Global Economy

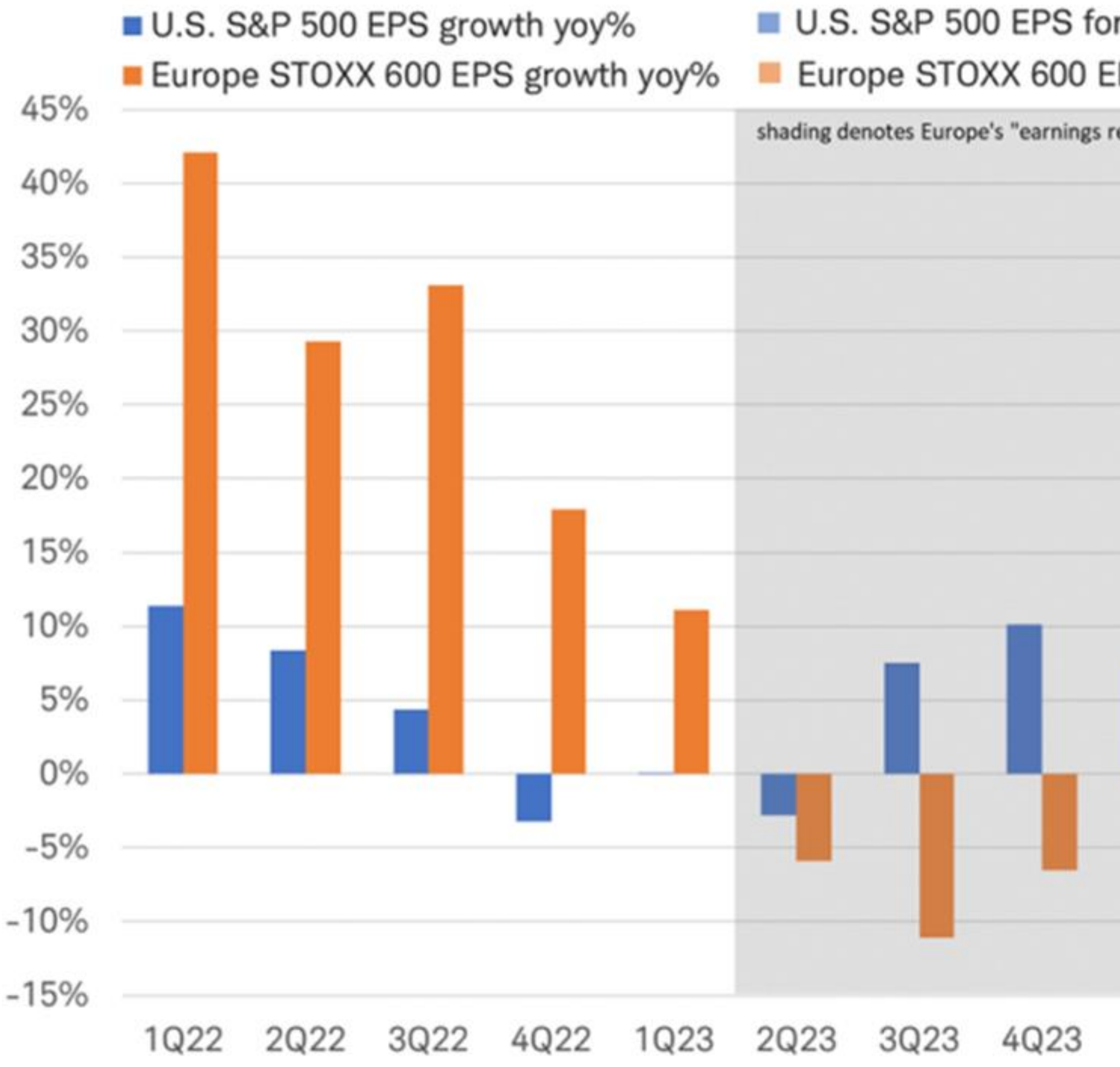
- As economic growth momentum in major economies remained quite resilient in 1H24, the steady global growth trajectory continues to be supported in the near term. Consequently, the global economic growth forecast remains unchanged at 2.9% for both 2024 and 2025. Within the OECD, robust growth in 2Q24 indicates ongoing steady momentum in the US economy.
- Despite persistent weaknesses in Japan during 1H24, a rebound is expected in 2H24. Although economic growth in the Eurozone was modest in 1H24, it exceeded expectations. This momentum was driven by real income growth and a recovery in tourism, while industrial production continues to face challenges. In non-OECD economies,
- For the Eurozone, the economic growth forecasts remain unchanged for both 2024 and 2025 at 0.7% and 1.2%, respectively. In the non-OECD, China's economic growth forecasts remain at 4.9% in 2024 and 4.6% in 2025. India's economic growth forecasts are unchanged for both 2024 and 2025, at 6.6% and 6.3%, respectively. Brazil's economic growth forecasts are unchanged at 1.8% for 2024 and 1.9% for 2025. Russia's economic growth forecasts remain at 3.1% in 2024 and 1.5% in 2025.

- It is anticipated that major central banks will either continue with or shift towards more accommodative monetary policies in 2H24 and throughout 2025, particularly in the US, the Eurozone, and the UK. However, the trajectory of monetary policies will depend significantly on inflationary developments and any potential changes in focus by central banks towards supporting economic growth, especially in advanced economies. It is likely that the most recent rise in global asset markets' volatility will also be taken into consideration. Despite some downside risks, the anticipated move towards more accommodative monetary policies in advanced economies, coupled with sustained monetary and fiscal support in China, ongoing fiscal initiatives in India, and robust growth trends in Brazil and Russia, may offer some potential for more positive economic growth developments.

