



Monthly Macro Insights — September 2024



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Global growth is decelerating, but investors expect it will pick up as the impact of monetary policy easing gains traction early next year. Yet, soft landings are hard to track as the early signs of a deceleration look painfully similar to a slide into recession.

Murky outlook in the US

Relative to its potential path, the US is one of the only advanced economies to have generated a complete post-pandemic recovery. More recently, US GDP grew 3 per cent q/q annualised in Q2-2024¹, outperforming all G7 countries. However, downside risks are mounting.

Although the momentum of consumer spending has been solid, the saving rate dropped to 2.9 per cent in August¹, one of the lowest levels in history. In fact, households have been drawing down on savings to maintain spending, which could imperil future consumption. While the decline could reflect the strong balance sheets amid higher house and stock prices, some data nonetheless suggest households are vulnerable. Credit card and auto loan transitions into delinquency are rising above pre-pandemic levels, signalling increased financial stress, especially among younger and lower-income households.

More importantly, the labour market shows clear signs of weakening. Job growth from April 2023 to March 2024 was significantly weaker than initially estimated. The Bureau of Labor Statistics' (BLS) preliminary annual benchmark review of employment data showed

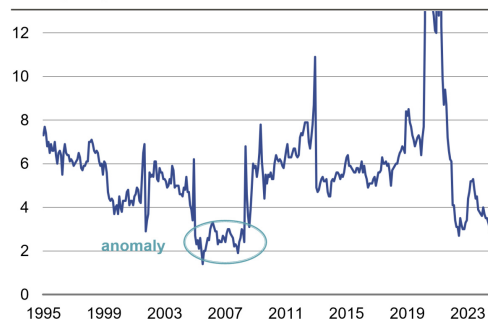
there were 818 thousand fewer jobs² than initially reported, marking the largest downward revision since 2009. When spread evenly over 12 months, the average monthly job gain during that period was thus 174 thousand versus nearly 242 thousand². Although still a healthy pace, it remains to be seen if the overestimation was concentrated in early 2024, which would have significant implication for the Fed's full employment mandate.

While the BLS revision won't change the existing monthly employment data for now, recent data reinforce the narrative of a deteriorating labour market. Job openings are falling sharply, and nonfarm payrolls rose 142 thousand in August, lower than the 165 thousand expected² while there were -86 thousand revisions to the prior two months². The unemployment rate fell slightly, from 4.25 per cent to 4.22 per cent, but investors were assuming a much more pronounced drop, as workers that were affected by temporary layoffs in July re-integrated the labour market in August. These data suggest the labour market is not falling off a cliff, yet the Sahm³ recession indicator rose to 0.57 from 0.53, thus rising further above the 0.50 threshold that has correctly predicted all the post-World War II US recessions.

With the Fed facing the choice of a quarter or half point reduction at the September 17-18 meeting, the latter could be ill received by financial markets as it would suggest genuine concern regarding the health of the economy. Meanwhile, investors expect around -250 bps in the federal funds rate by the end of 2025, a pace never seen outside a recession. Will this time be different?

US - Household savings rate

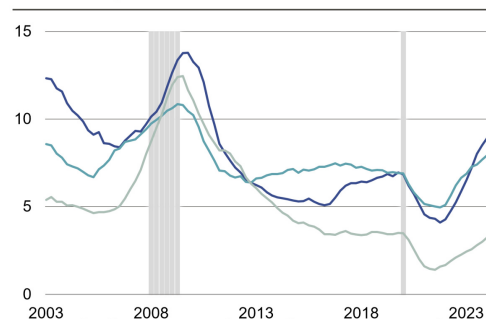
in % of disposable income



Sources: Macrobond, Rothschild & Co Asset Management, September 2024.

US - Delinquency rates

in %, 30 days, households



Sources: Macrobond, Rothschild & Co Asset Management, September 2024.

Anaemic growth in Eurozone

Eurozone economic growth remained weak in Q2-2024, with GDP rising a mere 0.8 percent q/q annualised after 1.3 percent in the prior quarter⁴. The details showed significant weakness in domestic demand, both driven by the household and business sectors, while exports were the only bright spot. Retail sales barely improved in July, up a mere 0.1 per cent after -0.4 per cent in June⁴, suggesting that weakness in consumption continued throughout summer. Despite recent disappointments, consumers remain well supported by strong gains in real incomes.

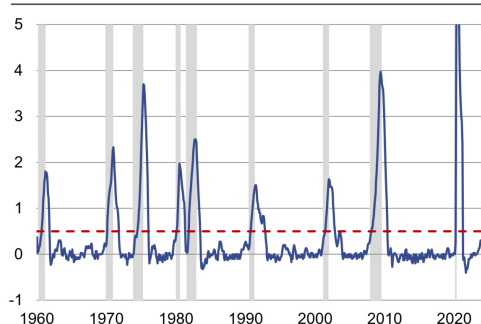
According to the latest business confidence index, August saw a small uptick in economic activity as the composite PMI⁵ rose 0.8pt to 51⁴. However, the improvement was driven by the services sector (+1pt to 52.9) which was largely due to the strong rebound in France (+4.9pts to 55), likely influenced by the Olympics. The big question is whether this boost is sustainable amid high political uncertainty. French President Emmanuel Macron has ended two months of stalemate with the nomination of Michel Barnier as Prime Minister, but the lingering question over how to reconcile the need for fiscal discipline with incessant demands for public spending has been left unresolved. The government-to-be-formed must submit a budget by 1 October and EU rules demand a longer-term fiscal strategy be sent to Brussels in September.

