What's Hot: A momentous week for Central Banks

Veröffentlicht am 5. August 2024

Piergiacomo Braganti
Director, Research

Blake Heimann
Associate Director, Quantitative Research

Dovile Silenskyte
Director, Digital Assets Research

Baoqi Zhu
Associate Director, Quantitative Research & Multi Asset Solutions

Aneeka Gupta
Director, Macroeconomic Research

Wichtige Erkenntnisse

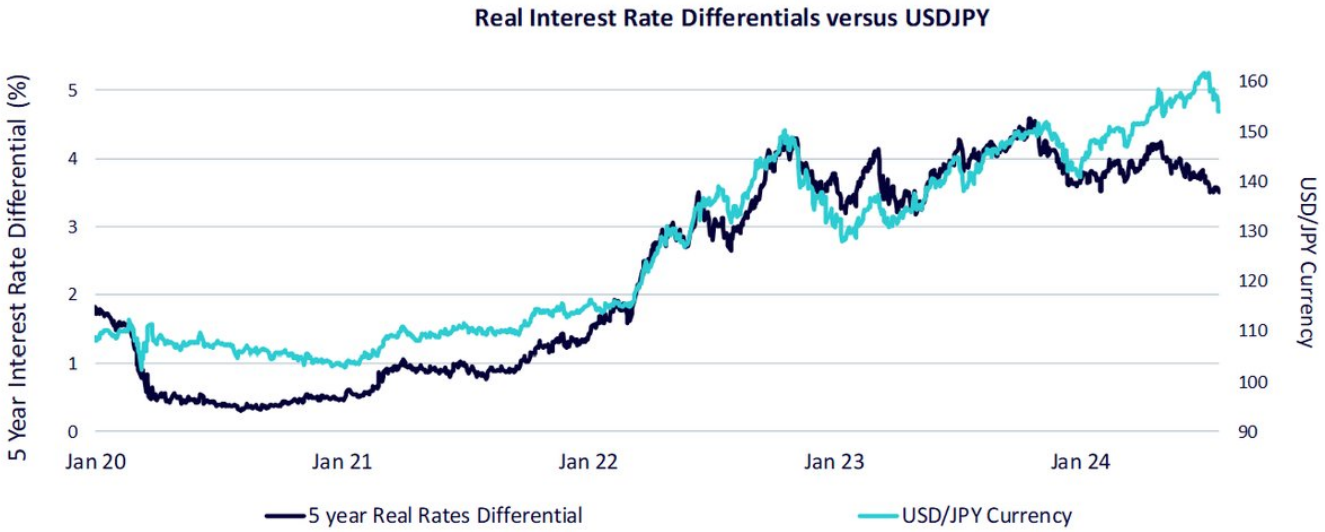
- Bank of Japan surprise with a 15Bps hike but bond purchase slowdown will be gradual
- Softer jobs data is shaping up to be the key driver for a September rate cut
- Bank of England cuts interest rates but loosening cycle will be gradual and shallow

Last week was crucial for 3 of the world's major Central banks. We witnessed a cocktail of rigor and a constructive approach towards the expansionary turnaround of interest rates. The Bank of Japan's (BOJ) raised interest rates, bringing the reference rate to 0.25%, the highest level since 2008[1]. On Wednesday 31st it was the turn of the Federal Reserve (Fed), which did not make any decisions on rates but, implicitly opened the door to a 1st rate cut in September. Finally, on Thursday 1st August, it was the Bank of England's (BOE) turn to decide to start the "easing" phase of monetary policy, through a 0.25% cut[2].

The BOJ has decided to start the "normalization" of monetary policy, which has been ultra-expansionary until now. The Monetary Policy Committee chaired by Governor Kazuo Ueda, also decided to halve the enormous Japanese Government Bond purchase plan (JGB). Mr. Ueda highlighted the persistent inflation risks, due to the higher costs of imported goods, therefore revising upwards the forecasts for consumer inflation (CPI) for 2025 from 1.9% to 2.1%[1]. The monthly value of purchases of bonds and exchange traded investment funds (ETF) will gradually decrease to ¥3trn, from the current ¥6trn, starting from the Q1 2025[1].

