



Economic Slides for August 2024

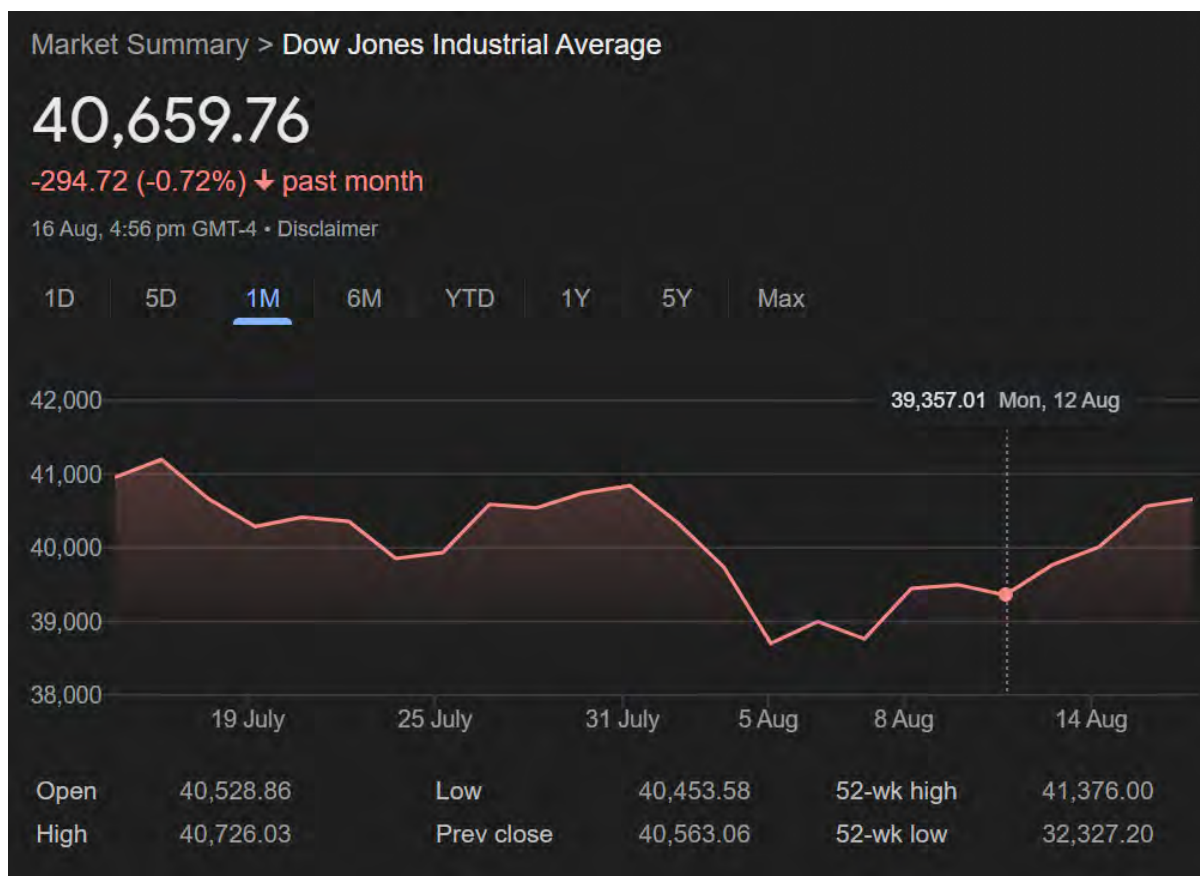
Economic Slides for August 2024

Looking at the ASX 200.

What a wild ride over August. Starting the month just under 8,200 we saw a fall to nearly 7,600 and a bounce back to almost 8,000



Looking at the Dow Jones it was around 41,999 at the start of August before falling to below 39,000 and then recovering back to where it started the month



Looking at 2024 things look a little healthier but there has been a fair amount of volatility in 2024. Probably with more to come in the lead up to the Election in the USA. When we look out to the last 5 years there has been gains of 57% .



The Monday Morning Panic

The Monday morning panic on August 5th didn't last very long.

In fact, if you didn't follow the financial news last week, you would have assumed that it was one of the most boring week's ever.

The S&P 500, which was down over 4% early Monday morning, would end the week down just 0.04%.



The reversal in the Volatility Index (\$VIX) was even more stunning.

After hitting a high of 65.73 on Monday morning, the \$VIX would end the day at 38.57. That 41% decline was the largest peak to close move ever.

Volatility Index (VIX): Largest % Declines (Intraday High to Close, 2003 - 2024)				
Rank	Date	High	Close	% Change
1	8/5/2024	65.73	38.57	-41.3%
2	2/6/2018	50.30	29.98	-40.4%
3	11/9/2016	21.48	14.38	-33.1%
4	10/30/2013	19.53	13.65	-30.1%
5	10/23/2008	96.40	67.80	-29.7%
6	2/9/2018	41.06	29.06	-29.2%
7	8/9/2011	47.56	35.06	-26.3%
8	9/12/2016	20.51	15.16	-26.1%
9	3/13/2020	77.57	57.83	-25.4%
10	3/2/2018	26.22	19.59	-25.3%
11	2/14/2018	25.72	19.26	-25.1%
12	6/15/2006	21.14	15.90	-24.8%
13	10/20/2008	70.40	52.97	-24.8%
14	6/29/2017	15.16	11.44	-24.5%
15	3/2/2020	43.77	33.42	-23.6%
16	8/24/2015	53.29	40.74	-23.6%

And yet, the \$VIX still ended Monday 136% higher than where it was just 3 trading days earlier, one of the biggest short-term spikes in history.