World Economic Outlook Growth Projections

(Real GDP, annual percent change)	2023	PROJECTIONS 2024	PROJECTIONS 2025
World Output	**3.3**	**3.2**	**3.3**
Advanced Economies	**1.7**	**1.7**	**1.8**
United States	2.5	2.6	1.9
Euro Area	0.5	0.9	1.5
Germany	-0.2	0.2	1.3
France	1.1	0.9	1.3
Italy	0.9	0.7	0.9
Spain	2.5	2.4	2.1
Japan	1.9	0.7	1.0
United Kingdom	0.1	0.7	1.5
Canada	1.2	1.3	2.4
Other Advanced Economies	1.8	2.0	2.2
Emerging Market and Developing Economies	**4.4**	**4.3**	**4.3**
Emerging and Developing Asia	5.7	5.4	5.1
China	5.2	5.0	4.5
India	8.2	7.0	6.5
Emerging and Developing Europe	3.2	3.2	2.6
Russia	3.6	3.2	1.5
Latin America and the Caribbean	2.3	1.9	2.7
Brazil	2.9	2.1	2.4
Mexico	3.2	2.2	1.6
Middle East and Central Asia	2.0	2.4	4.0
Saudi Arabia	-0.8	1.7	4.7
Sub-Saharan Africa	3.4	3.7	4.1
Nigeria	[illegible]	[illegible]	[illegible]

- More important to investors, the economic recovery is accompanied by an outlook for corporate earnings growth, which is estimated to rebound from last year's declines to double-digit growth by the fourth quarter. Earnings for European companies are expected by analysts to rebound from a four quarter long "earnings recession" and outgrow U.S. earnings beginning in the third quarter of this year.



United States

- 2Q24 GDP growth came in at 2.8% compared to expectations of 1.9% and above last quarter's 1.4%. Notably, the core PCE index rise to 2.9% was slightly firmer than expected but was below the 3.7% increase in 1Q, while consumer spending was a solid 2.3%.While the U.S. economy has cooled from its 4.1% pace in 2H23, growth averaged a solid pace of 2.1% in 1H24.
- The July jobs report showed a significant slowdown in job gains, growing just 114K. In addition, 29K jobs were removed from the prior two months, bringing the three-month moving average down to 170K. The unemployment rate rose 20bps to 4.3%, which triggered the Sahm Rule (an empirical observation that predicts recession when the three-month moving average of the unemployment rate exceeds its lowest level over the prior 12 months). Lastly, wage growth continued to cool with July average hourly earnings rising by 0.2% m/m and 3.6% y/y, the slowest annual increase since 2021. Overall, this report showed a labor market that is cooling a little too quickly for comfort.
- The S&P 500 is still recovering from the recent sell-off, but meanwhile, its constituents are on track to report 12% earnings growth. In addition to the numbers, the earnings season provides a unique perspective on the health of the economy. Continued growth requires continued spending, and management commentary offers insight into two of the three sources of that spending: consumers and corporations. There’s been a slight uptick in mentions of an economic slowdown, and consumer spending is a bit more in focus, while capital expenditures are less so. The changes are small, however, and there hasn’t been much chatter about job cuts, indicating overall concern is muted.
- On the consumer side, executives have highlighted a divergence in spending behavior across income brackets. While growth remains robust at the upper-end, lower-end consumers appear increasingly value conscious. They’re still spending but just allocating dollars more carefully. This strong consumer spending has translated to strong corporate earnings. At the same time, secular investment trends like AI, the energy transition and re-shoring have and should continue to boost capital expenditures.
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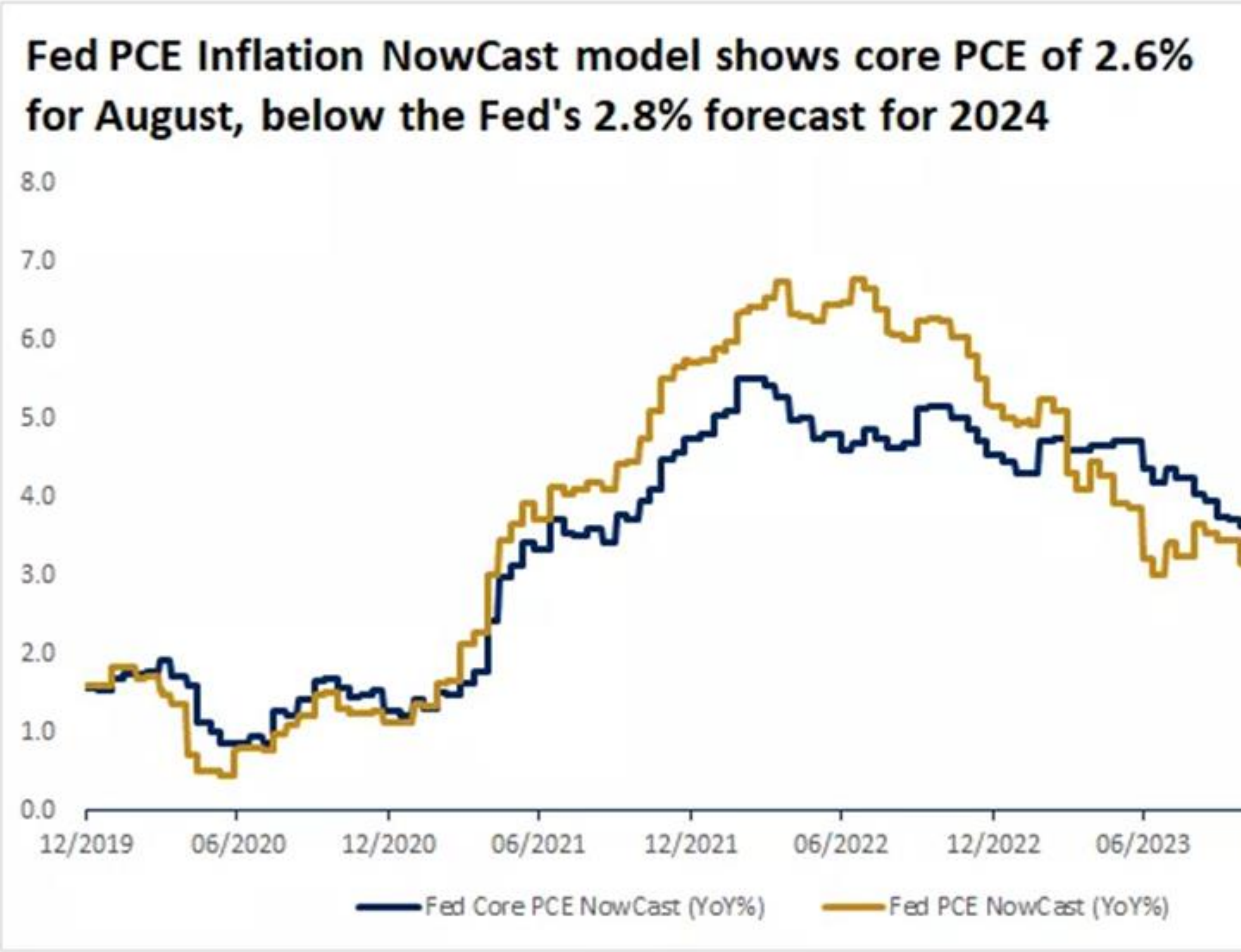
- Another important data point released weekly is U.S. initial jobless claims, which offer a real-time look into the health of the U.S. labor market by tracking those that have filed for unemployment benefits. This figure has become particularly important more recently, given uncertainty around the labor market after last month's weak jobs report. The good news is that after peaking at 250,000 two weeks ago, jobless claims have come in steadily lower since then, most recently at 227,000. This alleviated investor fears that we would continue to see a spike in

jobless claims and a rapidly deteriorating labor market. Instead, the data seem to be steadying as we head into the back half of the third quarter