The double move by the BoJ comes just a few hours ahead of the decision of the FOMC (Federal Open Market Committee of the Federal Reserve), which, while leaving rates unchanged, has left the door open for their 1st cut in the September. The choices of the 2 Central Banks are going in the direction hoped for

by the markets. The expectations of a narrowing of the interest rate differential between the US and Japan have triggered, in the last 2 weeks, a strengthening of the US Dollar/Yen cross compared to the recent 38-year lows, at 162x.



Source: Bloomberg, WisdomTree as of 25 July 2024. Historical performance is not an indication of future performance, and any investments may go down in value.

In the United States, inflation is falling, and growth still remains highest among G10 economies . Powell doesn't hide a certain optimism but underlines that the Fed wants to see retail inflation that impacts families the most (i.e. PCE – Personal consumer expenditures) fall steadily to 2.0% before acting on the rate cut[4].

Inflation has nevertheless fallen significantly and a change in monetary policy appears closer, probably in the September FOMC, which is the last before the American Presidential elections in early November.

However, at the end of July 31st meeting, the Fed preferred to leave the 5.25-5.50% range unchanged for the 8th time in a row, alias at the highest level in over 20 years, explaining that it "does not consider it appropriate to reduce rates until it has greater confidence that inflation is moving sustainably towards 2%"[4].

Indeed, although the labour market continued to grow, the unemployment rate went from 3.7% in December 2023 to 4.3% in July 2024 . On the subject, Jerome Powell was clear: "for a long time, since inflation arrived, it was right to keep the main focus on it, but now that it has slowed, and the labour market has cooled we must try to look at both objectives". The "dual mandate" of the Federal Reserve, that is, to pursue both employment growth and price stability objectives, was therefore reaffirmed.

The BOE on August 1st decided to embark on the 1st rate cut since March 2020 from 5.25% to 5.00%, market expectations were not so clear, and equally so was the vote of the Board: 5 in favour and 4 against, with the decisive vote of Governor Bailey. Bailey was also quick to point out that further reductions will be carefully evaluated to avoid cutting too much or too quickly[5].

The drop in consumer inflation in the United Kingdom to 2.0% in June contributed to supporting the hypothesis of a cut in July, although the “core” inflation (ex-food and energy) remained high, 3.5%, as had only happened in 2011 in the new millennium[6]. Inflation, moreover, could rise again as early as July due to a statistical effect, and then stall around 2.5% assuming that average monthly increases between now and December are between +0.1 and +0.2%[7].

For the BoE, the biggest source of concern remains wages, whose growth rate has been close to +6% for several months, and which could have intuitive positive effects on personal spending, but negative effects on inflation dynamics in the remaining part of 2024[6].