Volatility Index (\$VIX): Largest 3-day % Increases (1990 - 2024)					Forward S&P 500 Total Returns				
Rank	End Date	Start VIX	End VIX	% Change	1-Year	2-Year	3-Year	4-Year	5-Year
1	2/5/2018	13.54	37.32	175.6%	5%	30%	55%	83%	68%
2	8/24/2015	15.25	40.74	167.1%	18%	35%	63%	67%	104%
3	8/5/2024	16.36	38.57	135.8%					
4	2/6/2018	13.47	29.98	122.6%	2%	29%	54%	83%	66%
5	8/8/2011	23.38	48.00	105.3%	28%	58%	86%	105%	117%
6	8/21/2015	13.79	28.03	103.3%	13%	30%	55%	61%	95%
7	8/25/2015	19.14	36.02	88.2%	19%	36%	65%	71%	108%
8	2/27/2007	10.18	18.31	79.9%	1%	-44%	-15%	4%	9%
9	2/25/2020	15.56	27.85	79.0%	28%	39%	33%	75%	
10	2/24/2020	14.38	25.03	74.1%	22%	38%	30%	70%	
11	5/7/2010	23.84	40.95	71.8%	23%	28%	57%	84%	113%
12	3/9/2020	31.99	54.46	70.2%	44%	57%	47%	99%	
13	1/27/2021	21.91	37.21	69.8%	18%	12%	37%		
14	8/6/1990	21.64	35.91	65.9%	21%	35%	47%	55%	95%
15	5/12/2021	16.69	27.59	65.3%	-2%	5%	37%		
16	10/13/2014	15.11	24.64	63.1%	9%	19%	45%	60%	77%
17	5/6/2010	20.19	32.80	62.5%	21%	26%	55%	82%	109%
18	8/10/2017	9.93	16.04	61.5%	18%	22%	47%	98%	93%
19	2/26/2020	17.08	27.56	61.4%	25%	42%	33%	74%	
20	8/7/1990	20.43	32.75	60.3%	21%	35%	47%	55%	94%
Average (Top 20)					18%	28%	46%	72%	88%
Average (All Other Time Periods)					12%	25%	40%	56%	74%

The VIX had such a sharp rise in a short time and this soon passed.

Markets do not like large increases in investment trends but when the dust settled it appeared it was largely driven by the reversal of a trade where large amounts of money was borrowed in Japan and then invested in American stocks. In particular some of the tech area.

This was exaggerated by the increase in interest rates in Japan and profit taking in Tech stocks.

But when it comes to volatility, mean reversion is a powerful force. And over the the next 4 trading days the \$VIX would decline 47%, its largest 4-day decline ever.

Volatility Index (\$VIX): Largest 4-day % Declines (1990 - 2024)					Forward S&P 500 Total Returns							
Rank	End Date	Start VIX	End VIX	% Change	1-Month	3-Month	6-Month	1-Year	2-Year	3-Year	4-Year	5-Year
1	8/9/2024	38.57	20.37	-47.2%								
2	2/14/2018	33.46	19.26	-42.4%	2.2%	1.4%	5.5%	5%	30%	54%	78%	66%
3	6/30/2016	25.76	15.63	-39.3%	3.6%	3.0%	8.3%	18%	36%	51%	62%	128%
4	1/4/2013	22.72	13.83	-39.1%	3.2%	7.2%	13.1%	28%	44%	40%	68%	108%
5	10/21/2014	26.25	16.08	-38.7%	5.7%	6.8%	10.0%	8%	15%	40%	49%	73%
6	7/1/2016	23.85	14.77	-38.1%	2.7%	3.6%	7.6%	18%	37%	51%	64%	127%
7	8/28/2015	40.74	26.05	-36.1%	-5.1%	5.6%	-1.7%	12%	29%	55%	60%	95%
8	12/22/2014	23.57	15.25	-35.3%	-1.2%	-0.3%	2.5%	0%	14%	37%	31%	72%
9	11/9/2016	22.08	14.38	-34.9%	4.7%	7.6%	11.7%	22%	31%	52%	79%	136%
10	5/13/2010	40.95	26.68	-34.8%	-5.7%	-5.9%	6.4%	18%	20%	54%	78%	105%
11	11/10/2016	22.51	14.74	-34.5%	4.3%	8.0%	12.0%	22%	30%	53%	77%	137%
12	2/4/2021	33.09	21.77	-34.2%	-1.1%	8.9%	15.2%	18%	10%	34%		
13	2/15/2018	29.06	19.13	-34.2%	-0.5%	0.1%	5.0%	4%	28%	52%	76%	63%
14	7/15/2015	19.97	13.23	-33.8%	-1.0%	-4.4%	-7.0%	5%	22%	42%	54%	70%
15	11/6/2020	37.13	24.86	-33.0%	5.7%	11.9%	19.2%	35%	16%	35%		
16	1/21/1991	36.16	24.33	-32.7%	10.7%	16.0%	17.6%	29%	39%	57%	58%	114%
17	11/26/2008	80.86	54.92	-32.1%	-1.8%	-20.4%	7.8%	27%	42%	50%	74%	127%
18	8/23/1991	21.19	14.41	-32.0%	-1.3%	-2.8%	6.2%	7%	24%	30%	59%	94%
19	7/14/2015	19.66	13.37	-32.0%	-0.9%	-3.8%	-7.8%	4%	22%	42%	53%	68%
20	11/4/2008	69.96	47.73	-31.8%	-15.6%	-15.2%	-8.4%	9%	27%	31%	50%	98%
Average (Top 20)					0.5%	1.4%	6.5%	15.2%	27.1%	45.2%	62.9%	98.9%
Average (All Other Time Periods)					0.9%	2.8%	5.7%	11.9%	24.8%	39.7%	56.2%	73.8%

The \$VIX ended the week at 20.37, 13% lower than its close the week before.

