



## The week at a glance

- **Markets:** Bond yields fell as the probability of further Fed and ECB hikes is diminishing, supporting growth stocks.
- **United States:** Core PCE - the favourite inflation measure of the Fed - came at 4.2% in July, in line with consensus expectations.
- **Eurozone:** Inflation remains far above target with the harmonised core measure at 5.3% in line with expectations.

**KEY FIGURE**

**47.6**

US ISM Manufacturing index in August vs 46.4 in July

### Focus

At Jackson Hole, J. Powell and Ch. Lagarde reiterated their commitment to achieving the 2% inflation target. Powell left open the possibility of a potential rate hike, based on recent data, noting the reduced pressure on the core components of inflation while stressing the persistent threat of supply and demand imbalances. However, the September FOMC decision remains dependent on inflation data. Ms Lagarde highlighted the challenges facing Europe due to the changing structure of the labour market, the inflationary nature of the energy transition and geopolitical tensions, and insisted that monetary policy must be characterised by clarity, flexibility and humility. On Thursday, US inflation figures were in line with expectations, with the core consumer price index remaining at 4.2%, while the headline consumer price index rose from 3% to 3.3% due to an unfavourable base effect. The situation in Europe remains tense, with the harmonized index of consumer prices (HICP) published at 5.3%, higher than the 5.1% expected, with German inflation at 6.4%. However, as in the United States, core inflation in the eurozone was in line with expectations, which will limit the pressure on the ECB to raise rates on 14 September.



KEY DATES	6 <sup>th</sup> September	6 <sup>th</sup> September	14 <sup>th</sup> September	20 <sup>th</sup> September
	Release of the ISM Services Purchasing manager index in the US for August	Bank of Canada monetary policy meeting	European Central Bank monetary policy meeting	US Federal Reserve monetary policy meeting (FOMC meeting)

Source: Amundi Institute.

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## Our weekly analysis

Despite the hawkish comments from Jackson Hole, US job openings suggesting less tightness in the labour market and personal consumption expenditures (PCE) inflation readings in line with expectations supported long and short-term bonds, with the US 10-year treasury yield falling back to 3.8% and the 2-year back to 4.8%. Against this backdrop, global equities gained more than 2.5% over the week. The rebound in equities was mainly driven by growth stocks, with the Nasdaq100 up 3.5% and Japan up 3.7%. However, August ends rather poorly with the MSCI World down almost 3% and China down 9% in US dollar terms. The euro/US dollar exchange rate at 1.08 and Great British pound/US dollar at 1.26 and gold at 1938/ounce were broadly unchanged. Oil was up 5% with Brent at \$84 a barrel after Russia indicates it will extend production cuts and inventory data revealed another drop in stockpiles.

Index	Performance			
	09/01/23	1 W	1 M	YTD
<b>Equity markets</b>				
S&P 500	4508	2.3%	-1.5%	17.4%
Eurostoxx 50	4310	1.7%	-2.2%	13.6%
CAC 40	7340	1.5%	-0.9%	13.4%
Dax	15936	1.9%	-1.9%	14.5%
Nikkei 225	32711	3.4%	-2.3%	25.4%
SMI	11102	1.3%	-1.8%	3.5%
SPI	14633	1.3%	-2.0%	6.5%
MSCI Emerging Markets (close -1D)	980	1.0%	-6.0%	2.5%
<b>Commodities - Volatility</b>	09/01/23	1 W	1 M	YTD
Crude Oil (Brent, \$/barrel)	88	4.1%	3.6%	2.4%
Gold (\$/ounce)	1949	1.8%	0.3%	6.9%
VIX	13	-2.4	-0.6	-8.4
<b>FX markets</b>	09/01/23	1 W	1 M	YTD
EUR/USD	1.087	0.7%	-1.1%	1.5%
USD/JPY	145	-1.1%	1.1%	10.5%
EUR/GBP	0.86	-0.2%	-0.4%	-3.2%
EUR/CHF	0.88	-0.5%	0.6%	-4.8%
USD/CHF	0.96	0.2%	-0.5%	-3.3%