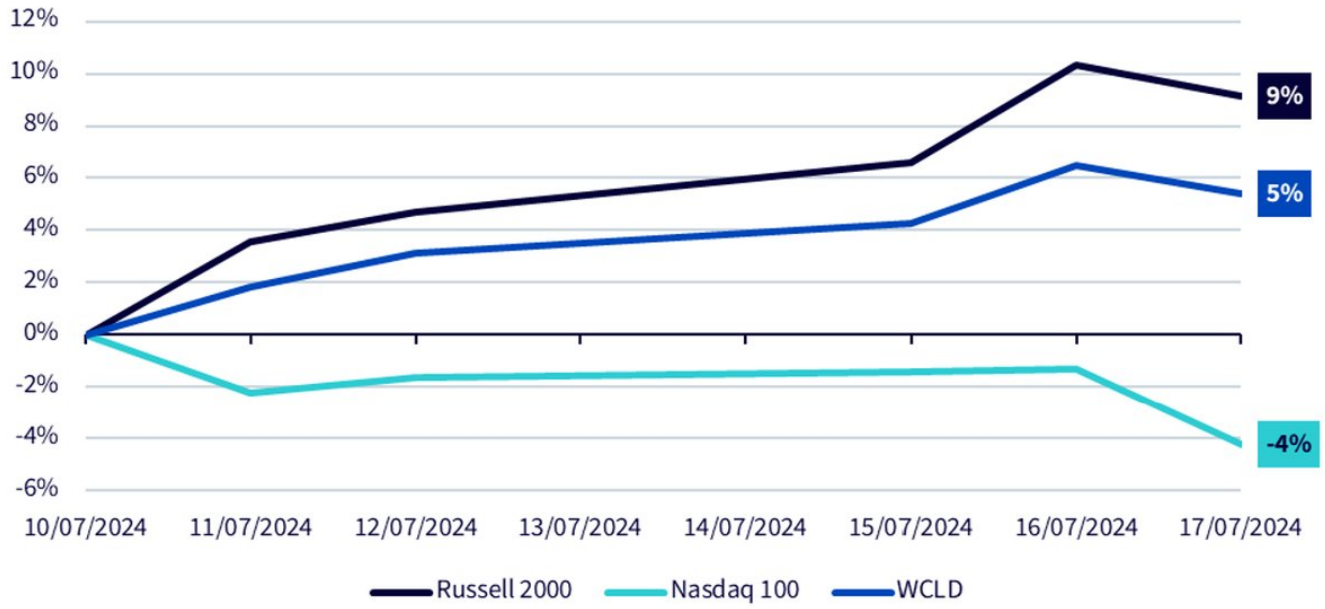
2024, although later than expected, is the year of the turning point towards an expansionary monetary policy in those countries where the fight against inflation had been mainly based on the increase in the cost of borrowing. A gradual decline in interest rates could produce more favourable financial conditions, lower bond yields and better prospects for stock market performance.

Fierce rotation across large and small cap stocks

In the world of equities, mid and small-cap stocks responded positively to the expectation of rate cuts. When the US CPI for June was released on July 11, it came in lower than expected, which stabiles the market expectation on the rate cuts in September. As a result, the Russell 2000 index surged by 9.2% in the week following the CPI release[9]. This development also potentially benefits tech-focused ETFs that overweight mid-small caps.

Take, for instance, the WisdomTree Cloud Computing UCITS ETF (WCLD). WCLD focuses on companies providing cloud-based software and services. Around 62% of its exposure is to mid-small caps as of 31 July 2024. In the week after July 11, the mid-cap and small-cap components of WCLD delivered returns of 5.5% and 10.4%, respectively, while the large-cap holdings in the portfolio returned -1.7%.[10] As the anticipation of rate cuts stabilizes, mid and small caps in the tech sector are likely to benefit due to reduced funding costs and improved valuations.

Cumulative Returns Since US June CPI Released



Source: Bloomberg. WCLD's return is based on the fund's NAV in USD. **Historical performance is not an indication of future performance, and any investments may go down in value.**

Yen correction can reverse

USD/JPY has corrected 7.4% off its highs[11]. The BOJ has made a political decision to support the Yen. This is evident as the Japanese economy's growth in Q1 was weak and inflation has been falling. In such as scenario we would expect the BOJ to support the economy. Real wages have been falling owing to the relatively higher level of inflation and higher social security contributions. By raising interest rates, the BOJ expects the economy to remain robust and inflation to remain high. However, if these expectations fail to materialise the Yen could reverse its recent appreciation versus the US dollar.