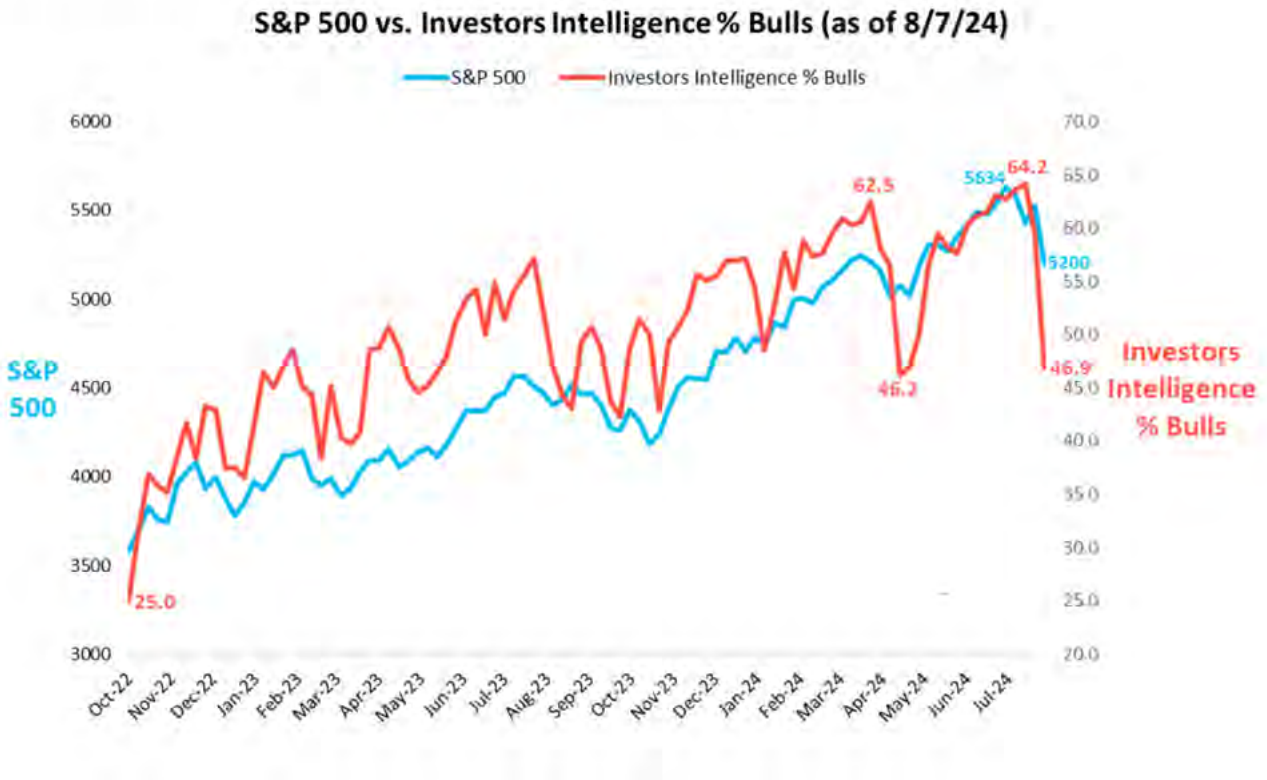
CBOE S&P 500 Volatility Index (*VIX)

Volatility Index (\$VIX)

Peak Level on
8/5: 65.73



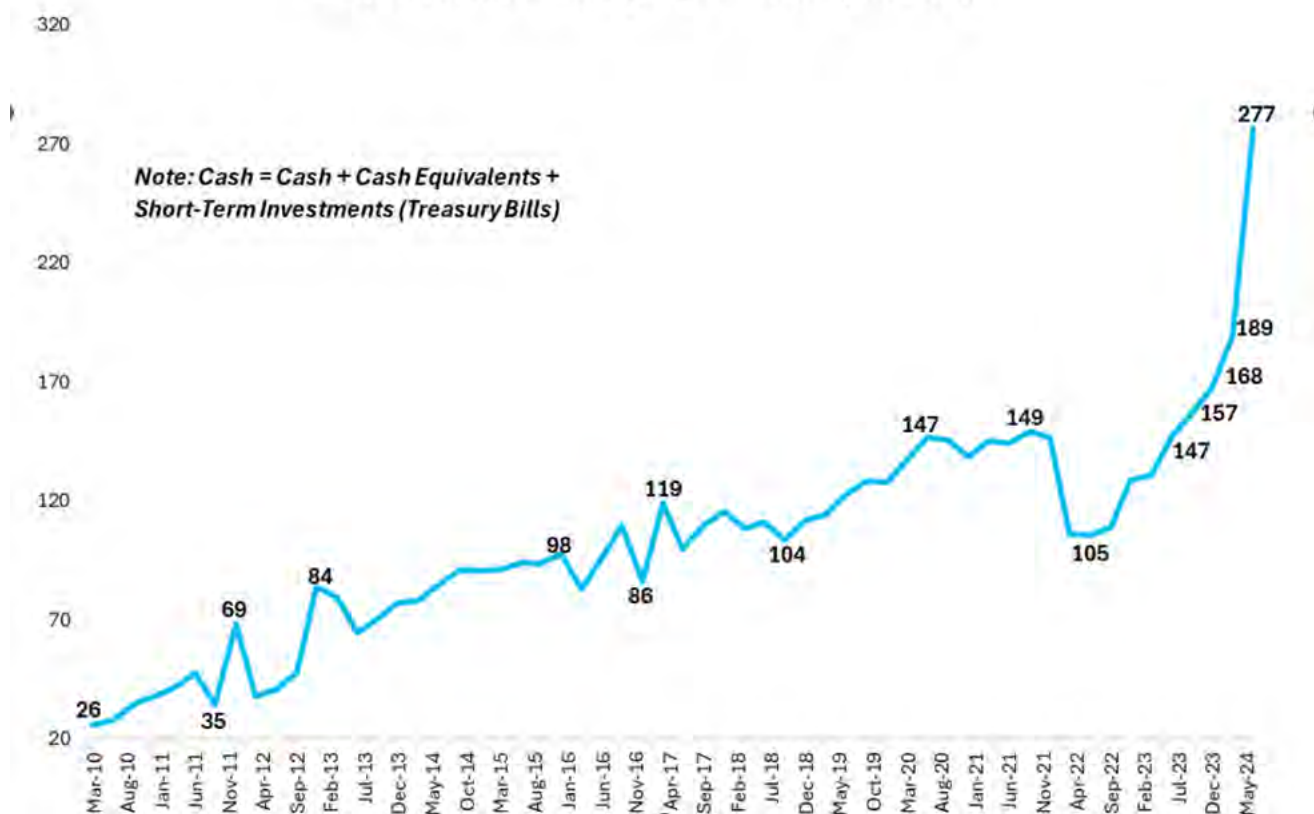
Just two weeks ago, we saw the highest percentage of bulls in the Investors Intelligence Index since 2020: 64.2%. That was an extreme reading, above 97% of historical data points. But last week the percentage of bulls moved down to 46.9%, which is right around the historical average. The 17% 2-week drop in the percentage of Bulls was the biggest sentiment swing we've seen since the October 1987 crash.



When one of the largest managers of money starts to pile up their cash you do need to pay attention. You also need to see what they are moving out of and why.

Because Berkshire's Cash Pile spiked to a new all-time high of \$277 billion, increasing by a record \$88 billion during the 2nd quarter. \$75 billion of that came from stock sales with Berkshire selling nearly half of its position in Apple.

