Main Events

US NFP — 06.09
The upcoming US job report is likely to settle the debate about the size of the initial rate cut in the US

US CPI — 11.09
The market looking for further confirmation that inflation is moving steadily towards the Fed's 2% target

ECB MEETING — 12.09
After a cut in June and a "skip" in July, the ECB is expected to cut again in September

CHINESE DATA — 14.09
Industrial production, retail sales and fixed asset investment might keep falling due to the continued lack of stimulus

Azimut Global Network

- Milan
- Abu Dhabi
- Austin
- Cairo
- Dubai
- Dublin
- Hong Kong
- Estoril
- Istanbul
- Lugano
- Luxembourg
- Mexico City
- Miami
- Monaco
- New York
- Santiago
- São Paulo
- Shanghai
- Singapore
- St Louis
- Sydney
- Taipei

JACKSON MEETS SAHM

- **Financial market volatility resurfaced in August, as the unwinding of leveraged trades in equity and currency markets amplified the initial reaction to a negative US jobs report.**
- **At the Jackson Hole economic symposium, Chair Powell said "the time has come for policy to adjust ", opening the door to the beginning of an easing cycle.**
- **Inflation releases continue providing encouraging signals on both sides of the Atlantic, with both European and US inflation within reaching distance from the respective Central Banks' targets.**

At the beginning of August, the US July jobs report showed the largest downside surprise in monthly payrolls in over two years, a jump in the unemployment rate to 4.3% (nearly a full percentage point above the trough of a year ago) and more negative revisions to previous payrolls. The jump in the unemployment rate triggered the so called "Sahm rule", named after former Fed macroeconomist Claudia Sahm, which states that the US economy is at the onset of a recession whenever the three-month moving average of the unemployment rate is 0.5 percentage points or more above its low over the prior twelve months (as it is the case now). The silver lining lies in the fact that a large portion of the increase in unemployment can be explained by new entrants coming into the labor force, rather than by job losses. Also, it is worth pointing out that the cycle low in the unemployment rate was the lowest it had been in more than five decades. Claudia Sahm herself has pointed out that the idiosyncrasies around this cycle are creating larger swings in the unemployment rate.

The surprise rise in US unemployment, coupled with a rate hike and hawkish stance by the Bank of Japan (further details below), triggered a violent bout of volatility, driven by the unwinding of leveraged trades in equity and carry trades in FX, where the use of the Japanese JPY as a funder was widespread. The sharp move lower in risk assets prompted bets on emergency rate cuts by the Fed and sent Wall Street's fear gauge, the VIX, to the highest level outside the global financial crisis and the Covid pandemic. Markets then stabilized quickly, and volatility receded.

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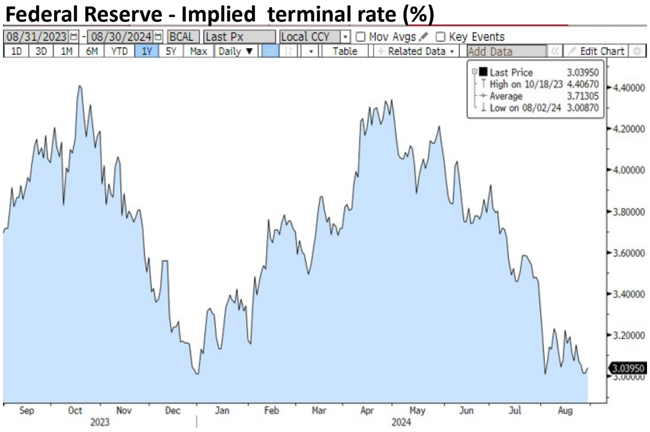
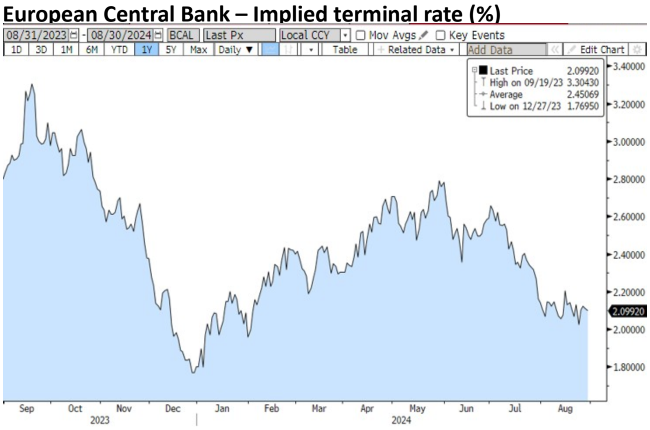
Federal Reserve - Implied terminal rate (%)