Index	Performance			
	09/01/23	1 W	1 M	YTD
<b>Credit markets</b>				
Itraxx Main	+69 bp	-4 bp	+1 bp	-21 bp
Itraxx Crossover	+392 bp	-20 bp	+7 bp	-81 bp
Itraxx Financials Senior	+80 bp	-5 bp	+1 bp	-20 bp
<b>Fixed Income markets</b>	09/01/23	1 W	1 M	YTD
ESTER OIS	100.67	+7 bp	+32 bp	+193 bp
EONIA	3.65	-1 bp	+24 bp	+176 bp
Euribor 3M	3.77	-2 bp	+5 bp	+164 bp
Libor USD 3M	5.67	+1 bp	+4 bp	+90 bp
2Y yield (Germany)	2.96	-8 bp	-11 bp	+19 bp
10Y yield (Germany)	2.49	-7 bp	-6 bp	-8 bp
2Y yield (US)	4.78	-30 bp	-12 bp	+36 bp
10Y yield (US)	4.10	-14 bp	+8 bp	+22 bp
<b>Eurozone Sovereigns 10Y spreads vs Germany</b>	09/01/23	1 W	1 M	YTD
France	+52 bp	-1 bp	-2 bp	-3 bp
Austria	+60 bp	-1 bp	-2 bp	-3 bp
Netherlands	+33 bp	-1 bp	--	--
Finland	+56 bp	-2 bp	-2 bp	-1 bp
Belgium	+62 bp	-2 bp	-3 bp	-3 bp
Ireland	+38 bp	--	-2 bp	-17 bp
Portugal	+71 bp	--	-2 bp	-30 bp
Spain	+102 bp	-1 bp	-1 bp	-7 bp
Italy	+166 bp	-2 bp	+2 bp	-49 bp

Source: Bloomberg, Amundi Institute – September 1, 2023 – 15:00 pm  
 Past performance is not guarantee of future results.

 **Asset class**

	MARKET	AMUNDI ANALYSIS
<p><b>Equity</b></p> 	<p>Despite a rebound in equity markets in the final week, <b>August saw a correction</b>, with the MSCI ACWI losing -2.2% over the month. The MSCI China fell the most (-8.6%), dragging down the MSCI EM (-4.9%) and the Pacific ex Japan (-3.8%). Elsewhere, the MSCI Europe fell by -2.5% and the MSCI USA by -1.9%. Japan is stable, outperforming the rest of the world.</p>	<p>These performances can be explained by the rise in US 10-year yields above 4% on the one hand, and disappointment over Chinese growth on the other. In Europe, only 2 sectors performed positively over the month. Energy (+2.8%) thanks to the rise in the price of crude oil, and healthcare (+0.6%), which serves as a safe haven.</p>
<p><b>Fixed Income</b></p> 	<p><b>US. bond yields fell during the week</b> as some signs of easing in the labor market fueled speculation that the US Federal Reserve (US) may refrain from raising interest rates at the next meeting. US hiring picked up in August but wage growth slowed, offering a mixed picture of both resilience and moderation in the labor market. European rates declined after a slight deceleration in euro area core services inflation.</p>	<p>Our baseline scenario does not foresee a rate hike by the ECB and the Fed in September. However, central banks will not want the market to react to the pause as an inflection point in the monetary policy cycle. The Fed and the ECB want the market to believe that rates could rise further into restrictive territory, if necessary, and remain restrictive enough for long enough to ensure a sustainable return to a 2% inflation target.</p>
<p><b>Credit</b></p> 	<p><b>Credit Default Swaps (CDS) and high beta corporate bond spreads broadly tightened over the past few days</b>, in line with improved risk sentiment and the positive performance of other risky assets, while investment grade segments were more stable on both sides of the Atlantic. The move was also consistent with the partial recovery of fixed income markets.</p>	<p>Macro data were mostly on the radar screen this week, together with messages from central bank members. The picture was mixed on macro data with slightly higher inflation prints in Europe but, favouring a partial recovery of rates in the US overall, ultimately supporting also a slight compression in high beta credit segments. Better relative valuations and supporting technicals still mostly support our preference for high-quality segments.</p>
<p><b>Foreign</b></p> 	<p><b>Jackson Hole reaffirmed the 'higher for longer' narrative</b>, yet the recent weakness in the US labor market (with unemployment reaching 3.8%) came as a relief this week. Most currencies are outperforming the greenback in the G10 this week, while the picture is mixed in emerging markets. The Mexican peso, Russian ruble, and Brazilian real are marginally weaker compared to last week, while the Colombian peso is the winner of the session</p>	<p>Absolute and relative impulses kept being positive for the US dollar in the latest week of August. If we believed that foreign exchange reflects relative stories, we would acknowledge that the US dollar has even more upside potential from here. However, we maintain the belief that the stage of the Fed's hiking cycle and the structural shift in the global bond market will be dominant forces, indicating a weaker outlook for the US dollar in the future (and a non-symmetric market).</p>
<p><b>Commodities</b></p> 	<p><b>Commodities were up +2.6% (excluding agricultural and livestock) this week across the board.</b> Gold rallied after the disappointing US job report, as yields and dollar tumbled, reflecting rising expectations for a Fed pause. A risk-on mood also boosted energy prices, as well as more signs of market tightness and pressures on refining activity. Base metals rallied as Chinese authorities announced further measures to support property markets, reflecting a bottoming sentiment regarding China's economy</p>	<p>As oil prices near the top of their trading range since late 2022, they are losing tactical support. The recent surge occurred in declining volumes, driven by short covering, while correlations across energy related asset slumped, also suggesting a declining impetus. Meanwhile, investors positioning are back to a slight overweight, providing less potential upside going forward. Finally, our valuation indicators are getting stretched relative to oil-sensitive assets and vs. broader markets. A period of digestion might be required.</p>