Berkshire Hathaway's Cash Pile (Billions)



They have ridden a lot of the Tech rally and may be looking at other areas to deploy the capital. Most diversified investors or managers have been looking at their allocations to the Mag 8. When we see earnings of these miss expectation that could be when we see these excessive gains reverse. The flow of money could then divert into the broader market.



I found below that seems to best explain the sudden drop in the market at the start of the month and then such a fast bounce back, When a large amount of money reversed an investment trend in a short amount of time there was a brief period of out of balance trading. It was so quick there was hardly enough time for any investor to take advantage of this.

Japan's interest rate hike

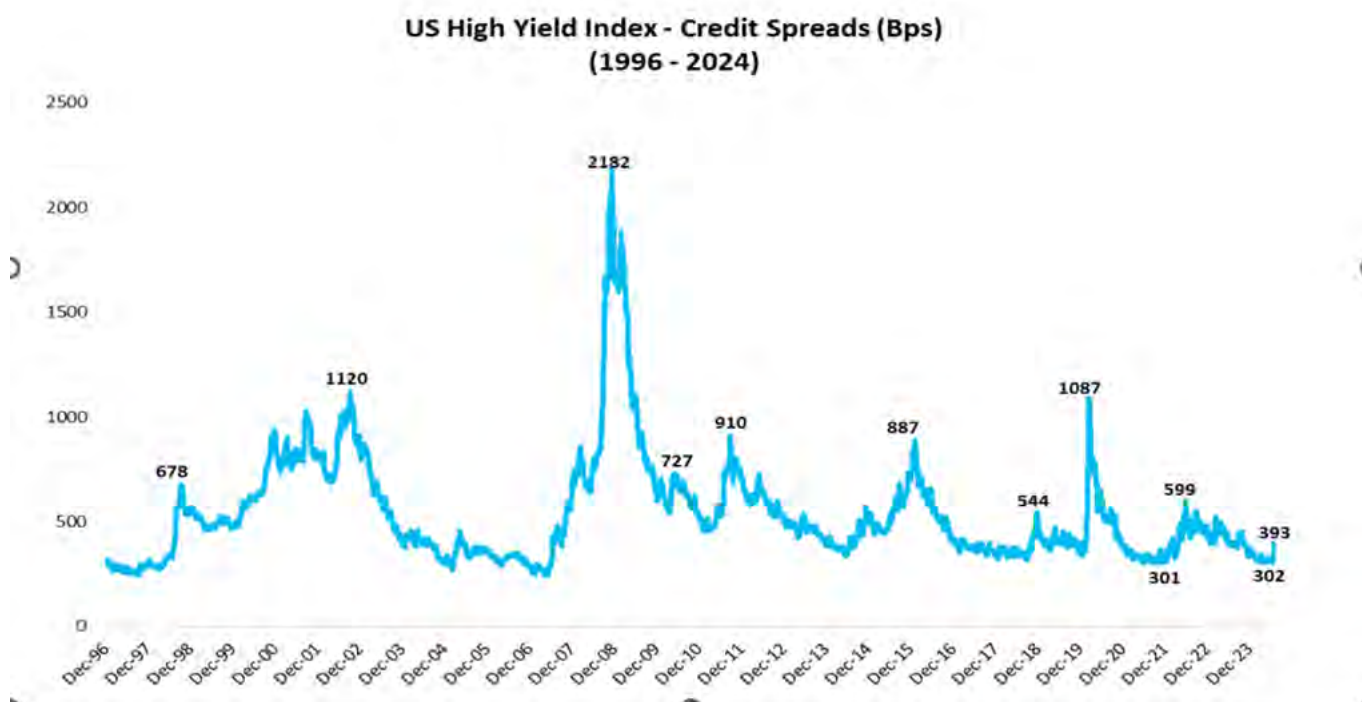
Professional investors also pointed to the impact of the Bank of Japan's move last week to raise its main interest rate from nearly zero.

This boosted the value of the Japanese yen. But it has also forced traders to unwind investments in which they had borrowed money in Japan at near-zero interest rates and then converted the yen into dollars, which they then used to buy U.S. stocks. In other words, traders have had to sell assets to cover their trades, which could be feeding into the stock market declines, experts said.

"This 'carry trade' has been unraveling in recent weeks and might have crescendoed on Friday," according to Yardeni Research.

Bond Yields are not showing like they are predicting a Recession.

A few weeks ago, US High Yield credit spreads were near their tightest levels since 2007 (302 bps). During the 10% S&P 500 correction, spreads increased by as much as 91 bps to their widest levels since November 2023 (393 bps).



The last 3 recessions in the US all saw credit spreads move over 1,000 bps at some point. We're not even close to that scenario today, with credit default expectations remaining extremely low.

