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Market Update

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This week in the markets...

The Mouse That Roared

The last two weeks in the global stock markets have been a whipsaw to say the least. On Monday global indexes tanked, led by the Japanese Nikkei 225 index that lost more than 12%, the worst since the 1987 crash. The S&P followed, falling more than 3% and the Dow lost over 1,000 points. The tech heavy Nasdaq Composite also fell extending a fall into correction territory since the highs of June (Hur, 2024).

Monday's fall incited fevered speculation which suggested that the US was already slipping into recession and that idea generated excited language, even from the most eminent of market commentators as Professor Jeremy Siegel suggested that the Fed needed to make an emergency rate cut of 75 basis points to stop the global sell off (Lake, 2024). Professor Siegel is one of the people that I actually listen to when he speaks, so his desperate tone created more stress across the industry.

However, the emergency was a spill over from the concerns of what was happening in Japan that we discussed last week in our newsletter, and in this instance I am afraid that Dr. Spiegel was wrong in his prognosis. You'll remember this from last week's letter:

The market rout was a reaction to a pivot in Japanese monetary policy (opposite of the one hoped for in the US), as the Bank of Japan (BOJ) moved to tighten policy to the highest levels since 2008 in an effort to tame inflation:

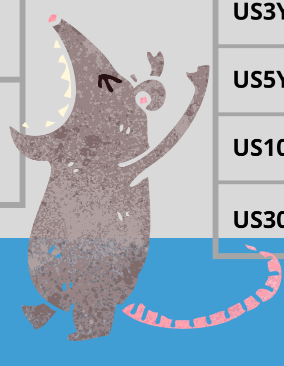
"The BOJ made a hawkish shift after its surprising 15 (basis point) rate hike," said Ken Cheung, director of foreign exchange strategy at Mizuho Securities. "Importantly, the BOJ flagged the inflation upside risks … and left the door open for further rate hikes. " (He, 2024)

	08/12/2023	1/1/2024	08/12/2024	12 MO ROR	YTD ROR
DOW	35,124.94	37,566.22	39,498	12.45%	4.80%
S&P 500	4,467.48	4,745.20	5,344	19.62%	12.04%
NASDAQ	13,705.19	14,873.70	16,745	22.18%	11.55%

U.S. Treasury Bond Yields

as of 08.12.2024

US1MO	5.37%
US3MO	5.22
US6MO	4.99
US1Y	4.49
US3Y	3.87
US5Y	3.80
US10Y	3.94
US30Y	4.22



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The policy shift also affected currency markets as the Yen gained ground against the dollar pushing the Yen down 0.3% to 148.9 yen/dollar. The reality that the BOJ may continue to move to fight inflation may create more volatility that affects global markets."

On Monday, the Japanese Yen gained value and the Dollar lost value, creating more stress in what the market press identified as the "Yen Carry Trade". If the Fed had lowered rates in an emergency meeting last week, the dollar would have lost more value exacerbating the problem, not solving it.

Over the rest of last week markets recovered as the US 10-year treasury note gained value and the dollar did as well. However, the possibility of renewed volatility remains as questions about the Yen Carry Trade continue. The carry trade is enormous. "Nobody really knows how big it is," said Steve Sosnick, chief strategist at Interactive Brokers (Hur, 2024). The head of global rates at JPMorgan suggested Friday that the Bank of Japan will avoid raising interest rates again any time soon, with further tightening likely dependent upon the US economic strength (Carson & Gledhill, 2024).

Some of those questions will be answered this week: On Tuesday, investors will be watching the July producer price index (PPI) report, followed by the consumer price index (CPI) Wednesday, for more confirmation that price growth has continued to stabilize. July retail sales are also due out Thursday (Maecheel, 2024).

This week in the global stock and bond markets will depend completely on those reports. July's Consumer Price Index inflation data will be released on August 14, 2024, at 8:30 a.m. ET. June's headline CPI data saw -0.1% monthly price change and 0.1% for core CPI. Core CPI removes moves in food and energy prices. June's CPI report posted 3% headline CPI annual inflation and 3.3% core inflation. Nowcasts for inflation from the Federal Reserve Bank of Cleveland project that headline CPI will come in at 0.24% for the month of July and core CPI will be 0.27% (Moore, 2024). If expectations are met, inflation will be higher for June than July, but markets are generally prepared for these expectations. A higher number will affect markets negatively, and I'm not sure that a much lower number won't do the same (possibly reinforcing recession fears).

In 1959 a movie based on the novel, "The Mouse that Roared", was released. The story was about a small country, the Grand Duchy of Fenwick, that declared war on the United States and mayhem ensued. The volatility that was generated by the Yen Carry Trade appears to be just that, a small problem that generated enormous mayhem and came to a quick resolution. This week's economic reports will determine if the roar came from a mouse or a real lion (or maybe a bull).

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