- Retail-sales data released last week, which pointed to a U.S. consumer that was still healthy and spending. The monthly retail-sales growth came in at 1%, well above the forecasts for 0.4% and last month's -0.2%. The spending was broad-based, with 11 of the 13 major categories showing positive gains, led by a strong rebound in auto sales. This data was accompanied later in the week by a strong University of Michigan consumer expectations figure, which came in at 72.1, versus forecasts of 68.51. Both sets of data point to a U.S. consumer that is still spending and remains relatively optimistic about the future.
- After a string of worrisome, hotter-than-expected inflation readings in the first three months of the year, we have since seen inflation measures move lower and in fact surprise to the downside. Last week's data was no exception. Both PPI and CPI inflation came in below expectations for July, with headline CPI inflation now at its lowest for the year. Headline PPI inflation came in at 2.2% annually, below forecasts of 2.3%, while headline CPI inflation came in at 2.9%, also below expectations of 3.0%1.
- Underneath the surface of the closely watched CPI inflation, the pricing data was mixed but overall promising. There were lower monthly prices across several categories, including food items (cereals, bakery), apparel, new and used vehicles, and even airline fares. However, inflation still remained elevated in areas like shelter and rent, as well as motor vehicle insurance.
- Overall, the inflation data this week was welcome news for consumers and the Fed and brings us a step closer to the FOMC's target of 2.0% PCE (personal consumption expenditure) inflation. In fact, the Fed's own PCE "now-casting" model shows that headline PCE inflation is likely to fall to under 2.6% for July, while core PCE inflation (excluding food and energy) is likely to fall to 2.6%. Both of these are now at or below the Fed's own forecast it laid out in its June meeting, calling for 2.6% for headline PCE and 2.8% for core PCE by year-end.



Source: Bloomberg

- Despite the ongoing strength in consumption, manufacturing remains in the doldrums as solid imports have likely stepped in to fulfill consumer goods demand. Industrial production contracted 0.6% in July. The details point to weakness in motor vehicle & parts manufacturing and utilities production as key drivers of the headline decline, but the environment for capital expenditures remains challenging. Uncertainty around the timing and degree of monetary policy easing and the results of the U.S. presidential election have fostered little incentive for firms to take on major projects today.
- A similar dynamic is playing out in residential construction. Housing starts posted a sharp 6.8% decline in July. Applications for building permits, a leading indicator of home construction, also slipped 4.0% over the month. The broad contraction points to a deferment mindset among home builders and manufacturers alike.

Europe and Central Asia

- The Eurozone economy showed improved momentum in early 2024, with GDP growth of 0.3% quarter-over-quarter in both Q1 and Q2. Slowing headline inflation, ongoing employment growth and improving real income trends helped to contribute to the Eurozone's firmer growth trends. That said, sentiment surveys have softened in recent months, reflecting ongoing headwinds in Germany's manufacturing sector and perhaps also temporary uncertainty surrounding the recent French elections. For August, the outlook for Eurozone PMI surveys are mixed, with the consensus forecast for the manufacturing PMI to edge up to 45.9 and the services PMI expected to dip to 51.7.
- Economic growth in the Eurozone during 1H24 slightly exceeded expectations, but growth is anticipated to remain modest in both 2024 and 2025. Following a stronger-than-expected expansion of 1.1%, q-o-q, SAAR in 1Q24, the Eurozone economy maintained similar momentum in 2Q24, with growth of 1%, q-o-q, SAAR. This trend is forecasted to continue, with an average quarterly growth rate of approximately 0.8% on an annualized growth level in 2H24. The industrial sector continues to face contraction across the Eurozone, whereas the services sector remains a key support factor.
- The U.K. consumer price index for July offered some good news for Bank of England (BoE) policymakers. Headline inflation firmed a bit less than expected to 2.2% year-over-year, while other measures reflecting the underlying trend slowed further. Core inflation slowed slightly more than forecast to 3.3%, while services inflation was a notable downside surprise at 5.2%. Whether the BoE will be swayed by the surprise in services inflation is an open question. Policymakers, to some extent, discounted surprisingly high outcomes in recent months and so, similarly, might downplay the downside miss for July.
- The Russian economy continues to exhibit resilience despite a challenging environment, though concern is growing due to signs of overheating amid ongoing structural issues. Industrial production growth, a key indicator of GDP performance given the sector's significant weight, slowed to 2.0%, annually, in June from 5.3%, annually, in May. Manufacturing growth also eased, declining to 4.7%, annually, in June from 9.1%, annually, in May. Additionally, the mining and quarrying sector faced further contraction, decreasing by 3.1%, annually, in June compared to a decline of 0.4%, annually, in May. Despite these headwinds, the unemployment rate continued to trend downward, reaching 2.4% in June, down from 2.6% in both May and April. This tight labor market is contributing to increased household incomes but is also exerting upward pressure on inflation.

Asia

- The forecast for China's GDP growth to slow to 4.8% for full-year 2024.. July data highlighted weakness in China’s economy. Industrial production rose a below-consensus 5.1% in July from a year earlier, slowing from June’s 5.3% increase, partly due to lower auto sales. Retail sales expanded a better-than-expected 2.7% in July from a year earlier, up from a 2% increase in June. Fixed asset investment rose 3.6% in the January to July period from a year ago, lagging forecasts, while property investment fell 10.2% year on year. The urban unemployment rate edged up to 5.2% from 5% the prior month.

