) and against the euro (+0.6%). As for the rest of the world's currencies, the yen showed particular weakness in August, suffering a depreciation of 2.2% against the dollar in the month.

Big swing in energy prices. Following the sharp rally in June in the European benchmark gas price, the Dutch TTF, as the summer heat arrived and supply pressures emerged, in July the steady progress in the filling of EU deposits calmed investor nerves and led to the price falling 23%. However, this trend was reversed with equal intensity in August with the emergence of new supply-side risks (in particular, the threat of strikes in a major Australian producer) looking ahead to the autumn coinciding with the fall in temperatures. Nevertheless, at the close of August the TTF stood close to 35 euros – the level it had ended the month of June on. As for oil, the Brent barrel price rallied more than 14% in July, driven by announcements of production and export cuts by Saudi Arabia and Russia, and it remained virtually flat in August due to doubts surrounding Chinese demand. These doubts have also weighed on industrial metals in August, which reversed most of the gains they had registered in July. On the other hand, and in spite of Russia's withdrawal from the UN deal on Ukrainian grain exports via the Black Sea, the prices of both wheat and corn have fallen since June by around 17% and 10%, respectively.

Evolution of the main international stock market indices

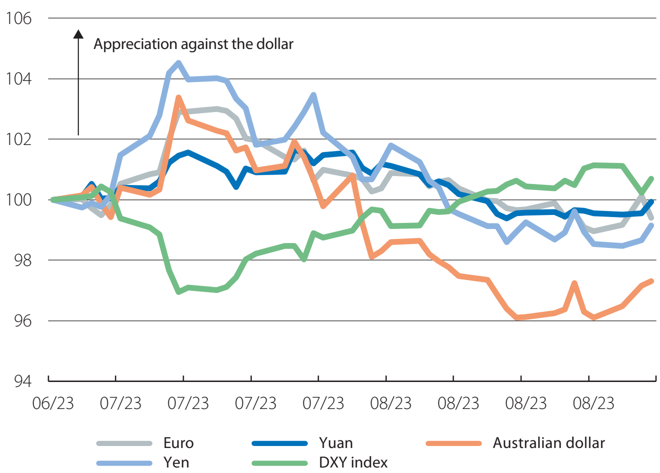
Index (100 = 30 June 2023)



Note: ** BlueStar Top10 US Banks Index (BUBNK).*
Source: *CaixaBank Research, based on data from Bloomberg.*

Currencies: evolution against the dollar

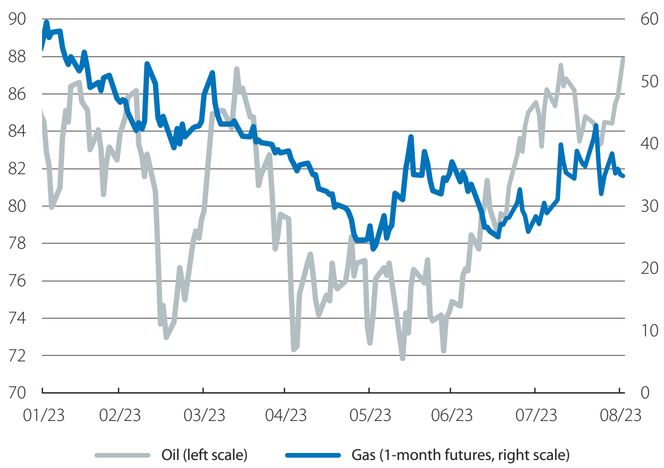
Index (100 = 30 June 2023)



Source: *CaixaBank Research, based on data from Bloomberg.*

Oil and gas prices

(Dollars/barrel) *(Euros/MWh)*



Note: *Brent oil and TTF natural gas.*
Source: *CaixaBank Research, based on data from Bloomberg.*