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AUGUST
MONTHLY COMMENTARY

	AUGUST	YTD
MSCI World	-4.3%	-18.7%
S&P 500	-4.2%	-17.0%
MSCI UK	-2.2%	4.9%
NASDAQ	-5.2%	-24.8%
Bloomberg Global Barclays Agg	-4.0%	-15.6%
Bloomberg Global Barclays Agg (GBP)	-2.8%	-9.7%

Source: Bloomberg

August predominantly maintained the enthusiasm driving the equity markets in July. As economic data released throughout the month continuously reaffirmed a view that inflation was peaking in many countries, investors continued to participate in an apparent recovery. However, in a last minute twist to round off the month, the hawkish tone from the Jackson Hole speech, delivered by the Federal Reserve's Jerome Powell, threw markets back into a spin.

In the UK, August started with the BoE (Bank of England) increasing its benchmark rate by 0.50%, a historic moment when considering this is the first time it has taken such an action in 27 years. Aggressive for UK's history, sure, but not when compared to the recent moves across the pond in the US (+0.75%) and Canada (+1.00%). More shocking than the rate hike itself, which was largely already priced in, was the guidance: inflation estimated to peak in Q4 2022 at 13%, citing higher energy prices as the main contributor. A forecast which was only further backed by July's monthly figures posting an annual inflation figure of 10.1%, up from 9.4% in June. Given this, investors largely accepted the trajectory the BoE's policy to remain on track for further aggressive rate hikes, which set the UK aside from other major markets this month.

Furthermore, the statement by the BoE claimed that the UK is expected to fall into a recession by the end of the year, as living costs will squeeze the consumer and lead to a decline in spending. This will help to offset the problems plaguing the global supply chain and bring inflation back to the BoE's 2% target by 2024. Although this paints a gloomy picture, investors should be comforted by only a small increase expected in the unemployment rate (6.3% in Q3 2025 from 3.7% in Q3 2022).

Politically, the verdict of the next PM got a step closer, and Liz Truss emerged as the favourite going into September with a campaign promising to slash taxes to improve the cost of living crisis.

In the US, the equity markets spent most of the month in the green spurred on from a positive sentiment rolling over from July. Much of this optimism was driven by a growing view that early signs of inflation softening in July's CPI (Consumer Price Index) and PPI (Producer Price Index) data would lead to a more dovish policy from the Fed (Federal Reserve). Markets shifted projections in favour of rates peaking earlier, and cuts could be made from mid-2023 to foster growth.

This emerging interpretation of the data particularly benefitted high growth companies who had suffered the most year-to-date. This was on the back of the rising rate environment eating into their future growth targets, which is where the lion's share of the stock's value is generated. Unsurprisingly, the NASDAQ was up 3.5% from the beginning of August to the 25th of August. Powell, however, snuffed out this positivity on the 26th of August at the Jackson Hole conference with a discouraging view that one month's data does not make a trend and reiterated the stance on hiking rates "until the job is done." The message was clear that this approach will likely create a period of below trend growth and there would be softening of the labour market, necessary evils in the battle against entrenched inflation.

Based on the Fed's reinstated hawkish stance, rate cuts were removed from the forecast for next year and yields shot up. The market adjusted to the implication of a more likely US recession and inflation abating sooner. Markets suffered a repricing event, and a sea of red concluded the final days of the month. Equities and bonds falling together has emerged as a theme of 2022 and this recent step down was no different, except, for the addition of commodities, the champion of the inflation trade earlier this year. Gold fell for a fifth straight month and oil suffered its largest fall since November.

	25 AUGUST - 31 AUGUST
MSCI World	-5.1%
S&P 500	-5.8%
MSCI UK	-2.6%
NASDAQ	-6.6%
Bloomberg Global Barclays Agg	-1.0%
Bloomberg Global Barclays Agg (GBP)	-0.9%

Source: Bloomberg

For Europe, the energy crisis remains the top inflationary pressure. The consumer data for July (posted 18th August) painted a similar picture on peaking inflation with annual inflation hitting 8.9% but core prices suggesting a deceleration. Higher energy prices accounted for most of the year-on -year increased inflation perhaps underpinning the ECB's (European Central Bank) reluctance to hike rates as quickly as other central banks under the assumption that the current energy supply imbalance exhibits a more transitory form of inflation rather than broadly entrenched in the economy. However, both the ECB and BoE's hesitation to raise rates as quickly as the Fed has harmed the currencies against the USD so far this year:

GBP -14.1%
EUR -11.6%

For euro and sterling investors at London & Capital, our choice to take on unhedged USD exposure in our investments has allowed these portfolios to benefit from the currency movements.

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The positivity from peaking inflation drove euro markets higher for the majority of August. But it all came to an end on the final week of trading as the events from Jackson Hole weighed heavy on global markets and Eurozone inflation expectation figures for August surprised investors by hitting 9.1%.

Furthermore, the energy crisis seems set to persist with Russia stopping the gas flows through the Nord Stream 1 pipeline on the 31st of August for 3 days of planned maintenance. Restricting access to gas exacerbates the cost of living crisis in the eurozone further and Russia have been accused of weaponizing gas supplies since the beginning of the Ukraine invasion in reaction to the sanctions from the West. As we are near the colder winter months, the concern over the crisis continues to mount.

In China, the commitment to a zero-tolerance policy on the Covid-19 virus has led to a resurgence in lockdown measures and declined mobility in major cities. July data showed a 0.4% decrease from the previous month in retail sales and a 0.1% decline in industrial production pointing to a weakening in demand. In a surprise move, the central bank employed a monetary loosening policy by cutting the rate of 1-year medium-term lending facility loans by 0.10% and also lowering its 7-day reverse repo rate by 0.10%. Most market participants had expected the rates to remain the same, with many labelling the move an attempt to stimulate demand in an increasingly sluggish economy. It remains to be seen how successful this economic stimulus will be within a restrictive zero tolerance policy towards the Covid-19 virus. Tensions with the US over Taiwan's independence intensified.

Moving into September, the movers of the market will continue to be central banks, geopolitical issues as well as inflation and employment data. Early September should see a new PM selected in the UK. Key upcoming events to note are the central bank meetings of the ECB, BoE and the Fed which are all expected to increase interest rates.