- The Indian economy continues to exhibit strong growth dynamics in key sectors, though unemployment and inflation remain concerns. The new government’s first budget, announced in late July for the fiscal year ending in March 2025, closely mirrors the preliminary budget from February, indicating a continuation of existing policies. The fiscal deficit target has been revised to 4.9% of GDP from 5.1% in the preliminary budget, reflecting the government's commitment to fiscal consolidation. The target for the fiscal deficit in 2025/26 remains at 4.5% of GDP. Fiscal consolidation will be supported by the substantial surplus transferred from the Reserve Bank of India (RBI) in May, resulting from improved asset management and increased yields on foreign securities. This surplus enables fiscal consolidation while maintaining investment in key infrastructure and development projects. The budget emphasizes infrastructure development by investing in urban growth hubs and rural connectivity, while also supporting industries through measures designed to enhance manufacturing and innovation. It also aims to boost agricultural productivity by improving digital infrastructure and introducing high-yield crop varieties.
- Japan’s gross domestic product expanded by more than anticipated in the second quarter of the year, lending further support. The yen surged following the Bank of Japan’s decision to raise interest rates by 15bp to 0.25% and announced details of the reduction in Japanese Government Bonds (JGB) purchases. The Bank of Japan will taper its JGB purchases by JPY400bln each quarter from JPY5.7trn and reduce to JPY2.9trn by Q1 of 2026.
- The expectation of narrower interest rate differentials between Japan and the U.S. led short-term traders to unwind “carry trade” positions. Longer-term, structural outflows from corporate foreign direct investment and retail ownership of international equities should drive yen weaknessQ2 GDP growth grew at a 3.1% quarter-over-quarter annualized pace, beating the consensus forecast and more than reversing the decline in Q1. The details were also constructive, as Q2 consumer spending grew at a 4% pace and business capital spending grew at a 3.6% pace.

Rest of the World

- The **Brazil** central bank’s IBC-Br index—a gauge of economic activity seen as a key predictor of gross domestic product—rose by surprisingly strong 1.4% in June from May. The month-on-month increase resulted in a 1.1% expansion in the second quarter and led many economists to boost their full-year GDP forecasts for Brazil, where a hot jobs market and resilient services costs have bolstered the economy. However, rising price pressures have also worsened Brazil’s inflation outlook.
- Recent inflation data from **South Africa** suggest a moderation in inflationary pressures. The Consumer Price Index (CPI) eased to 5.0% in June, down from 5.1% in the previous two months, marking the lowest annual inflation rate since December 2023. This decline has been attributed to a slowdown in both food and transport inflation. Despite this improvement, the annual inflation rate remains above the South African Reserve Bank's (SARB) target of 4.5%.
- According to preliminary estimates from the General Authority for Statistics, **Saudi Arabia**'s economy contracted by 0.4%, annually, in 2Q24, an improvement from the 1.7% decline in 1Q24. This represents the smallest contraction since 3Q23. During this period, both non-oil sectors and government activities recorded growth.

- The underlying trend in Canadian inflation has been on a decelerating path for several months, contributing to the 50 bps of rate cuts the central bank has delivered so far. To be sure, services inflation and hourly wage growth for permanent employees remain elevated, the former at 4.8% year-over-year in June and the latter at 5.2%. Still, the labor market appears to be softening and broader economic activity is relatively subdued, a factor that is contributing to lessening price pressures more broadly.

Commodities

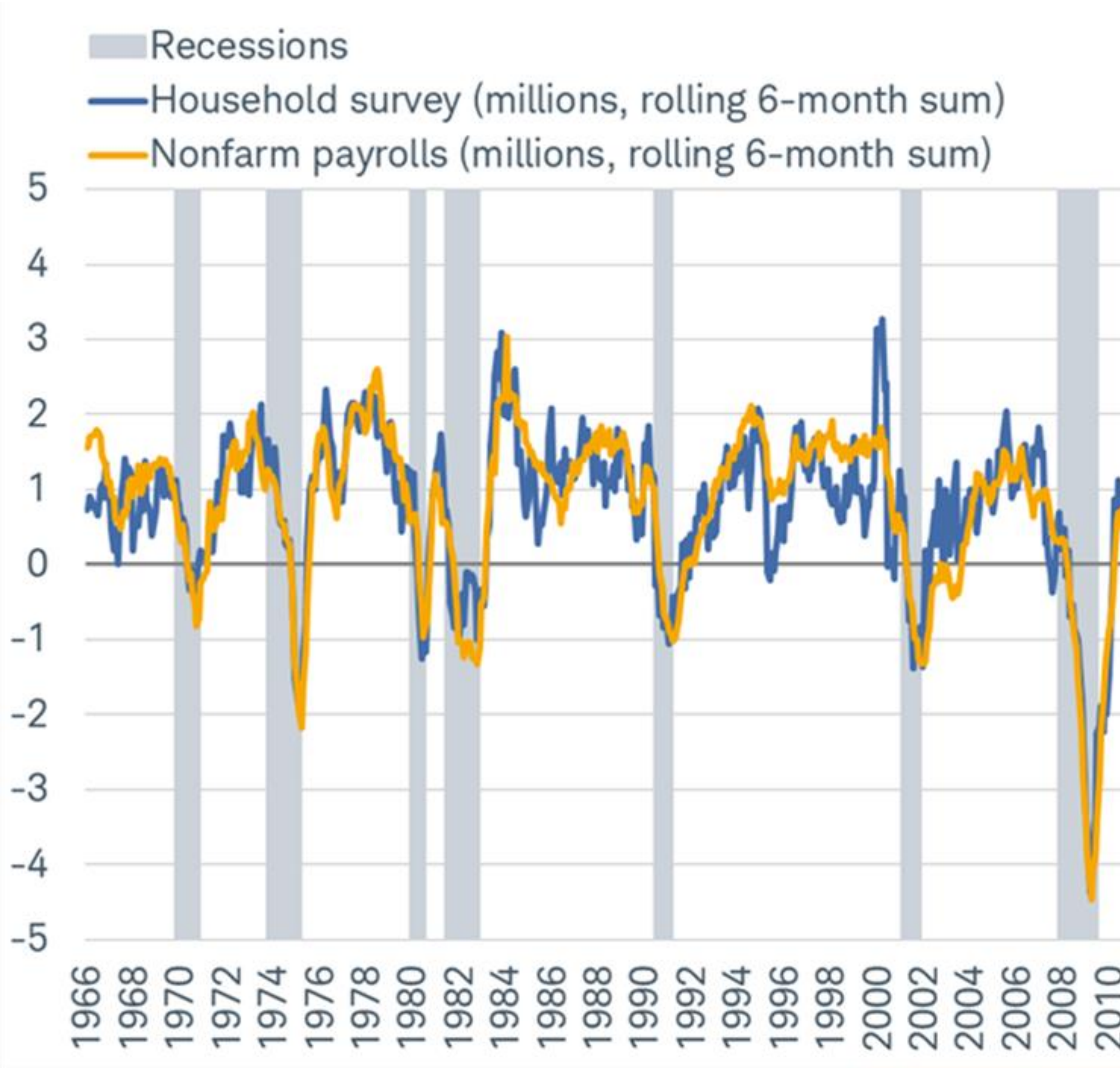
- Commodity price movements were notably mixed in July amid China’s macroeconomic uncertainties. Reports of weakness in some US macroeconomic indicators weighed on the US dollar and added some support to commodity demand. However, uncertainties about the trajectory of US monetary policies remained a drag on prices
- Between May and July, oil prices declined, primarily due to sentiment driven by speculative selloffs, easing geopolitical risk premiums and mixed economic indicators. Market sentiment was further affected by uncertainty surrounding central bank monetary policies, particularly prospects for prolonged high interest rates in the US as a means of addressing ongoing inflation. Additionally, concerns about China's economic performance and demand growth, coupled with a slower-than-expected onset of the driving season, contributed to the downward pressure on prices
- Gold prices rose by 3.1%,, and silver prices advanced for a second consecutive month by 0.7%, m-o-m. Meanwhile, platinum prices fell for a second consecutive month by 0.6%. Net purchases from major central banks in emerging markets and a lower US dollar supported gold prices. Meanwhile, softer global industrial activity weighed on platinum prices. The precious metals index was up by 22.6% annually. Gold, silver and platinum prices were also up by 22.9%, 22.7% and 3.0%, annually, respectively.
- Copper prices continued to decline in July, falling by 2.7%, but were up by 10.9%, annually.
- Aluminium prices declined for a second consecutive month in July, falling by 5.9%, m-o-m. Prices were up by 8.8%, annually
- Nickel prices experienced a consecutive monthly decrease in July, falling by 6.6%, m-o-m. Prices were down by 22.5%, annually
- Lead prices declined for a second consecutive month in July, falling by 2.1%, m-o-m, and were down by 0.1%, annually
- Zinc prices fell for a second consecutive month in July, dropping by 1.1%, m-o-m. Prices were up by 18.3%, annually
- Iron ore prices increased in July, rising by 1.4%, m-o-m, and were down by 2.7%, annually
- Throughout June 2024 prices increased as consumers bought beef for the holiday. However, when the holiday was over, there was a downturn. Boxed beef prices plummeted in July
- All U.S. wheat production at 1.982 billion. was down 26 mil. from last month and at the low end of expectations, however, still an 8-year high

