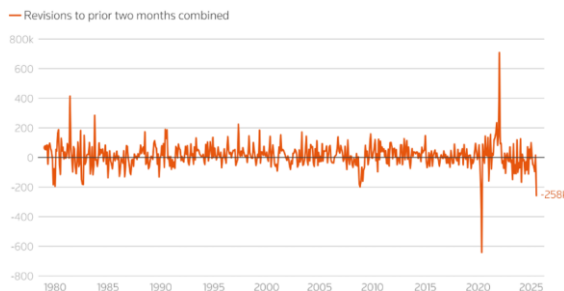


RATE CUTS ON THE HORIZON

The Jobs Report

- On August 1st, the US Bureau of Labor Statistics (BLS) released the jobs report for July which painted a concerning picture for the US jobs market.
- The July jobs report carried substantial revisions for May and June figures, cutting a combined 258K jobs from earlier estimates. May's estimated 144k net gain in employment was revised down to 19k, while June's preliminary tally of 147k was brought down to 14k.



- This magnitude of revisions only happened in 2008 and 2020 over the past 20 years.
- While these numbers still showed additions to employment, a drill down into the data showed that employment in healthcare and social assistance, both deemed necessary sectors, powered job gains, accounting for the entirety of July gains of 73K.
- Employment in cyclical industries, however, remained weak. The pace of job creation in 2025 has been the weakest in decades, outside of recession periods.

The Jackson Hole Speech

- On August 22nd, Fed Chair Jerome Powell delivered a highly anticipated keynote address at the Jackson Hole Economic Policy Symposium, a premier annual gathering of global central bankers, economists, and policymakers.
- He acknowledged the softness in the labor market, stating that the "balance of risks appear to be shifting" between the Fed's twin goals of full employment and stable prices.
- The dovish signal reaffirmed the market's expectations for the resumption of the rate cutting cycle.
- Markets are now firmly pricing a 25-bps cut on 17 September towards the 400-425 bps range, the first since the Fed lowered interest rates in December 2024.

Market Reaction

- Markets reacted to the shifting rate cut expectations accordingly.
- Over the first 2 weeks of August, the dollar index - which measures the value of the USD against a basket of major foreign currencies - declined by 2.2%. Alternative assets such as Gold (+1.3%) and Bitcoin (1.4%), both measured in USD, also rose as a result.
- Bond prices rose as investors looked to lock in higher yields ahead of the rate cutting cycle. The S&P Global Developed Corporate Bond Index rose by 1.1% while the S&P U.S. Government Bond Index rose by 0.4%.
- Risk assets rallied. The Russell 2000 Index's rise of 3.4% outperformed the S&P500's 1.7%, as the smaller companies, often more levered with variable interest rate debt, are expected to benefit more from lower interest rates.
- At the sector level, interest rates sensitive sectors gained. The S&P Homebuilders Index rose by 10.1%, with the expectation of a larger number of construction projects being initiated.
- On the international front, the S&P500 (+1.7%) lagged other markets as the MSCI ACWI returned +2.3% over the 2 weeks. The MSCI Emerging Markets (+2.5%) and the MSCI Frontier Market (+5.2%) were key outperformers.

Outlook

- Whilst interest rates appear to be going on a downward trajectory, the pace of US Fed easing will likely cause volatility in markets.
- Buoyed by the positive impact of lower finance costs spurring expansion projects, US markets have rallied even further and touching new highs, with markets arguably priced to perfection.
- However, the prospect of a weakening dollar coupled with a risk-on approach is likely to encourage capital flows to other regions.
- Investors should thus use the market highs in large caps in the US to diversify holdings.

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Source: FED, ECB, BOE, BoM, Bloomberg, SEMDEX, Statistics Mauritius, MSCI.

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