Source

[1] Bank of Japan as of 31 July 2024

[2] Bloomberg as of 1 August 2024

[3] Bloomberg as of 30 June 2024

[4] Bloomberg as of 1 August 2024

[5] Bloomberg as of 2 August 2024

[6] Office for National Statistics as of 17 July 2024

[7] Bloomberg, WisdomTree as of 31 July 2024

[8] Bloomberg as of 31 July 2024

[9] Bloomberg from 8 July to 12 July 2024

[10] Bloomberg as of 31 July 2024

[11] Bloomberg from 10 July to 1 August 2024

Important Risks Related to this Article

Important Information

Marketing communications issued in the European Economic Area ("EEA"): This document has been issued and approved by WisdomTree Ireland Limited, which is authorised and regulated by the Central Bank of Ireland. **Marketing communications issued in jurisdictions outside of the EEA:** This document has been issued and approved by WisdomTree UK Limited, which is authorised and regulated by the United Kingdom Financial Conduct Authority. WisdomTree Ireland Limited and WisdomTree UK Limited are each referred to as "WisdomTree" (as applicable). Our Conflicts of Interest Policy and Inventory are available on request. For professional clients only. Past performance is not a reliable indicator of future performance. Any historical performance included in this document may be based on back testing. Back testing is the process of evaluating an investment strategy by applying it to historical data to simulate what the performance of such strategy would have been. Back tested performance is purely hypothetical and is provided in this document solely for informational purposes. Back tested data does not represent actual performance and should not be interpreted as an indication of actual or future performance. The value of any investment may be affected by exchange rate movements. Any decision to invest should be based on the information contained in the appropriate prospectus and affer seeking independent investment, tax and legal advice. These products may not be available in your market or suitable for you. The content of this document does not constitute investment advice nor an offer for sale nor a solicitation of an offer to buy any product or make any investment. An investment in ETPs is dependent on the performance of the underlying index, less costs, but it is not expected to match that performance precisely. ETPs involve numerous risks including among others, general market risks relating to the relevant underlying index, credit risks on the provider of index swaps utilised in the ETP, exchange rate risks, interest rate risks, inflationary risks, liquidity risks and legal and regulatory risks. The information contained on this document is not, and under no circumstances is to be construed as, an advertisement or any other step in furtherance of a public offering of shares in the United States or any province or territory thereof, where none of the issuers or their products are authorised or registered for distribution and where no prospectus of any of the issuers has been filed with any securities commission or regulatory authority. No document or information on this document should be taken, transmitted or distributed (directly or indirectly) into the United States. None of the issuers, nor any securities issued by them, have been or will be registered under the United States Securities Act of 1933 or the Investment Company Act of 1940 or qualified under any applicable state securities statutes. This document may contain independent market commentary prepared by WisdomTree based on publicly available information. Although WisdomTree endeavours to ensure the accuracy of the content in this document, WisdomTree does not warrant or guarantee its accuracy or correctness. Any third party data providers used to source the information in this document make no warranties or representation of any kind relating to such data. Where WisdomTree has expressed its own opinions related to product or market activity, these views may change. Neither WisdomTree, nor any affiliate, nor any of their respective officers, directors, partners, or employees accepts any liability whatsoever for any direct or consequential loss arising from any use of this document or its contents. This document may contain forward looking statements including statements regarding our belief or current expectations with regards

to the performance of certain assets classes and/or sectors. Forward looking statements are subject to certain risks, uncertainties and assumptions. There can be no assurance that such statements will be accurate and actual results could differ materially from those anticipated in such statements. WisdomTree strongly recommends that you do not place undue reliance on these forward-looking statements. Product Comparison This document contains a comparison of financial products contained within the relevant prospectus and/or based on publicly available information, some of which has been prepared by third parties. While such sources are believed to be accurate as at their date of publication, WisdomTree does not warrant, guarantee or otherwise confirm the accuracy or correctness of any information contained herein and any information or opinions related to the products detailed herein may change over time. Any third parties used to source the information in this document make no warranties or claims of any kind relating to such data. Investors should read the prospectus and other applicable offering documents for each product and consider the investment objectives, risks, charges and expenses carefully before investing. WisdomTree Issuer ICAV The products discussed in this document are issued by WisdomTree Issuer ICAV (“WT Issuer”). WT Issuer is an umbrella investment company with variable capital having segregated liability between its funds organised under the laws of Ireland as an Irish Collective Asset-management Vehicle and authorised by the Central Bank of Ireland (“CBI”). WT Issuer is organised as