Currencies

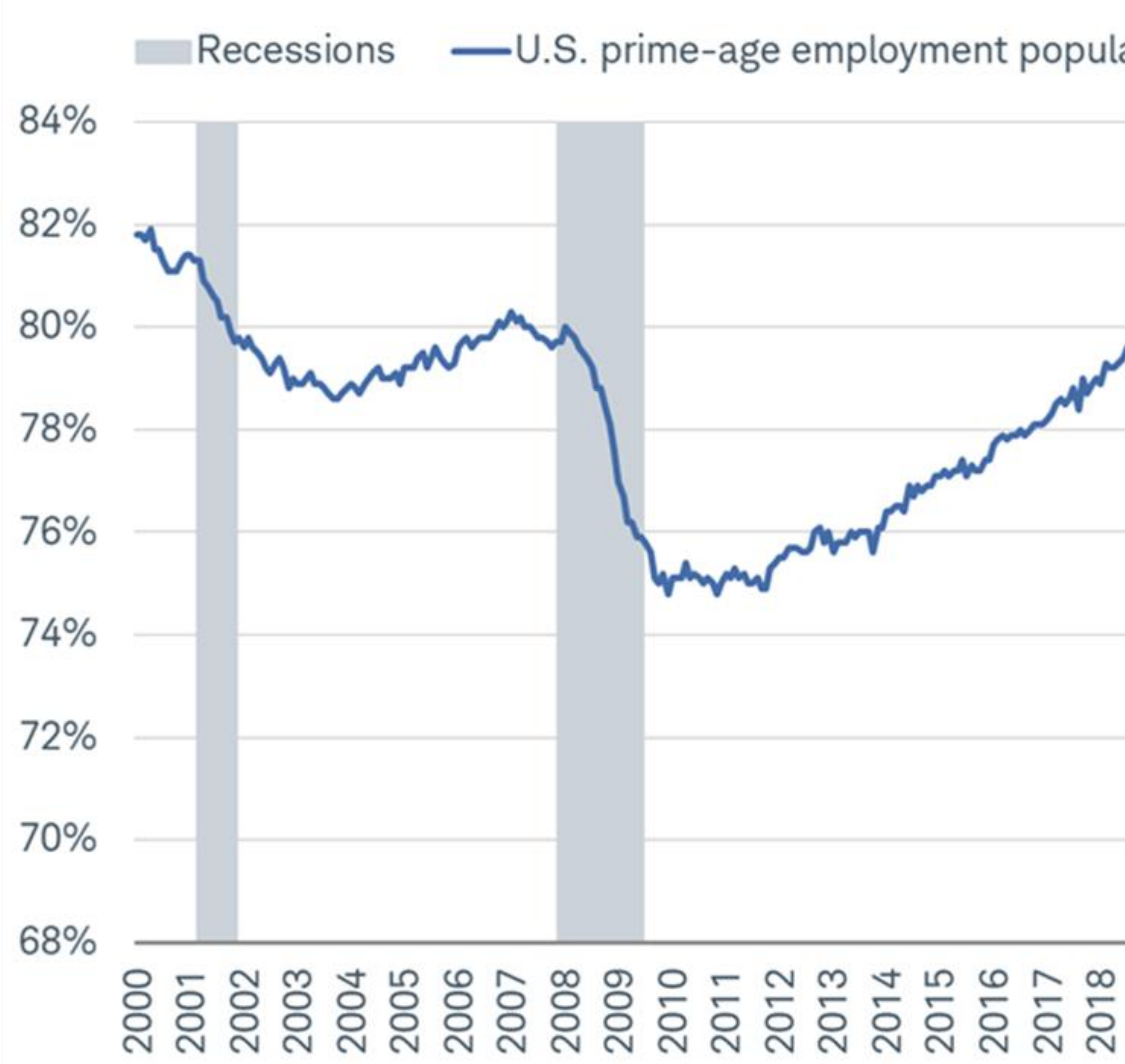
- The European Central Bank (ECB) held rates as expected, deciding a second consecutive rate cut wasn't warranted given that inflation remains above target. The hold at 4.25% was widely expected, however, the messaging from ECB President, Christine Lagarde highlighting downside risks to the economy contributed to the EURUSD to fall from around US$1.09.
- GBPUSD touched its highest level in close to a year on July 17, reaching US$1.3044 as UK inflation held steady at 2%.
- With markets expecting a fall to 1.9%, the pound pushed higher, however, the move was short-lived and the pound slowly lost ground as we head into August. Growing market conviction that the Bank of England (BoE) was going to cut rates was the reason the pound fell and they were proved right on August 1 when the BoE unveiled
- The USDJPY sell off accelerated after the Bank of Japan announced it would increase its benchmark interest rate and work to unwind its quantitative easing program. The long-awaited move sparked a surge in the value of the Japanese yen and the AUD was caught in the crossfire as investors rushed to unwind carry trades.
- Bitcoin and Ethereum staying relatively flat. Both are widely viewed as "risk assets" that perform better when interest rates are lower. But bitcoin has faced continued selling pressure from defunct exchange Mt. Gox distributing billions in repayments to creditors. Despite the recent volatility, Bitcoin and Ethereum have had a positive 2024 so far, rising 28.8% and 8.1% year-to-date, respectively.