Source: Bloomberg

European Central Bank – Implied terminal rate (%)



Source: Bloomberg

The other main event of the past month was the Jackson Hole Symposium, where Chair Powell opened the door to the prospect of imminent cuts from the FED. In his remarks, Powell paved the way for a shift in monetary policy that – most likely – will kickstart an easing cycle at the next FOMC meeting (September 18th). Powell put strong emphasis on the second dimension of the Fed's mandate (i.e. unemployment, in addition to price stability) stating that "the Fed does not seek or welcome further cooling in labor market conditions" and that the "direction of travel is clear".

Absent from Powell's speech was any specific discussion of the destination for the federal funds rate at the end of this easing cycle or the pace of rate cuts. That said, the "time has come" language used in the speech suggests that the Fed will cut rates by at least 25 bps at its September meeting and that it will signal via its "dot plot" projections that more cuts are expected at the remaining two meetings this year in November and December.

At the time of writing, the market is implying 33 bps of cuts at the September meeting, about 100 bps of cuts in 2024, 200 bps of cuts over the coming 12 months, and a terminal rate close to 3%.

The upcoming Presidential election also remains a key focus in the US. Vice President Harris leads former President Trump by around 2% in national polling averages. Prediction market averages currently imply a 52% chance that Harris wins in November.

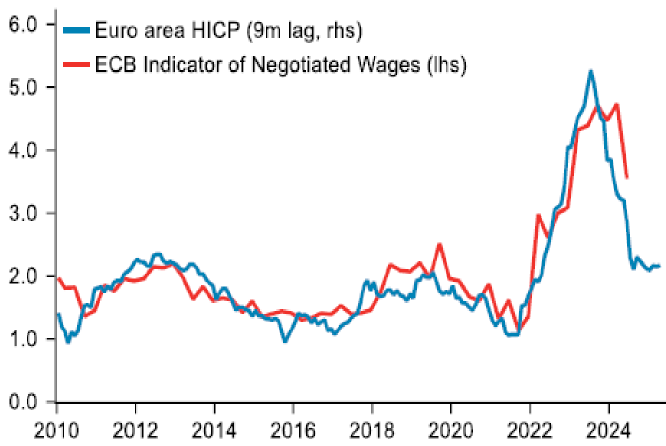
With respect to the Houses, the Senate playing field favors Republicans, with polls favoring them in enough races to produce a 51-seat majority, while control of the House still appears narrowly divided, and most indications continue to suggest it will remain close.

In Europe, the incoming information on domestic price pressures has been more encouraging for the ECB.

Based on its past relationship with headline inflation, the substantial easing in the annual growth rate of negotiated wages between Q1 and Q2 points to further moderation in pay pressures in the coming quarters.

Eurozone inflation fell to 2.2% in August, from 2.6% in July, due to lower energy prices, bolstering expectations that the European Central Bank will reduce interest rates in September. Germany and Spain reported bigger-than-expected falls in inflation.

