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Highland ReCAP

A Review of Capital Markets

August 2024

Summary

August typically brings calmer markets and light trading volumes, with investor interests skewed more towards wrapping up the last of summer vacations. In this sense, August 2024 was anything but typical. Surprise activity from the Bank of Japan thrust global markets briefly into chaos before a just-as-abrupt rebound. Cooler inflation and negative jobs revisions cemented the Fed's message of a September rate cut. Markets finished the month reflecting cautious optimism for the "soft landing" investors have coveted since the 2022 rate hiking cycle kicked off.

Equities

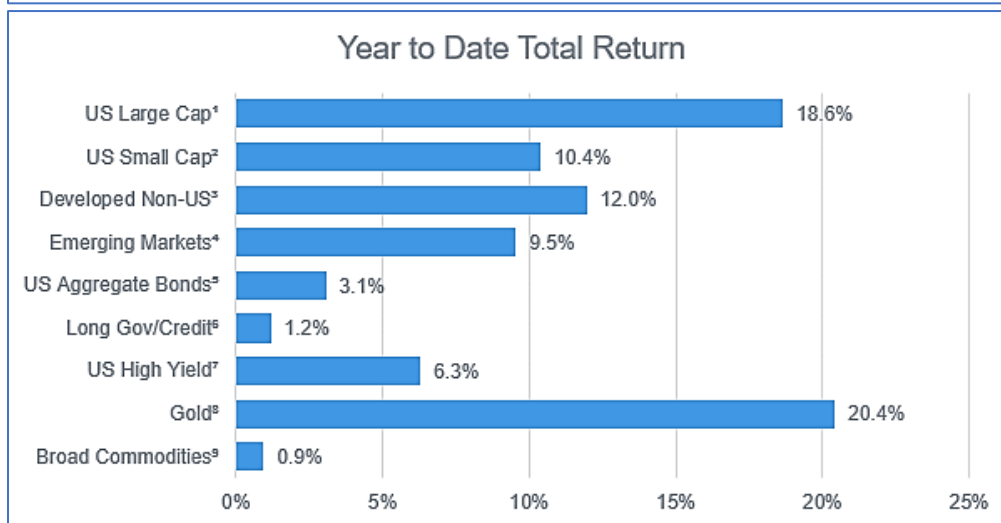
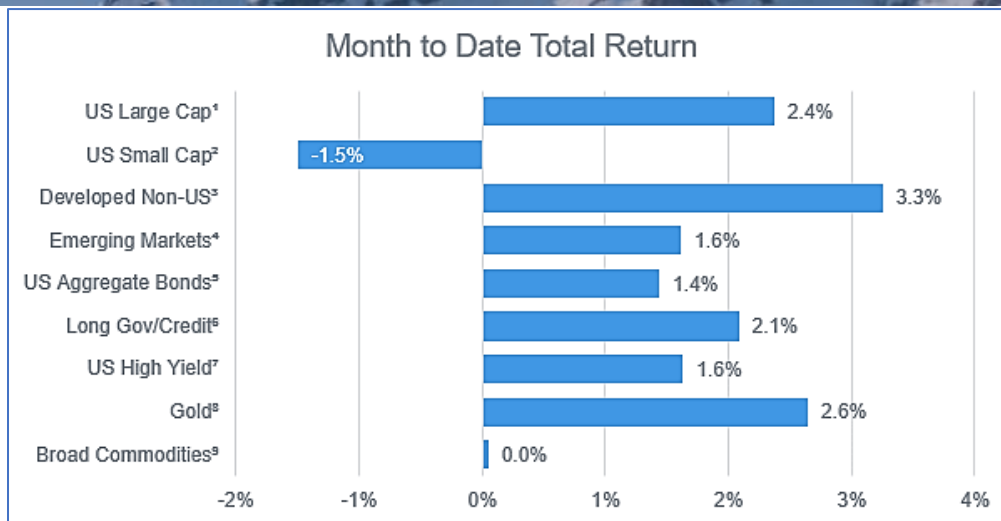
Global equities earned solid returns in August, with the exception of small caps, which retraced from July's gains. Positive returns were no small feat as the first week of August put a significant dent in global stock indexes. Large cap stocks in the U.S. found themselves off by 6% just two days into the month, while it took three days for developed international stocks to fall 8%. The impetus for the decline was, surprisingly enough, Japanese interest rate policy. By the end of the month, however stocks had rallied back into positive territory, buoyed, appropriately enough, by an improving U.S. interest rate outlook.

Fixed Income

While fixed income was positive for August, global rates were cast into turmoil at the opening of month's trading. This was due to the Bank of Japan announcement of a hike of the policy rate from 0.1% to 0.25%. This was also accompanied by hawkish forward commentary. While the move was small, the impact was magnified by the Yen's role in the global carry trade. Traders began to unwind their positions, borrowing Yen, lending USD (or anything else), as global asset prices were left absorbing the effects. The impact on U.S. rates was transitory, however, as slowing inflation and gloomy news on jobs all but solidified a September rate cut from the Fed. The yield curve flattened into month end with the 2-year to 10-year part of the Treasury curve finishing inverted by only 2 basis points.

Market Trends

As of August 31, 2024



	1M	3M	YTD	1Y	3Y	5Y	10Y
US Large Cap ¹	2.4%	7.3%	18.6%	26.6%	8.3%	15.6%	12.7%
US Small Cap ²	-1.5%	7.5%	10.4%	18.5%	0.6%	9.7%	8.0%
Developed Non-US ³	3.3%	4.6%	12.0%	19.4%	4.1%	8.6%	5.2%
Emerging Markets ⁴	1.6%	5.9%	9.5%	15.1%	-3.1%	4.8%	2.6%
US Aggregate Bonds ⁵	1.4%	4.8%	3.1%	7.3%	-2.1%	0.0%	1.6%
Long Gov/Credit ⁶	2.1%	6.7%	1.2%	7.5%	-7.6%	-2.8%	1.8%
US High Yield ⁷	1.6%	4.6%	6.3%	12.6%	2.5%	4.5%	4.7%
Gold ⁸	2.6%	7.0%	20.4%	27.9%	10.7%	9.3%	6.0%
Broad Commodities ⁹	0.0%	-5.5%	0.9%	-4.4%	3.7%	7.0%	-1.1%

1 – Russell 1000, 2 – Russell 2000, 3 – MSCI EAFE, 4 – MSCI Emerging Markets, 5 – Bloomberg US Agg, 6 – Bloomberg US Long Gov/Credit
7 – Bloomberg US Corporate High Yield, 8 – Bloomberg Gold Subindex, 9 – Bloomberg Commodity

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Disclosure Statements

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