Bond yields rise due to downgraded U.S. debt

Last week saw a global sell off in equities with the US market returning -1.4% in euro terms despite closing out a strong July. The beginning of August saw a surprise downgrade of US debt from Fitch, one of the 'big three' credit rating agencies. The rating of US government debt now stands at AA+, one step down from Fitch's highest rating of AAA. The company cited 'Governance and medium-term fiscal challenges' as reasons for the downgrade, bringing into focus the US's worsening fiscal outlook. Bond yields rose significantly because of the negative surprise, with the benchmark 10 Year US Treasury yield finishing the week higher at 4.09%. However, the US' unique position in the global economy should temper stronger market concerns.

On Friday the closely watched US non-farm payrolls report was released, surprising to the downside. The report showed that employers added 187,000 jobs in July, despite consensus expectations of a 200,000 figure. This key metric has now seen subsequent downward revisions in each of the last six months, and the summer months so far have represented the worst performance since early 2021. The labour market however appears to remain robust as the unemployment rate reduced to 3.5%. In recent months labour market performance has been a key driver of markets as investors are concerned about the ability for the Federal Reserve to tame inflation. A cooling labour market tends to suggest the potential for less aggressive policy from the Federal Reserve.

In Europe the euro area reported an unexpected growth in its GDP by 0.3% in Q2, after two quarters of flat or negative growth. Whilst in the UK, the Bank of England elected to raise interest rates 25 basis points to 5.25%, a fifteen-year high. The Monetary Policy Committee warned investors that rates were likely to stay high for a significant period, as inflation remains stubbornly high in the UK.

Our regular market information continues on the next page.

Snapshot

World Equities

Corporate Bonds

Sovereign Bonds

Oil

Copper

Gold

The week ahead

09 Aug	Chinese Consumer Price index data goes to print.
10 Aug	US Consumer Price Index data are released.
11 Aug	US Producer Price Index is issued.

	1 Week Return 31.07.23 to 07.08.23		Year to Date Return 31.12.22 to 07.08.23	
	Local Currency	Euro	Local Currency	Euro
World	-2.0%	-1.8%	16.6%	13.1%
U.S.	-1.6%	-1.4%	18.9%	15.3%
Europe	-2.5%	-2.5%	11.9%	11.9%
Ireland	0.2%	0.2%	31.7%	31.7%
U.K.	-1.8%	-2.3%	3.0%	6.1%
Japan	-1.7%	-1.7%	23.2%	10.8%
Hong Kong	-3.3%	-3.2%	-7.9%	-10.7%
Corporate Bonds	-0.2%	-0.2%	6.4%	0.0%
Sovereign Bonds	-0.8%	-0.8%	1.6%	1.6%

Equities

- Global stocks were down last week by -1.8% in euro terms and -2.0% in local terms.
- Year-to-date global markets are up 13.1% in euro terms and 16.6% in local terms.
- The U.S market, the largest in the world, finished at -1.4% in euro terms and -1.6% in local terms.

Fixed Income & FX

- The U.S. 10-year yield finished at 4.09% last week. The German equivalent finished at 2.60%. The Irish 10-year bond yield finished at 2.99%
- The Euro/U.S. Dollar exchange rate finished at 1.10, whilst Euro/GBP finished at 0.86.

Commodities

- Oil finished the week at $82 per barrel and is down -0.7% year-to-date in euro terms.
- Gold finished the week at $1,937 per troy ounce and is up 3.3% year-to-date in euro terms.
- Copper finished the week at $8,436 per tonne.

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