an Undertaking for Collective Investment in Transferable Securities (“UCITS”) under the laws of Ireland and shall issue a separate class of shares ("Shares”) representing each fund. Investors should read the prospectus of WT Issuer (“WT Prospectus”) before investing and should refer to the section of the WT Prospectus entitled 'Risk Factors' for further details of risks associated with an investment in the Shares. WisdomTree Cloud Computing UCITS ETF – Index Disclaimer Nasdaq® is a registered trademark of Nasdaq, Inc. (which with its affiliates is referred to as the “Corporations”) and is licensed for use by WisdomTree Management Limited. The WisdomTree Cloud Computing UCITS ETF (the “Fund”) has not been passed on by the Corporations as to its legality or suitability. Shares in the Fund are not issued, endorsed, sold, or promoted by the Corporations. THE CORPORATIONS MAKE NO WARRANTIES AND BEAR NO LIABILITY WITH RESPECT TO THE FUND. The information set forth in the BVP Nasdaq Emerging Cloud Index is provided for informational and discussion purposes only and is not intended to be, and shall not be regarded or construed as, a recommendation for a transaction or investment or financial, tax, investment or other advice of any kind by Bessemer Venture Partners (“BVP”). BVP makes no warranty or representation regarding any such information or the data presented in such materials. BVP and/or pooled investment vehicles which it manages, and individuals and entities affiliated with such vehicles, may purchase, sell or hold securities of (a) issuers that are constituents of the BVP Nasdaq Emerging Cloud Index or (b) the Fund itself from time to time and at any time, including in advance of or following an issuer being added to or removed from the BVP Nasdaq Emerging Cloud Index. Notice to Investors in Switzerland – Qualified Investors This document constitutes an advertisement of the financial product(s) mentioned herein. The prospectus and the key investor information documents (KIID) are available from WisdomTree's website: **https:** //www.wisdomtree.eu/en-ch/resource-library/prospectus-and-regulatory-reports Some of the sub-funds referred to in this document may not have not been registered with the Swiss Financial Market Supervisory Authority (“FINMA”). In Switzerland, such sub-funds that have not been registered with FINMA shall be distributed exclusively to qualified investors, as defined in the Swiss Federal Act

on Collective Investment Schemes or its implementing ordinance (each, as amended from time to time). The representative and paying agent of the sub-funds in Switzerland is Société Générale Paris, Zurich Branch, Talacker 50, PO Box 5070, 8021 Zurich, Switzerland. The prospectus, the key investor information documents (KIID), the articles of association and the annual and semi-annual reports of the sub-funds are available free of charge from the representative and paying agent. As regards distribution in Switzerland, the place of jurisdiction and performance is at the registered seat of the representative and paying agent. For Investors in France: The information in this document is intended exclusively for professional investors (as defined under the MiFID) investing for their own account and this material may not in any way be distributed to the public. The distribution of the Prospectus and the offering, sale and delivery of Shares in other jurisdictions may be restricted by law. WT Issuer is a UCITS governed by Irish legislation, and approved by the Financial Regulatory as UCITS compliant with European regulations although may not have to comply with the same rules as those applicable to a similar product approved in France. The Fund has been registered for marketing in France by the Financial Markets Authority (Autorité des Marchés Financiers) and may be distributed to investors in France. Copies of all documents (i.e. the Prospectus, the Key Investor Information Document, any supplements or addenda thereto, the latest annual reports and the memorandum of incorporation and articles of association) are available in France, free of charge at the French centralizing agent, Societe Generale at 29, Boulevard Haussmann, 75009, Paris, France. Any subscription for Shares of the Fund will be made on the basis of the terms of the prospectus and any supplements or addenda thereto. **For Investors in Malta:** This document does not constitute or form part of any offer or invitation to the public to subscribe for or purchase shares in the Fund and shall not be construed as such and no person other than the person to whom this document has been addressed or delivered shall be eligible to subscribe for or purchase shares in the Fund. Shares in the Fund will not in any event be marketed to the public in Malta without the prior authorisation of the Maltese Financial Services Authority. **For Investors in Monaco:** This communication is only intended for duly registered banks and/or licensed portfolio management companies in Monaco. This communication must not be sent to the public in Monaco.