Furthermore, the sense of downside risk to Eurozone growth is amplified by the persistent gap between manufacturing and services. The manufacturing PMI stagnated at 45.8 in August⁴, thus remaining deeply in contraction territory, with Germany (42.4) particularly weak. German industrial production unexpectedly dropped -3 per cent m/m in July, while it fell -0.5 per cent in France⁴.

The ECB is widely expected to cut rates on 12 September amid rising downside risks to growth, but elevated inflation remains a constraint as services inflation accelerated to 4.2 per cent in August⁴, a level greatly inconsistent with the targeted price stability.

US - Sahm rules

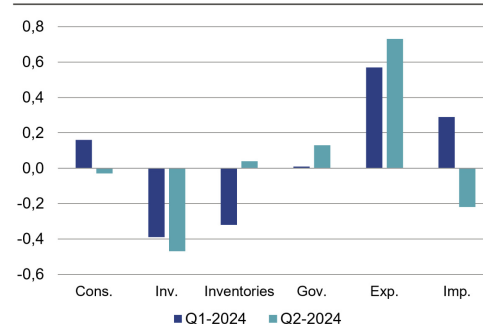
index



Sources: Bloomberg, Rothschild & Co Asset Management, September 2024.

Eurozone - Contribution to GDP

in p.p., by category



Sources: Macrobond, Rothschild & Co Asset Management, September 2024.

China deflation risk grows

In August, Chinese manufacturing PMI declined to 49.1 from 49.4 in July⁶, extending a streak of contractionary readings to fourth months. Services PMI edged up slightly to 50.3⁶ amid higher consumption during the summer holiday season, but the construction gauge slid — signalling a clear deceleration in a key policy channel for the Government's growth support. Although hot temperatures and heavy rainfall may partly explain the overall weak August business confidence, the data suggest that the Chinese economy is still struggling, as a prolonged property downturn weighs on consumers and businesses.

In turn, weak domestic demand has led to intense price wars in several sectors. At a mere 0.3 per cent in August⁶, core inflation cooled to the weakest in more than three years,

while producer prices in manufacturing industries fell more sharply, suggesting heavier pressure on consumer goods inflation ahead. Overall, the deflationary pressure is becoming more entrenched and is denting China's chances of hitting its growth goal of about 5 per cent, as consumers delay purchases and businesses slash wages. What's more, the export sector is facing significant headwinds. After the US and Europe, Canada announced it would impose new border taxes on Chinese-made electric vehicles, steel and aluminium.

Overall, central banks have been signalling they are firmly on course to lower – or continue lowering – interest rates in the coming months, marking the beginning of the end of an era of high borrowing costs. However, tremendous uncertainty and risks remain, with policymakers refrained from offering much guidance on how quickly they intend to proceed in lowering rates over the next several months, especially as labour market weakness still faces inflation resilience. Furthermore, it is usually recognised that the lags for monetary policy to exert its full impact on growth – and ultimately inflation – were longer than the usually alleged one to two years. Likewise, could the journey of the downward trajectory of policy rates produce a slower tailwind on growth compared to investors' expectations? The jury is out.

China - Inflation rate

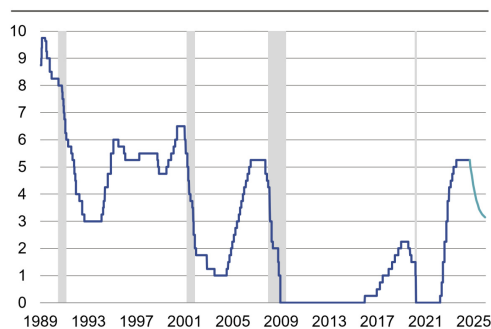
in %



Sources: Macrobond, Rothschild & Co Asset Management, September 2024.

US - Interest rates and and projections

in %



Sources: Macrobond, Bloomberg, Rothschild & Co Asset Management, September 2024.

Performance of the indices and interest rate levels

| | Price as of 04/09/2024 | 1 month % change | 2024 % change |
|-----------------------|------------------------|---------------------------|------------------------|
| Equity markets | | | |
| CAC 40 | 7 497 | -1.8% | -8.6% |
| Euro Stoxx 50 | 4 852 | -2.1% | -4.5% |
| S&P 500 | 5 530 | -2.1% | 5.2% |
| Nikkei 225 | 37 048 | -4.1% | -8.2% |
| Currencies | | | |
| EUR/USD | 1.11 | 0.0% | 2.4% |
| EUR/JPY | 160.30 | -0.7% | -1.8% |
| Interest rates | | | |
| | Price as of 04/09/2024 | 1 month bp ⁽¹⁾ | 2024 bp ⁽¹⁾ |
| 3 month | | | |
| Eurozone | 3.48% | 1 | -39 |
| United States | 5.09% | -2 | -27 |
| 10 years | | | |
| Eurozone | 2.23% | -7 | -7 |
| United States | 3.83% | -7 | -37 |

(1) Basis point.

Source: Bloomberg, data as of 04/09/2024. Performances in local currency.

Past performance is not a reliable indicator of future performance and is not constant over time. Index's performance is calculated on the basis of net dividend reinvested

Completed writing on 10 September 2024.

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(1) Source: S&P Global, September 2024.

(2) Source: US Bureau of Labor Statistics, September 2024.

(3) This rule states that the US economy enters a recession when the average unemployment rate over the last three months is 0.5 percentage points (50 basis points) or more above its lowest level over the last twelve months.

(4) Source: Eurostat, September 2024.

(5) Purchasing Managers' Index, an indicator reflecting the confidence of purchasing managers in a sector of activity. Above 50, it indicates an expansion in activity, below 50, a contraction.

(6) Source: National Bureau of Statistics of China, September 2024.

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