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Wealth & Asset Management

WEEKLY BULLETIN

Investors navigate the aftermath of a stormy week

Key takeaways

Investors were helped by reassuring comments from the Bank of Japan and stronger US jobs market data, while market volatility fell back to more 'normal' levels.

Markets attempt to guess the Fed's next move

Last week's market turmoil saw speculation about the US Federal Reserve Bank (the Fed) reducing interest rates by more than expected, perhaps before their next planned meeting in September. This reflected fears that weak jobs data showed the US was much closer to a recession than previously thought, and hopes that the move would revive the stock market. Investors have grown used to the Fed being used as a last resort to prevent market turmoil, such as during the global financial crisis of 2007-8 and at the start of the COVID-19 pandemic in 2020. Critics argue that this distorts free markets, but others suggest it reinforces financial stability. On balance, though, it seems unlikely that the Fed will move before September.

Is market volatility always bad?

At the beginning of last week, the main measure of expected volatility in the stock markets, the CBOE Volatility Index (VIX), rose to its highest level since the beginning of the pandemic, before dropping again as the week ended. Volatility is a statistical measure of an asset's price moves compared to its average performance. When higher, volatility is often associated with dramatic market sell-offs and shares that quickly move higher or lower. As investors feel the effects of share losses more that their gains, high volatility is usually regarded as something to be avoided. However, it's worth noting that volatility can prove beneficial to long-term investors by providing a lower entry price to a quality long-term holding than would otherwise be the case.

Lower inventories and geopolitics support oil price

Despite the Brent crude oil price in dollar terms slumping to its low for the year on Monday, it had recovered to close to positive territory by the end of the week. However, the price remains well below the 12-month high of $98 per barrel, reflecting investor concerns of a possible US recession. Factors helping to support the oil price include economic data suggesting that US recessionary fears are overdone, and an increasingly hostile geopolitical backdrop in the Middle East. A continuing decline in US crude oil inventories, in part a reflection of OPEC+ member production cuts, has also proved helpful.

Market moves

The S&P 500 experienced both its best and worst performing trading days over the past eighteen months, but still managed to end the week within two points of the previous week's close, supported by more helpful US jobless claims (unemployment benefits) data.

The Japanese stock market staged a strong rebound following a 12.4% decline on Monday. The Bank of Japan, regarded as a catalyst of the recent market unrest, suggested that additional near-term interest rate rises were on hold.

What to look out for this week

On Wednesday, July consumer inflation data in both the US and UK.

On Thursday, the release of UK economic growth (GDP) for the second quarter, as well as US July retail sales and industrial production.

On Friday, preliminary US consumer sentiment data for August.

If you have questions about financial markets, or our investment services, please contact the Marketing team:

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