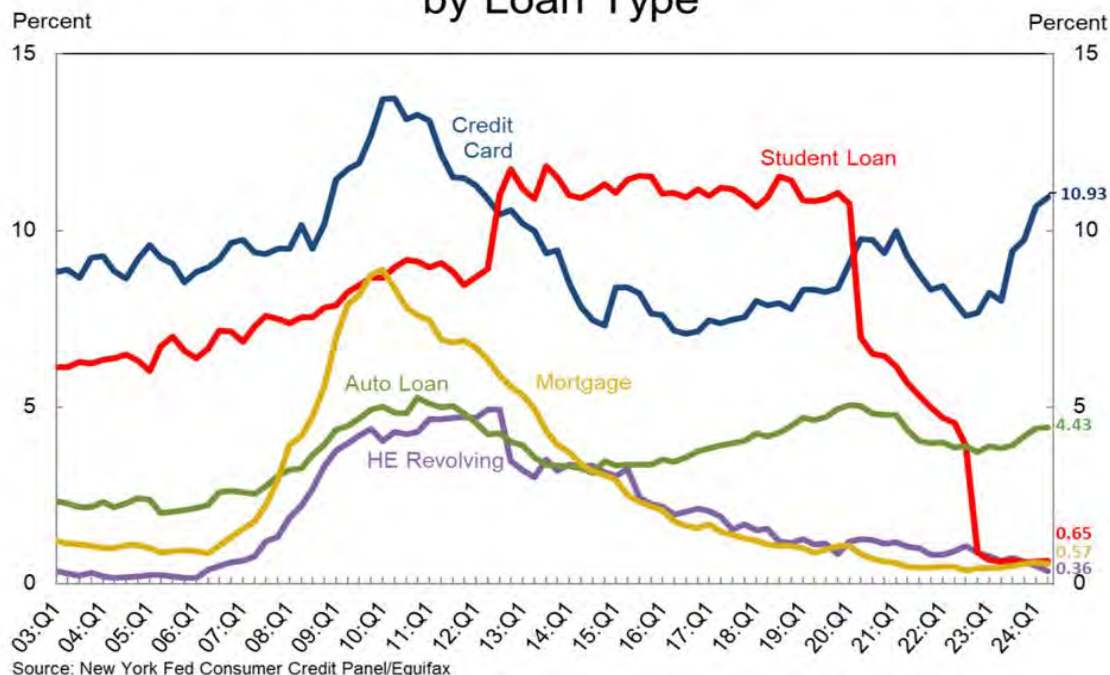
US High Yield Index: Peak Credit Spreads During Large S&P 500 Declines (1996 - 2024)			
Period	S&P 500 Decline	Recession?	Peak High Yield Spread (bps)
Jan 2022 - Oct 2022	-28%	No	599
Feb 2020 - Mar 2020	-35%	Yes	1087
Sep 2018 - Dec 2018	-20%	No	544
May 2015 - Feb 2016	-15%	No	887
May 2011 to Oct 2011	-22%	No	910
Apr 2010 to Jul 2010	-17%	No	727
Oct 2007 to Mar 2009	-58%	Yes	2182
Mar 2000 to Oct 2002	-51%	Yes	1120
Jul 1998 to Oct 1998	-22%	No	678

We need to keep an eye on the Credit card area as this is showing signs of an increase in late payments

The cost of Fuel this year has been steady in the USA.

But more alarming has been the upward trend in delinquencies. 11% of credit card balances in the US are now 90+ days delinquent, the highest since 2012.

Percent of Balance 90+ Days Delinquent by Loan Type



NATIONAL GAS PRICE COMPARISON | 2021-2024

08/08/24

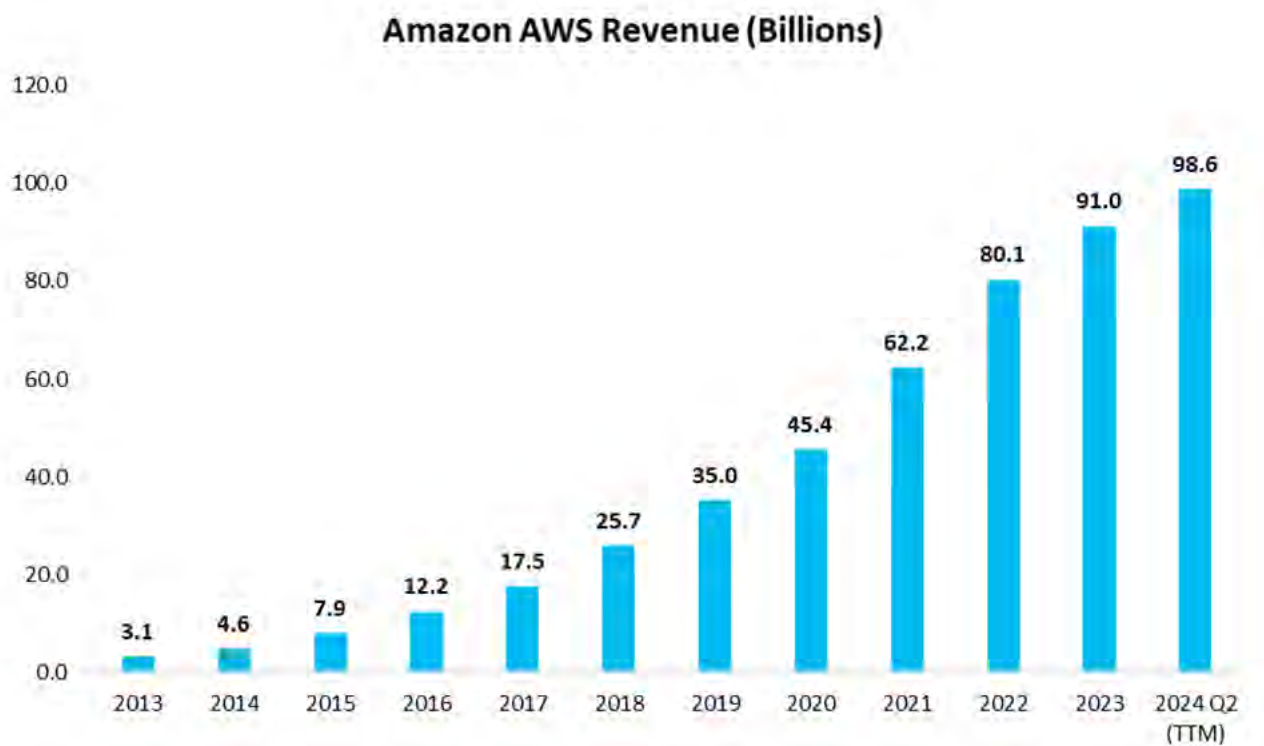


Prices are per gallon for regular unleaded gasoline.

Source: AAA (GasPrices.AAA.com)



The Consumer continues to spend as Amazon revenue continues to increase.



Welcome to the Australian Bureau of Statistics

Population
26,966,789
31 December 2023

Consumer price index
3.8%
Annual change Jun 2024 quarter

Gross domestic product
0.1%
Quarterly change, Mar 2024

Average weekly earnings
\$1,923.40
May 2024

Unemployment rate
4.2%
July 2024

All groups CPI, Australia, quarterly and annual movement (%)

Graph Table

Download



The Inflation line does not want to continue on a downward trend. This is the issue that RBA is dealing with. Sticky Inflation .