Risks

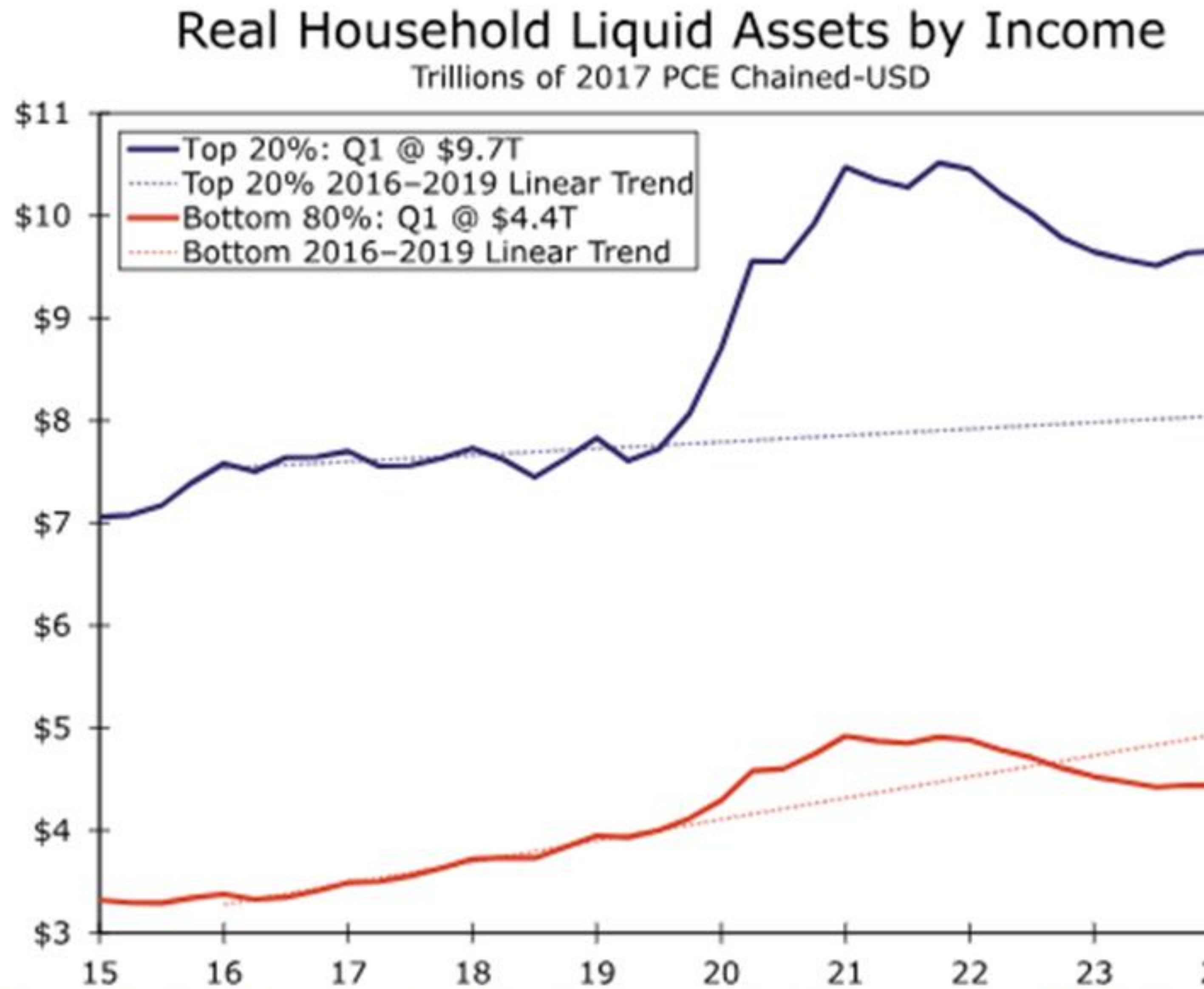
- Recessionary concerns have continued to crop up emphasized by the worse-than-expected July jobs report. In addition to the unemployment rate's unexpected jump to 4.3%, payroll growth continued to slow.
- There is still a huge gap between growth in payrolls (from the establishment survey) and household employment (from the household survey). As shown in the chart below, the former shows more than one million jobs created over the past six months, while the latter shows just 114,000 jobs created.



- While it might be tempting to look at the rise in the unemployment rate and deterioration in household employment as surefire recession signals, there are other labor data that don't yet support the fact that the economy has already slipped into a recession. As shown in the chart below, the prime-age employment population ratio—which measures the proportion of individuals, ages 25 to 54, who are employed—is still rising and at a cycle high. A high and rising percentage is not consistent with the economy being in a recession.