Eurozone: wage growth slowing as inflation cools



Sources: ECB, Eurostat, BNP Paribas

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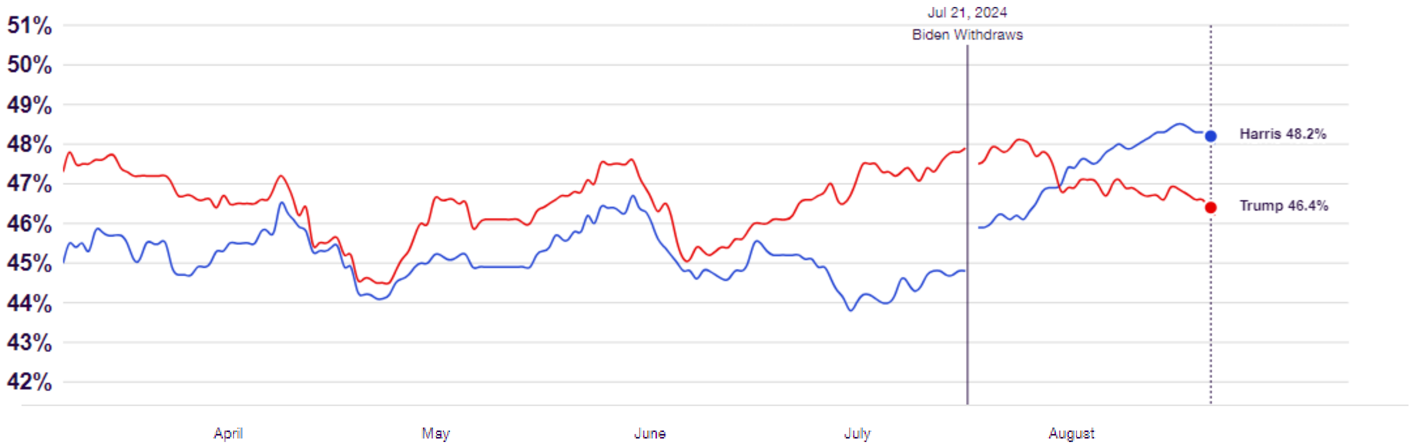
US Presidential Elections 2024: poll average, Harris vs. Trump



Source: RealCLearPolitics, Azimut Elaboration

Beyond the data flow, a tighter fiscal stance is likely to encourage a more accommodative posture from the ECB. While the contribution of fiscal policy to economic growth varies substantially across countries—particularly due to differences in Next Generation EU funding—the draft budget approved by the German coalition recently earmarks further tightening in 2025. Meanwhile, the caretaker government in France is reportedly working on a budget plan to hand to the next Prime Minister that would comply with EU fiscal rules and thereby put the deficit on course to fall below 3% by 2027, after the European Commission signaled its intention in June to open an Excessive Deficit Procedure against the country.

In Japan, the Bank of Japan (BoJ) raised interest rates at its July 2024 meeting to around 0.25% from the prior range of 0 to 0.1% that it set in March. The central bank added it would reduce the monthly bond-buying to JPY 3 trillion in January-March 2026 from the current pace of around JPY 6 trillion to pursue a more normal monetary policy. The announcement is part of the central bank's plan to lower its almost USD 5 trillion balance sheet and slowly retreat from the bond market.

The Japanese Yen took the limelight in August, being one of the main culprits of the market turbulence that took place at the beginning of the month. As previously mentioned, the combination of a surprisingly restrictive stance by the Bank of Japan and a weak US job report led to an appreciation of the Yen, which resulted in a massive unwind of the Yen carry trade popular with investors.

Looking at the days ahead, the major data point is the US labor report due to be released on September 6th. Consensus expects the Unemployment Rate to tick down to 4.2% (from 4.3%), a 160k increase in Non-Farm Payroll, and a 148k increase in Private Payrolls. It is worth mentioning the increased focus on private job creation: the last 6 times the private sector share fell below 40%, a recession followed.

The jobs report is likely to settle the debate about the size of the first cut from the Fed: a further increase in the unemployment rate would open the door to 50 bps, while a benign number would probably lead the Fed to tilt towards 25 bps.

Asset Allocation View

	Under	Neutral	Over
Equity			
Developed Markets			
Emerging Markets			
Fixed Income			
Developed Markets Sovereign		Downgrade	
Developed Markets Corporate			
Emerging Markets			
Commodities			
Currencies		*Commentary below*	

UNDER NEUTRAL OVER

Equity

Developed Markets

We have kept our **Neutral** recommendation on Developed Market Equities. The prospect of a series of rate cuts in the coming months by Western central banks will support risk appetite, thanks in part to a still strong reporting season. However, the non-farm payrolls report this Friday could be crucial in the short term. If the report is better than expected, it could foster another leg up in the markets thanks to diminished risks of a slowdown. If not, the risk of entering a recession would increase, making stock markets vulnerable to another correction after the strong bounce from the August lows.