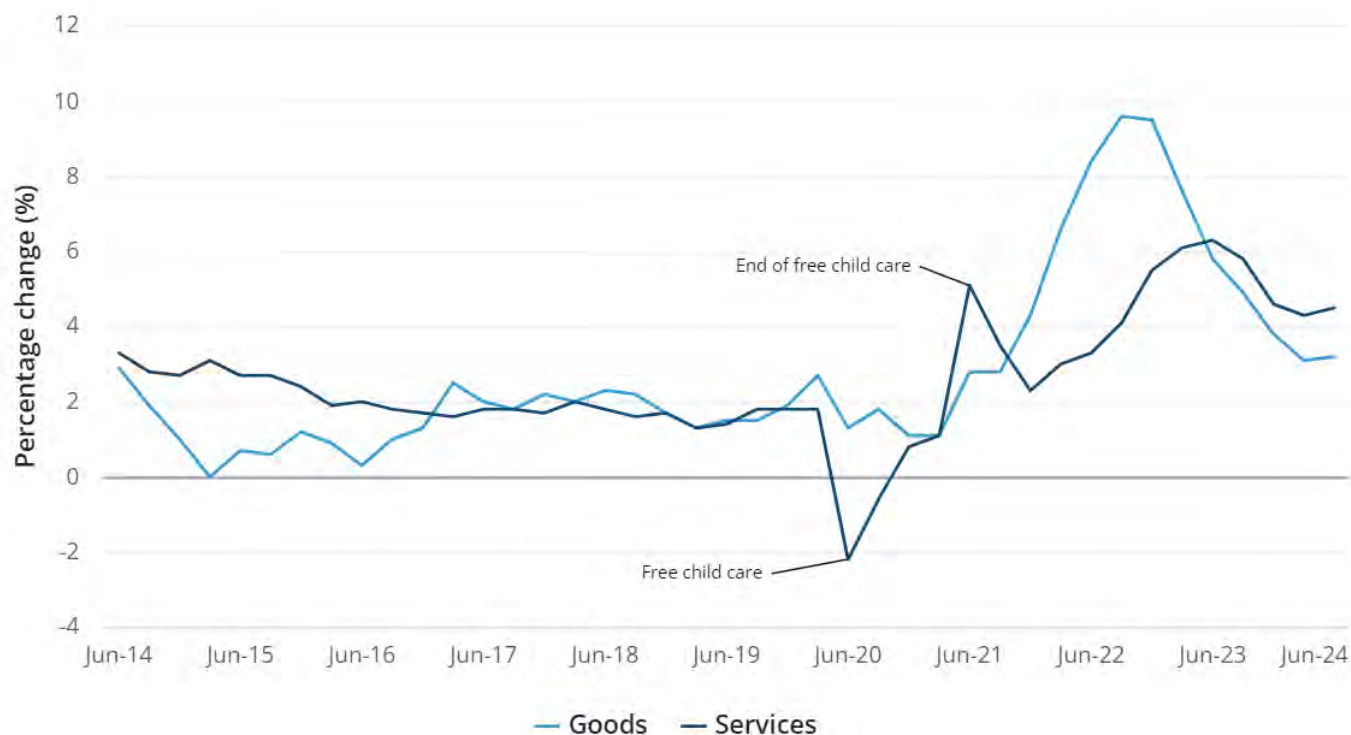
Goods inflation has settled at a lower level but Services has settled too high. With a large continued spend on government projects this is pushing inflation across the broader economy.

CPI, Goods and Services components, annual movement (%)

Graph

Table

Download

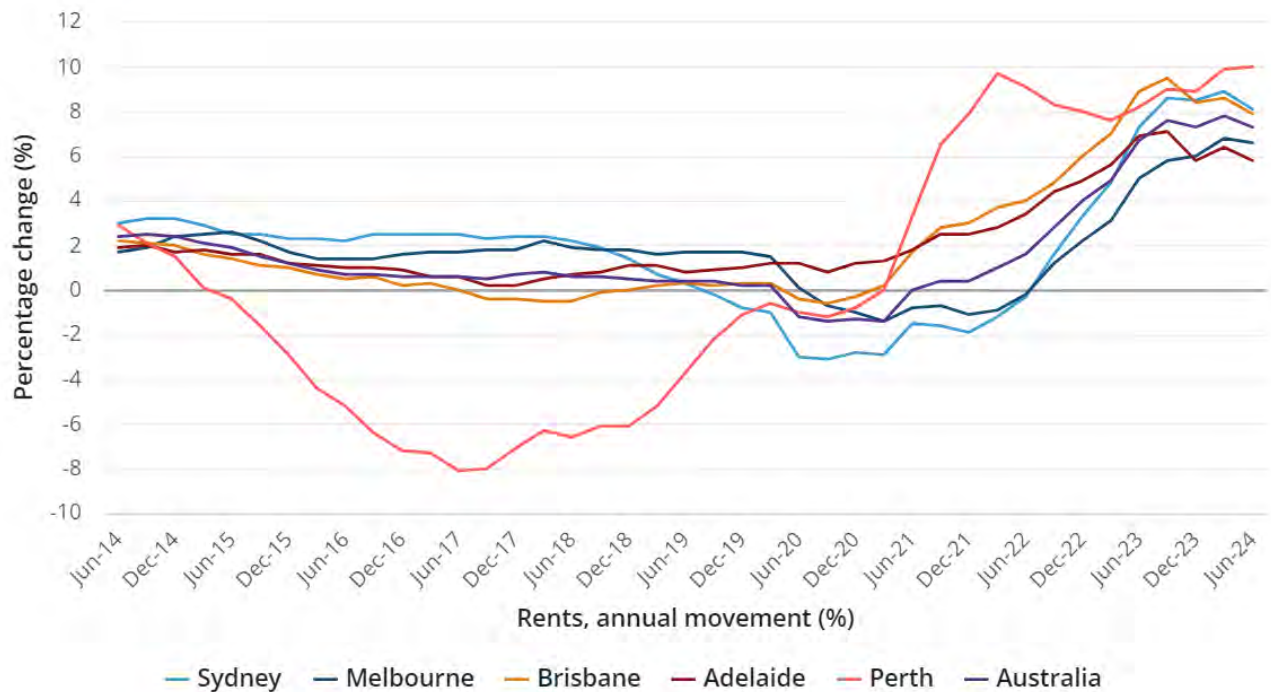


Rents in most cities seems to have softened a little but this is off record highs

Rents, annual movement (%)

