

Monthly Market Summary



August 2022



Summary: Monetary tightening weighs on stocks and bonds

A volatile month saw capital markets reverse their initial gains in August: global equities fell 3.7%, while global government bonds declined 4.0% (both in USD terms, unhedged). Key themes in August included:

- Hawkish Fed signals higher interest rates for longer to curb inflation;
- Recession fears rise as European gas and electricity prices surge;
- China's policy easing supports stocks, but new lockdowns remain a risk.

Stock and bonds came under pressure after Fed Chair, Powell, signalled that US interest rates will rise further and stay higher for longer at the Jackson Hole symposium. In Europe, the energy crunch intensified, as gas and power prices spiked sharply (though partially reversing this into month-end) in the face of tight electricity markets and further curtailed Russian gas supplies, with pipeline Nord Stream 1 undergoing maintenance. Elsewhere in commodity markets, crude oil fell to \$96/bl over mounting growth concerns, and gold retreated in the face of rising 'real' interest rates and the strong dollar.

US: Mixed growth; Hawkish Fed; Biden's legislative victory

After the technical (though modest) recession during the second quarter, the activity momentum picked-up in July, albeit unevenly. A rebound in core retail sales and industrial output, contrasts with a slowing housing market, where new home sales plunged by 12.6% (m/m). Labour markets continued to tighten, with 315,000 jobs added in August, while the ISM Manufacturing PMI held steady (52.8) in August and its forward-looking new orders subindex moving back into expansionary territory. Despite headline inflation easing to 8.5% (y/y) in July – driven by falling gasoline prices – Powell reiterated the Fed's objective: restoring price stability (and credibility). Markets have priced-in another 75bps hike in September. On Capitol Hill, Congress passed two pieces of legislation - the CHIPS act and the Inflation Reduction Act - in what is seen as a small legislative win for President Biden.

Europe: Energy squeeze; Slowing growth; Political calendar in focus

In Europe, spiking gas and electricity prices further weighed on purchasing power across the continent. In contrast to the US, annual inflation accelerated in the UK (10.1% in July), and also climbed to new record highs in the euro area (9.1% in August). An increasingly hawkish ECB has signalled that a steeper path of hiking may be necessary, with markets now discounting a large 75bp interest rate hike in September. Meanwhile, the euro area's economic momentum continues to fade: the S&P Global Manufacturing PMI fell to 49.6 in August, the lowest level since May 2020, and new orders declined sharply. With respect to politics, the UK Conservative Party leadership campaign is entering its final stage and in the upcoming Italian election, far-right and nationalist parties are leading the polls.

ROW: PBoC rate cut; Softer China data; Japanese inflation

Chinese equities outperformed - flat in absolute terms - over the month, supported by the People's Bank of China decision to cut its medium-term lending facility interest rate – in a bid to stabilise the real estate market and to boost general demand. However, the impact of widespread COVID lockdowns and electricity shortages continues to weigh on activity, with the Caixin Manufacturing PMI falling to 49.5 in August (from 50.2). In Japan, the Jibun Bank Composite PMI fell to 48.9 in August of 2022 (from 50.2) which was the first contraction of private sector activity since February. Faster inflation (2.6% y/y) is starting to dampen household consumption, unaided by renewed currency weakness (the yen at a fresh 24-year lows against the dollar) which is driving up the cost of imports.

Performance figures (as of 31/08/2022 in local currency)

Fixed Income	Yield	MTD %	YTD %
US 10 Yr	3.20%	-3.8%	-11.6%
UK 10 Yr	2.80%	-7.1%	-12.3%
Swiss 10 Yr	0.84%	-2.9%	-6.0%
German 10 Yr	1.54%	-5.6%	-12.2%
Global IG (hdg \$)	4.51%	-3.0%	-12.8%
Global HY (hdg \$)	8.98%	-1.1%	-12.4%

Equity Index	Level	MTD %	YTD %
MSCI World (\$)	320	-3.7%	-17.8%
S&P 500	3,955	-4.1%	-16.2%
MSCI UK	13,396	-1.3%	3.9%
SMI	10,855	-2.6%	-14.6%
Euro Stoxx 50	3,517	-5.1%	-16.8%
DAX	12,835	-4.8%	-20.1%
CAC	6,125	-5.0%	-13.3%
Hang Seng	19,954	-0.8%	-14.0%
MSCI EM (\$)	502	0.4%	-17.5%