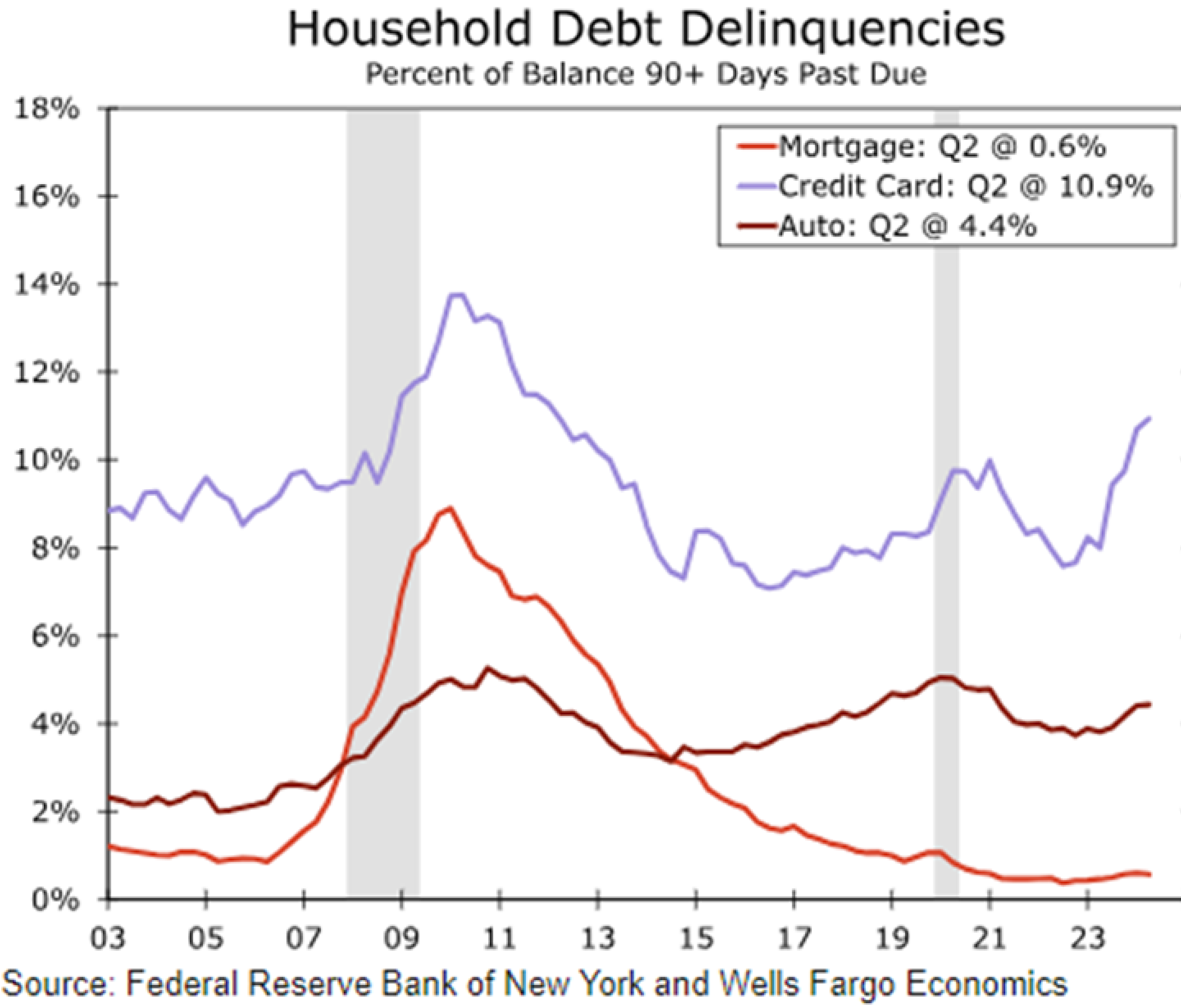


- Amid a slowdown in the labor market, the staying power of the consumer is once again central to the economic outlook. However, consumer purchasing power may be dwindling for lower income households. A notable trend has appeared in the Fed's distributional financial accounts data in recent quarters, with lower income households facing an increasingly constrained availability of liquid assets. The story has been that, broadly, households have thus far maintained spending growth at a solid clip, evident in both sustained personal spending and retail sales that have demonstrated surprising strength as of late. Even so, under the hood, lower income households have been drawing on liquid reserves to help maintain spending. These liquid assets, which include cash, checking deposits, savings deposits and money market shares, are important to the outlook for real personal consumption expenditures, as they are the assets most easily deployed for spending.



Source: Federal Reserve Board, U.S. Department of Commerce and Wells Far
Economics

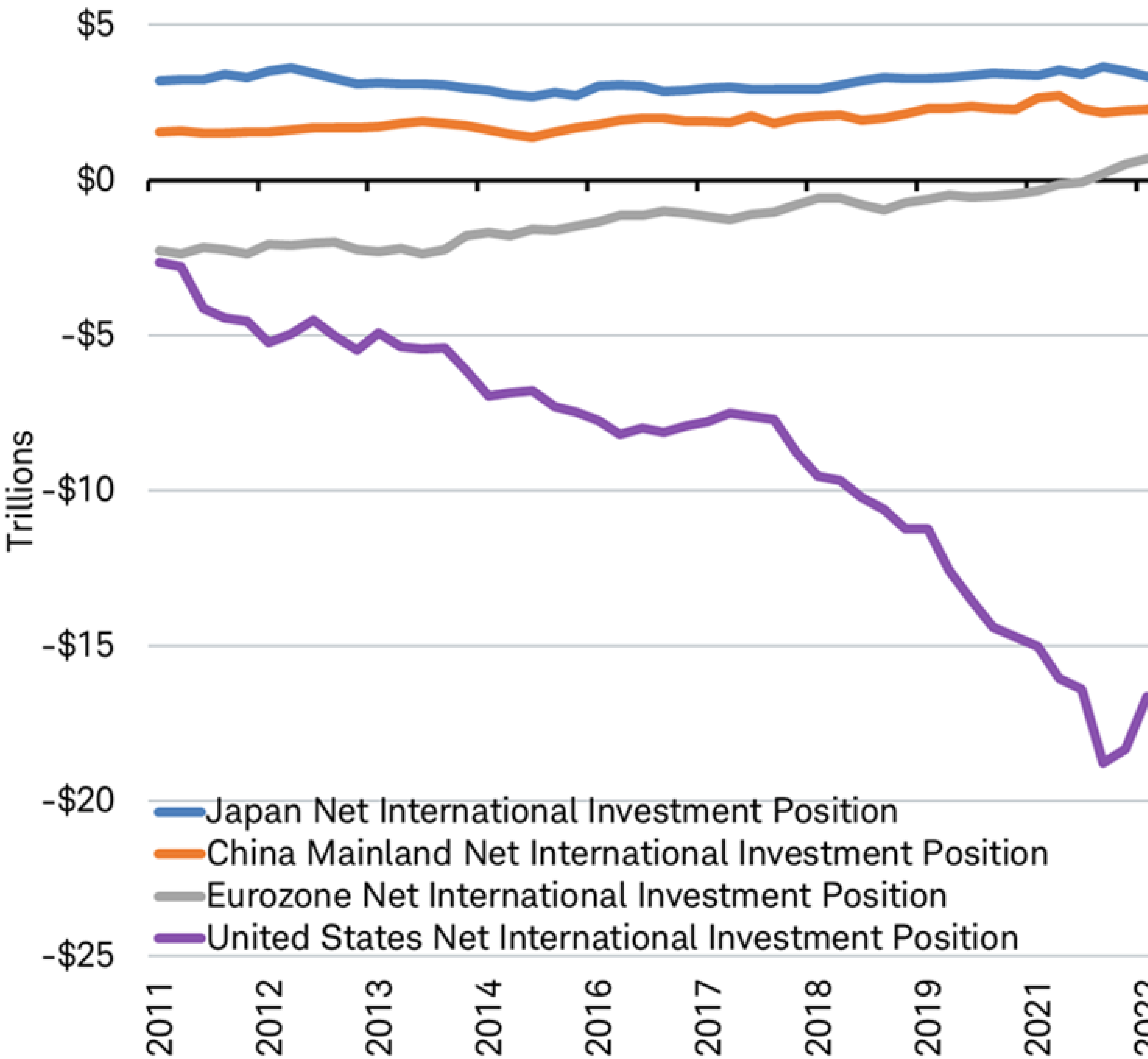
- Liquidity measures are difficult to concretely estimate with precision due to the data being subject to large revisions at times. A simple linear trend analysis suggests that real liquid assets for households below the 80th percentile of the income distribution are now about $500 billion, or over 10%, below where they would have been had they continued on their trend from 2016–2019 in the absence of the pandemic. Meanwhile, liquid assets for households in the top 20% of the income distribution are over $1.6 trillion, or 20%, above where they would have been following their 2016–2019 linear trend. The staying power for middle and lower income households is not as robust as it is for higher income households who have liquid assets that have increased significantly since the pandemic.