Graph Table

Download

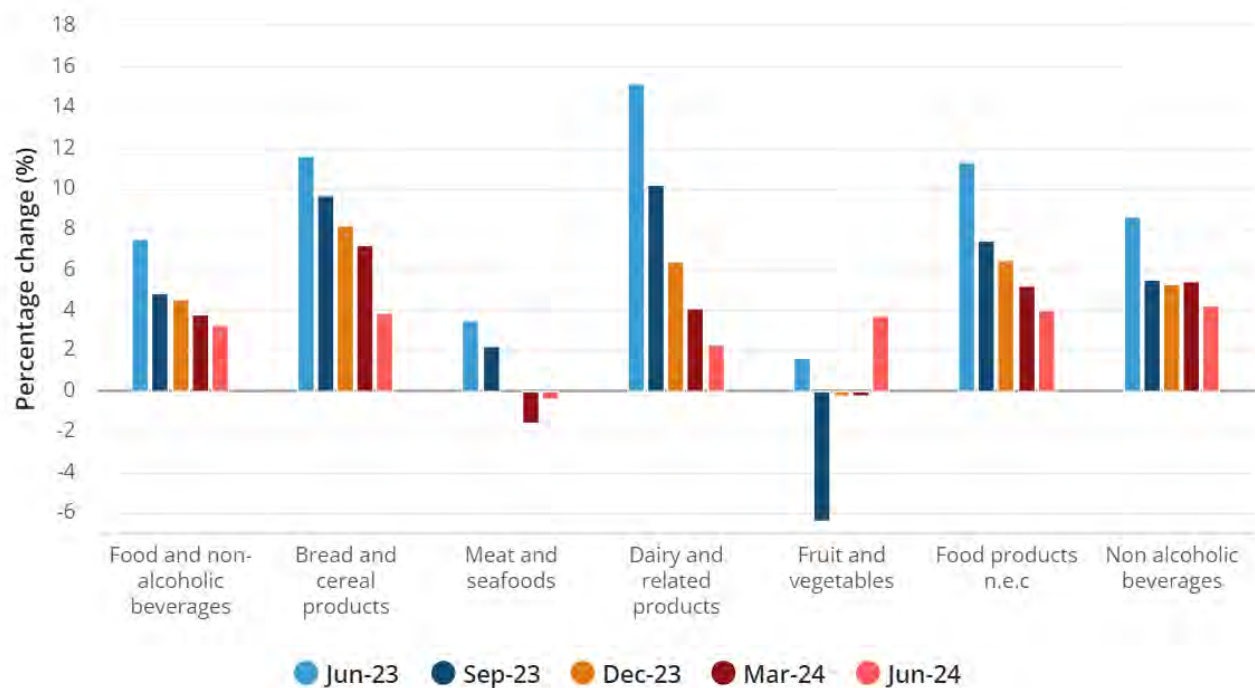


Groceries have settled but are not back in the 2% band yet.

Grocery products, annual movement (%)

Graph Table

Download



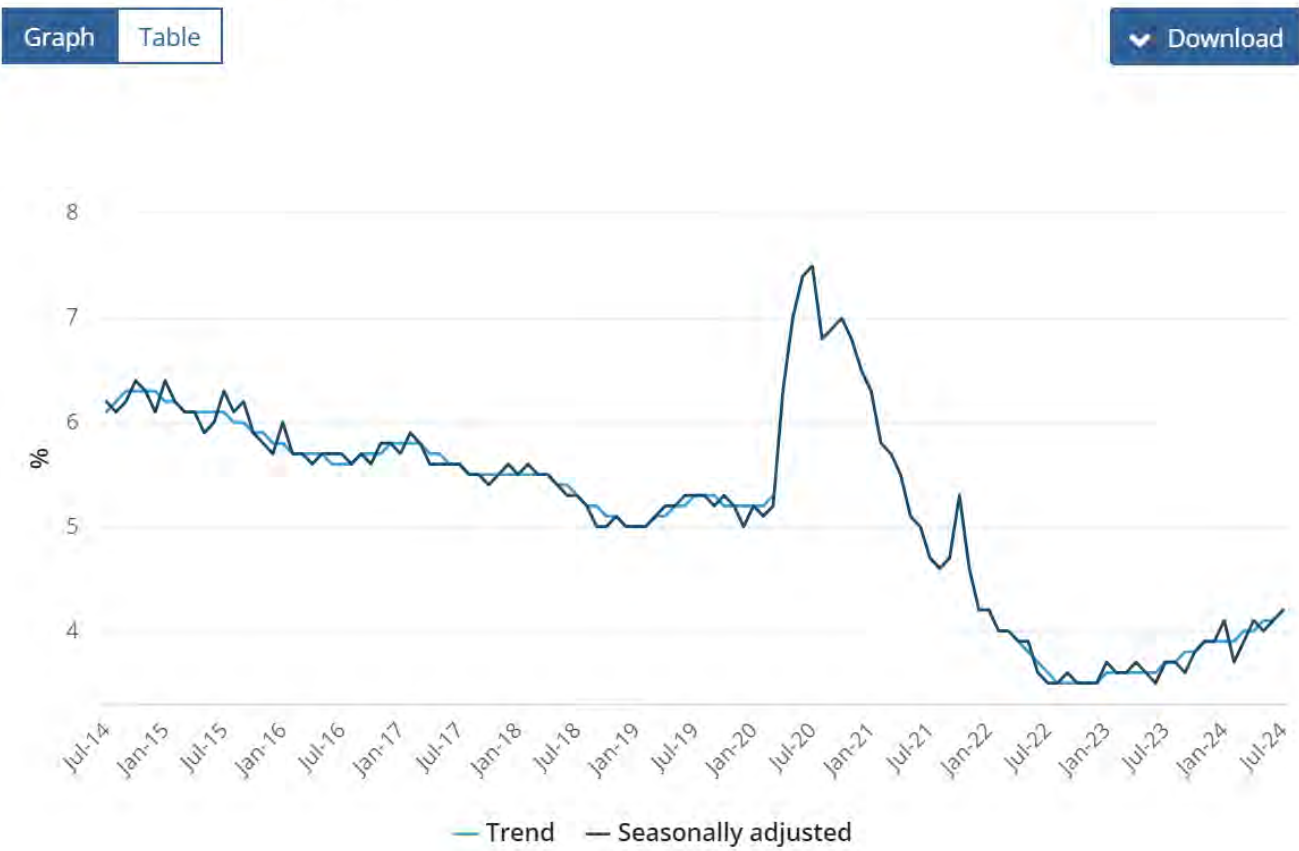
The unemployment rate has not had a large increase. This shows there is enough jobs to go around.