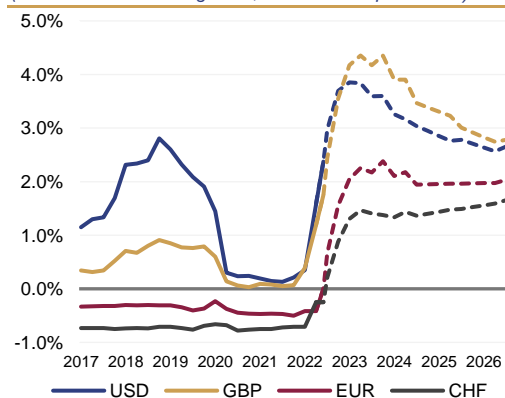
Currencies (trade-weighted)	MTD %	YTD %
US Dollar	1.9%	9.2%
Euro	-0.4%	-3.7%
Yen	-2.5%	-12.5%
Pound Sterling	-2.7%	-4.3%
Swiss Franc	-1.0%	-0.1%
Chinese Yuan	-1.1%	-3.3%

Commodities	Level	MTD %	YTD %
Gold (\$/oz)	1,711	-3.1%	-6.8%
Brent (\$/bl)	96.49	-12.3%	21.0%
Copper (\$/t)	7,846	-1.1%	-19.5%

Source: Bloomberg, Rothschild & Co

Implied central bank interest rates

(realized rates until Aug 2022, afterwards implied rates)



Source: Bloomberg, Rothschild & Co., 01.01.2017 – 30.06.2026



Wealth Insights

For our latest publications, please visit our [Wealth Insights page](#).



Important information

This content is produced by Rothschild & Co Wealth Management UK Limited, Rothschild & Co Bank AG and Rothschild & Co Vermögensverwaltung GmbH for information and marketing purposes only. This content does not constitute a personal recommendation or an offer or invitation to buy or sell securities or any other banking or investment product.

Nothing in this content constitutes legal, accounting or tax advice. The value of investments, and the income from them, can go down as well as up, and you may not recover the amount of your original investment. Past performance should not be taken as a guide to future performance. Investing for return involves the acceptance of risk: performance aspirations are not and cannot be guaranteed. Should you change your outlook concerning your investment objectives and/or your risk and return tolerance(s), please contact your client adviser. Where an investment involves exposure to a foreign currency, changes in rates of exchange may cause the value of the investment, and the income from it, to go up or down.

Income may be produced at the expense of capital returns. Portfolio returns will be considered on a "total return" basis meaning returns are derived from both capital appreciation or depreciation as reflected in the prices of your portfolio's investments and from income received from them by way of dividends and coupons.

Holdings in example or real discretionary portfolios shown herein are detailed for illustrative purposes only and are subject to change without notice. As with the rest of this content, they must not be considered as a solicitation or recommendation for separate investment.

Although the information and data herein are obtained from sources believed to be reliable, no representation or warranty, expressed or implied, is or will be made and, save in the case of fraud, no responsibility or liability is or will be accepted by Rothschild & Co Bank AG as to or in relation to the fairness, accuracy or completeness of this content or the information forming the basis of this content or for any reliance placed in this content by any person whatsoever. In particular, no representation or warranty is given as to the achievement or reasonableness of any future projections, targets, estimates or forecasts contained in this content. Furthermore, all opinions and data used in this content are subject to change without prior notice.

This content is distributed in Switzerland by Rothschild & Co Bank AG and in the UK by Rothschild & Co Wealth Management UK Limited. Law or other regulation may restrict the distribution of this content in certain jurisdictions. Accordingly, recipients of this content should inform themselves about and observe all applicable legal and regulatory requirements. For the avoidance of doubt, neither this content nor any copy thereof may be sent to or taken into the United States or distributed in the United States or to a US person. References in this content to Rothschild & Co are to any of the various companies in the Rothschild & Co Continuation Holdings AG operating/trading under the name "Rothschild & Co" and not necessarily to any specific Rothschild & Co company. None of the Rothschild & Co companies outside the UK are authorised under the UK Financial Services and Markets Act 2000 and accordingly, in the event that services are provided by any of these companies, the protections provided by the UK regulatory system for private customers will not apply, nor will compensation be available under the UK Financial Services Compensation Scheme. If you have any questions on this content, your portfolio or any elements of our services, please contact your client adviser.

The Rothschild & Co group includes the following wealth management businesses (amongst others): Rothschild & Co Wealth Management UK Limited. Registered in England No 04416252. Registered office: New Court, St Swithin's Lane, London, EC4N 8AL. Authorised and regulated by the Financial Conduct Authority. Rothschild & Co Bank International Limited. Registered office: St Julian's Court, St Julian's Avenue, St Peter Port, Guernsey, GY1 3BP. Licensed and regulated by the Guernsey Financial Services Commission for the provision of Banking and Investment Services. Rothschild & Co Bank AG. Registered office: Zollikerstrasse 181, 8034 Zurich, Switzerland. Authorised and regulated by the Swiss Financial Market Supervisory Authority (FINMA).