Weekly round up

In the United States, economic data show that a robust and persistent labor market is driving growth, as demonstrated this week by the ISM services index, which exceeded expectations at 54.5 versus the consensus of 52.5. All subcomponents contributed to this better-than-expected data, with the "employment" component rising to 54.7. Meanwhile, the weekly jobless claims report fell to 216,000, the lowest level since February. In Europe, all signs of stagnation continued; the final release of the Eurozone's composite PMI index for August was revised down to 47.9, with both the manufacturing and services indices contracting sharply. The latest revision of second-quarter growth in the zone was lowered by 0.2%, meaning that growth in the first and second quarters was just 0.1% quarter-on-quarter. Several Western central banks continue to signal the end of their tightening cycles, with the Reserve Bank of Australia and the Bank of Canada leaving their key rates unchanged at their September meetings. In the UK, Bank of England Governor Andrew Bailey declared that policy was "close to the top of the cycle". Investors currently expect the FOMC (Federal Open Market Committee) and ECB (European Central Bank) to keep rates unchanged this month. Central banks in emerging markets continue to ease policy; last week, Poland and Chile both cut their key rates by 75 basis points.

However, two indicators caught our attention, as they don't fit in with a supposed continuation. Firstly, oil prices, which rose throughout August on the back of OPEC+'s decision to maintain supply cuts until the end of the year. If oil prices remain at current levels for an extended period, they are both inflationary and constraining to growth. This would undermine the soft landing consensus in the US, exacerbate stagflation in Europe and bring monetary easing in emerging countries to an abrupt halt.

The second indicator is the very low risk premium for US equities . The decline in earnings yield indicates that investor sentiment is positive and that earnings potential is underestimated going forward. This is in line with the scenario of a soft landing for the US economy and the improved mood seen over the summer months. However, there are signs that this positive sentiment will dissipate in early September - earnings growth could be challenged by tight labour market conditions and oil price inflation. On the other hand, the low equity risk premium rather indicates that investors are now demanding a higher risk premium to hold US government bonds, compared with recent history. Investors are now concerned about the combination of rising indebtedness, increased supply and expectations of higher inflation.

This leads us to recommend short-duration corporate strategies to avoid the likely correction in equity market valuations and the rising risk premium on longer-term government bonds, while taking advantage of the inverted shape of the government bond curve.

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