 **Economic indicators**

	MARKET	AMUNDI ANALYSIS
<p><b>United States</b></p> 	<p><b>Headline personal consumption expenditures (PCE) inflation increased by 0.2% month-on-month in July</b>, as it had in June. Core PCE inflation also rose by 0.2%, in line with consensus expectations and for a second month in a row, raising the year-on-year rate from 4.1% to 4.2%. Core services ex-housing PCE rose by 0.5% month-on-month, vs 0.2% prior, bringing the annualised run rate back up to 3.9% over the last three months.</p>	<p>Unfavourable base effects supported the lift in annual PCE inflation to 3.3% in July from 3.0% in June, but, overall, both the headline and the core PCE inflation prints for July failed to deliver surprises, as they were much in line with consensus expectations.</p>
<p><b>Eurozone</b></p> 	<p><b>Eurozone headline inflation remained at +5.3% in the August preliminary reading</b>, as in July, whilst core inflation fell back to +5.3% from the 5.5% recorded the month before. Whilst headline inflation was higher than the 5.1% expected by broad expectations, the core print was in line with the consensus, with services inflation easing slightly, despite upside in volatile package holidays.</p>	<p>Eurozone energy inflation rose modestly in August, to -3.3% from -6.1% in July, whilst both food and core goods inflation kept falling. Services inflation, however, fell only slightly, to 5.5% from the previous 5.6% level in July. Like US Core PCE, the latest Eurozone core inflation prints came out in line with broadly expected trends.</p>
<p><b>Japan</b></p> 	<p><b>Industrial production in July fell more than anticipated</b>, with a month-on-month decrease of 2%. This decline was widespread, affecting 10 out of 15 sectors, and was primarily driven by machinery and tech hardware.</p>	<p>Based on reported production plans, we can expect another decline in August, followed by a rebound in September. The third quarter's production is likely to contract, reflecting weak external demand, particularly from China. This reduced external demand will result in a mild economic slowdown in the second half of the year.</p>
<p><b>Emerging Market</b></p> 	<p><b>Fiscal matters were clearly in the spotlight in Brazil over the past week.</b> First, the primary deficit for July came in below expectations for the second month in a row – this is partly what happens when inflation moderates and no longer surprises on the upside. A couple of days later the 2024 budget proposal was due, incorporating the freshly enacted fiscal framework.</p>	<p>The 2024 budget keeps the primary deficit at 0% of GDP and proposes an ambitious list of revenue - raising measures yet to be passed. The outlook is certainly less sanguine however as the initiatives are likely to be watered down. Still, Lula will want to spend more, especially on social programmes, to keep his popularity high, as he did in the past and as Andrés Manuel Lopez Obrador is doing in Mexico. Creative accounting to strike back?</p>



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