Unemployment

In trend terms, in July 2024:

- unemployment rate increased to 4.2%.
- unemployed people increased by 9,500 to 627,900.
- youth unemployment rate remained at 9.7%.

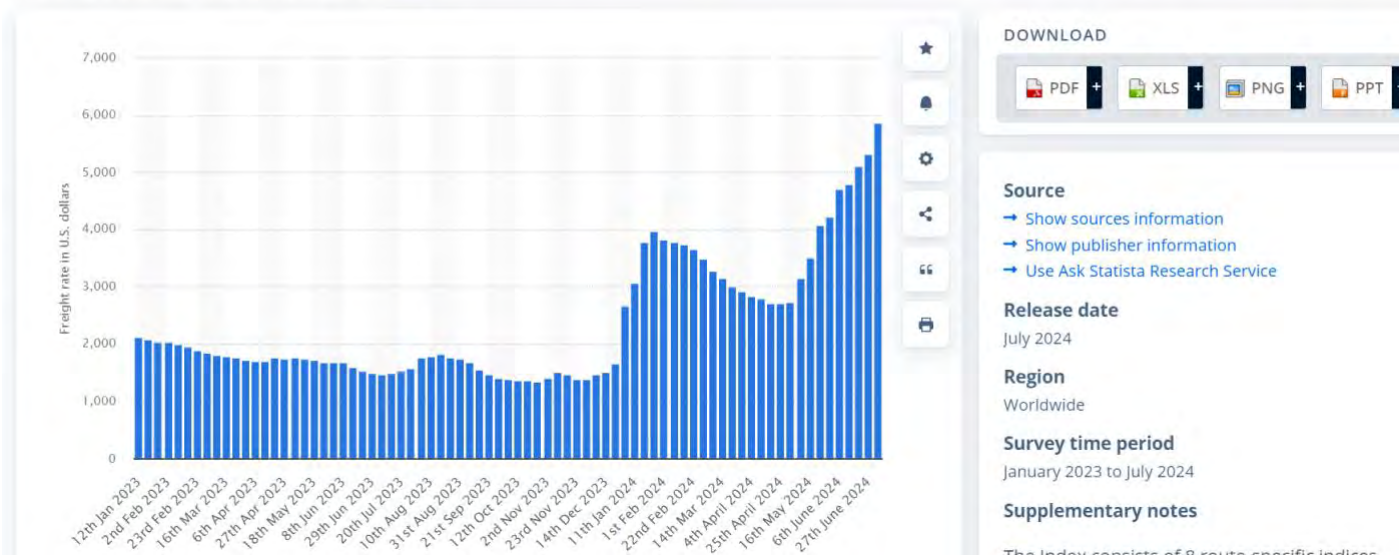
Unemployment rate



The cost of shipping is going to push the costs of goods up in Australia as so much has to come by ship.

Global container freight rate index from the 12th January 2023 to the 4th July 2024

(in U.S. dollars per 40-foot container)



52%

QLD clearance rate*

Updated Wed 14 Aug 11:30 PM AEST

Based on 258 auction results available

SOLD	NOT SOLD
104	22
Sold at auction	Withdrawn
19	102
Sold prior to auction	Passed in
11	
Sold after auction	

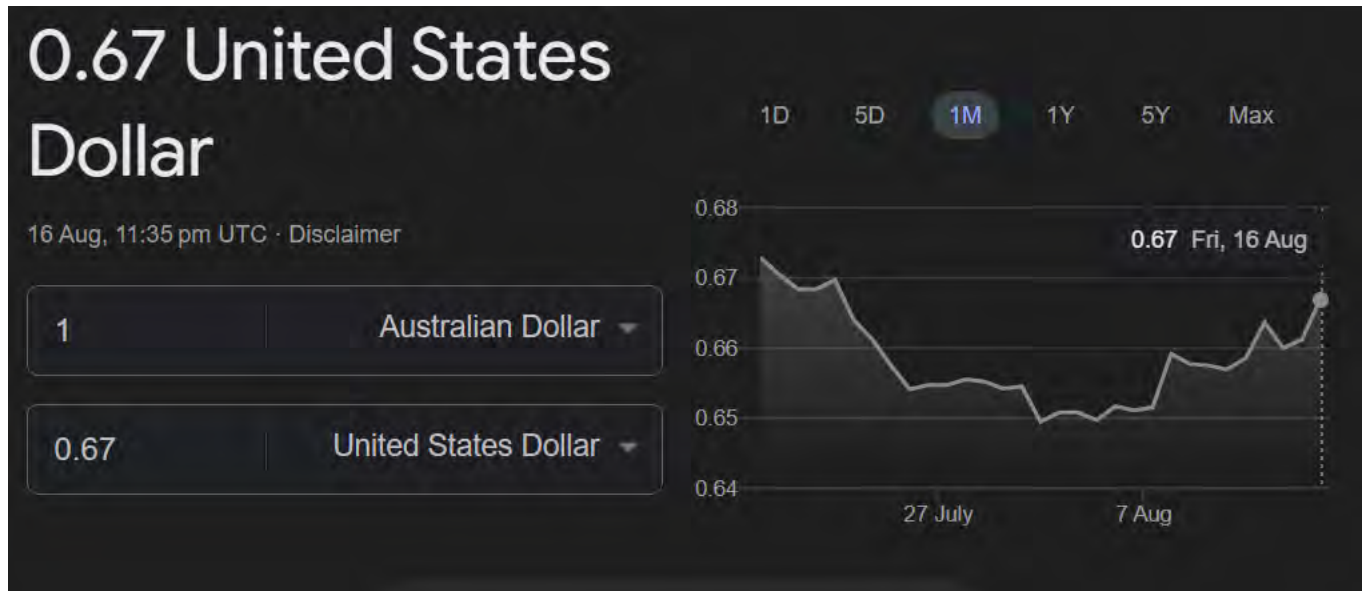
279 auctions scheduled

Non-auction sales

1,275

Private sales

The auction clearance rates last weekend had improved but is now running at 52%



The Aussie dollar was at 67 c a month ago and after a pullback under 65 it is back up to 67c.

Oil has softened over the month



Summary

Markets showed how quickly they can overreact and then recover. It is key to have your Asset allocation regularly reviewed so you can manage your way through these periods.