- Concern over delinquency rates has continued to persist, given the high rate environment. While the report highlighted aggregate delinquency rates held steady at 3.2% for the quarter, the transition for certain debt balances, namely credit cards and auto loans, have become elevated. These severely delinquent loans (90+ days past due) for households have increased to 4.4% for auto loans and 10.9% for credit cards. These growing rates suggest that many households are struggling to manage their debt obligations in current market conditions.

- While it is impossible to say exactly how big the carry trade is, there are some indicators to see how far the unwind could still go on a short-, medium-, and long-term basis.

1. **Short-term:** To look at the size of a potential for a short-term reversal, we can examine yen contracts tracked by the Commodity Futures Trading Commission. On July 2, speculative investors, like hedge funds, were holding a net 190,000 contracts betting on a weaker yen (worth about $15.6 billion). By July 31, the day of the BoJ meeting, those positions were halved and were nearly back to the flat line by Tuesday, August 6th. While positioning could further unwind and perhaps even turn long, we feel that most of the extreme short position is unwound.
2. **Medium-term:** A proxy for the medium-term carry trade magnitude is to look at Japanese banks' foreign lending in yen. This type of lending is often to non-banks, like asset managers, and has been on the rise since 2010 and accelerated in the last couple of years as rates rose outside Japan while remained very low in Japan. According to the data released by the Bank of International Settlements, the loans totaled $1 trillion (145 trillion yen) as of March 2024. Unlike investors in futures that are subject to margin calls that can force urgent selling, asset managers may look to reduce any carry trades and pay back yen loans over the medium-term, dependent upon their outlook for currency and rate moves. This means an unwind of this exposure could unfold over the coming months.
3. **Long-term:** For the longer-term carry trade size, we look to Japan's long-term net investment position. Japanese investors are the biggest non-U.S. investors in U.S. Treasuries and among the top five in ownership of non-Japanese stocks. According to the International Monetary Fund, decades of current account surpluses have accumulated, giving Japan the world's largest net international investment position with $3.3 trillion of investments held abroad as of March 31, 2024. The potential for a reversal of more than a decade of outward flow of capital may be felt by investors worldwide. It is unlikely all of the outbound investment from Japan will reverse given the scope of investment opportunities outside of Japan, yet the size of the position suggests the potential for a trillion or more in capital might be repatriated to Japan over the coming quarters.



- The global stock market sell-off of August 5th saw a turnaround the next day with when markets rebounded, but the recovery doesn't guarantee the risk has been eliminated. We believe that the most dramatic moves tied to the unwinding of the short-term yen trade may have passed, yet the unwind could remain a market drag and prompt more volatility over the medium and longer-term. The markets' panicky moves offer a reminder about how portfolio diversification and a review of risk-exposures is prudent.
- In the second half of 2024, geopolitical developments including the immeasurable human toll of the conflicts in Ukraine/Russia and Israel/Gaza will likely contribute to market volatility but are

unlikely to derail the global economic recovery. The impact of geopolitical events on the markets is often felt primarily through sudden and sizable moves in oil prices, especially when involving the Middle East or a major exporter like Russia. Nevertheless, any large and sustained upward move in oil prices could negatively impact inflation and economic growth, holding the potential to spill over to stock and bond markets.

- In Asia, Beijing has long described reunification with Taiwan as a goal. However, China has been restrained from using military force, which would likely result in the developed world responding with negative economic consequences. With China being more significantly integrated within the global economy compared to Russia, the threat of sanctions from the rest of the world could likely cause significant damage to China's economy. There is also a lack of popular support within Taiwan to declare independence from the mainland, preferring to maintain the status quo.
- Private equity is among the most consequential financial innovations of the past few decades. The idea is that motivated, actively involved owners can squeeze more value from companies than diffuse public shareholders can. Practitioners buy significant stakes with the aim of selling at a profit within several years. They typically load the targets with as much debt as possible, to magnify returns and exploit tax deductions on interest. Global assets under management have quadrupled since 2013

- Lately, though, private equity has struggled to deliver the returns investors expect, as elevated interest rates have eroded profits and made companies hard to sell. The response: Generate cash by borrowing more, in myriad ways. Investors and managers borrow against their stakes in funds; funds borrow against investors’ commitments (subscription finance) and against their portfolios of companies (net asset value loans); companies borrow to pay shareholders (dividend recapitalizations) and creditors (payment-in-kind loans). Much of the lending comes from private credit funds, which have grown to manage more than $2 trillion globally (and tend to be connected with private equity firms).

Comments

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