US **Europe** **Japan**

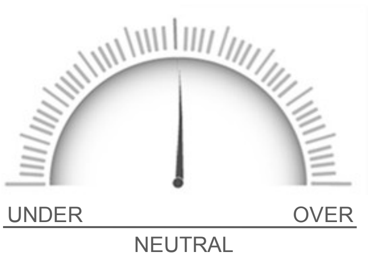
Emerging Markets

We maintained our Neutral recommendation on Emerging Markets Equities. Valuations remain favorable and at a significant discount to developed markets, and the prospect of a rate-cutting cycle by Western central banks is certainly a positive development for emerging countries. In addition, the possibility of the dollar weakening if the Fed cuts rates aggressively is also supportive of emerging countries. On the other hand, the continued lack of stimulus measures in China and the risk that the global economy may slow down more than expected will continue to weigh on emerging countries.

Asia ex-Japan **EEMEA** **LATAM**

Fixed Income

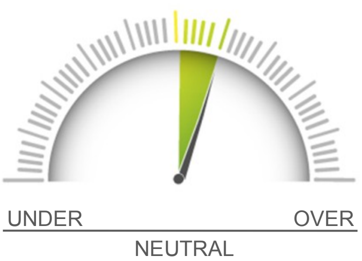
Developed Markets Sovereign



We have downgraded our recommendation for Developed Markets Sovereign Bonds to Neutral. The rally in bonds over the past month has taken the curves to levels that imply eight rate cuts by the Fed and six by the ECB over the next 12 months. At current values, bonds seem correctly priced considering the scenario of coordinated rate cuts that emerged at the Jackson Hole meeting and assuming a soft landing scenario. Further upside from these levels is possible only if the economy enters a recession, an assumption that is not the baseline scenario at present.

EU Core	=	**EU Periphery**	=	**US Treasury**	=	**Japanese JGB**	=

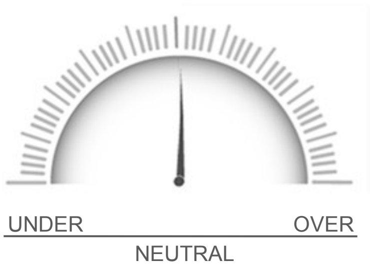
Developed Markets Corporate



We maintained our slightly overweight recommendation on Developed Markets Corporates. Considering that the positive contribution from duration is likely to be limited in the future, as mentioned above, within the fixed income market, the search for yield will continue to support corporate bonds. Among corporates, we continue to prefer investment-grade bonds over high-yield bonds.

IG Europe	+	**IG US**	+	**HY Europe**	−	**HY US**	−

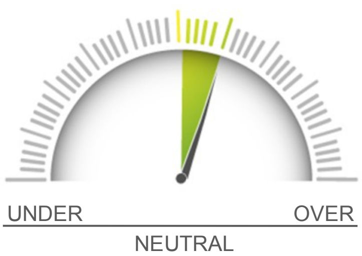
Emerging Markets



We also maintained our **Neutral** recommendation for Emerging Market bonds.

Local Currency	=	**Hard Currency IG**	=	**Hard Currency HY**	=

Commodities



We confirmed our **Slightly Overweight** recommendation on Commodities. Within commodities, we remain positive on precious metals, which tend to outperform in times of monetary policy easing, in addition to serving as a portfolio hedge in the event of unexpected geopolitical tensions and political uncertainties. In contrast, we are more cautious on cyclical commodities, which could come under pressure if economic growth slows further.

Precious	+	**Energy**	−	**Industrial**	−	**Agricultural**	=

Currencies

The Committee kept the **Neutral** stance on the US Dollar. However, since the Fed has more room to cut rates and is normally more responsive than other central banks, there is a possibility that the U.S. dollar could weaken further from these levels (particularly if it breaches some technical levels), although much of Powell's dovish stance at Jackson Hole seems fully priced in.

The view on the Euro remains **Neutral**. Several ECB officials have confirmed that the European Central Bank will cut rates again in September, with other cuts down the road. The ECB seems to be aligning itself with the Fed, as expected, but with less room to cut, therefore the Euro could keep its recent gains.

The view on the **Chinese Renminbi** has been upgraded back to **Neutral**. Even if the Chinese government continues to refrain from any fiscal stimulus, the prospect of a dovish Fed could relieve pressure on the Renminbi in the short term.

The outlook for other **emerging market currencies** is **Neutral**. Among emerging currencies, in the current environment the Committee favors Asian currencies.

Euro	=	**USD**	=	**CNY**	=	**Other EM**	=