

Flash update

Economic insights and asset class views

UBS Asset Management | August 2024

For global professional / qualified / institutional clients and investors.
For marketing purposes.



Evan Brown
Head of Multi-Asset Strategy
Active Multi-Asset

Market weakness: More technical than fundamental

In recent days, asset markets have been experiencing a liquidation event, with leveraged investors forced to unwind popular trades into illiquid summer markets. While macro and fundamental data are softening, the speed and scale of recent market moves has been greatly exaggerated by technical factors which have led to market overshoots vs. underlying fundamentals. We do not think recent economic data points to a base case of recession and therefore think current market dislocations present opportunities for long-term investors.

Technical fragility

In the last [Macro Monthly](#) we covered the technical fragility of markets from the combination of crowded positions and a currently illiquid seasonal period. Such concerns have played out more quickly and violently than we expected, with the catalyst being a weakening of PMIs and the US labor market. However, we maintain the view that the scale of such moves is largely a function of technicals.

For example, the Nikkei has fallen as much as 21% over a three-day period. We struggle to see any change in Japan's fundamentals that justify the magnitude of this move. Instead, Nikkei weakness is best explained by an extremely crowded short position in the JPY, which had built up over the course of the year. As the Bank of Japan became more hawkish this position came under pressure and the unwind of such a large carry position has had knock on effects on Japanese equities and broad FX carry trades.

Similarly, we have seen gold prices start to come under slight pressure in the last two days. Gold usually behaves as a protective asset in times of declining real yield and rising economic concern. However, as there is an extended net long position in gold it has struggled in this instance, reflecting the indiscriminate nature of asset selling in these deleveraging episodes. Additionally, the tech sector, which has enjoyed large inflows year-to-date, is underperforming many cyclical assets, the latter of which would be expected to underperform on recession concerns.

Soft landing is still our base case

We acknowledge that economic data have started to weaken, and that the loss of momentum does increase downside risks to the economy. That said, we do not want to react too aggressively to one month's data. This is particularly the case for the US labor report where we scope for irregularities in the data relating to weather effects and temporary factors. In addition, there is not clear evidence of a large pickup in permanent layoffs, as evidenced by JOLTS and Challenger data for July.

Absent an increase in layoffs, it is difficult to tell whether the cooling of the economy is just a normalization, or if we are on our way to a hard landing. At this point we think the odds still point toward a soft landing given slower but still very healthy income growth, an elevated level of job openings, corporate revenues and guidance which is decelerating but far from signaling impending doom, and strong balance sheets.



Feedback loops and circuit breakers

While we downplay the severity of recent data weakness, we are mindful of market feedback loops onto the economy. Should the magnitude of the sell-off worsen on a sustained basis, consumers and corporates would face a negative wealth effect and pull back on consumption or investment. We are presently far from this scenario; nonetheless, should it occur, we would expect to see the Federal Reserve and other central banks cut rates more aggressively to counter the tightening of broad financial conditions.

We think this would provide an effective circuit breaker for the market for three reasons. First, inflation dynamics have already allowed a move toward less restrictive policy, hence such actions would not be deemed as inappropriate. Second, there is plenty of room to cut meaningfully. Third, and most importantly, we think lower rates would quickly stimulate demand as private sector balance sheets are in a strong position and do not need to go through a deleveraging cycle, nor does the economy need large fiscal stimulus.

That being said, we think it is still far too soon to position for such an environment, and think the Fed, and other central banks, will want to see more data before needing to act that aggressively. The market is pricing in over 100 basis points of easing by year end, which looks a tad aggressive if the US labor market doesn't crack.

Opportunity beckons

As things stand, markets are going through a period of illiquidity and indiscriminate selling. We think the rapid increase in the value of protection (the VIX reached a high of 65) is being driven by technicals rather than a large reappraisal of the fundamental backdrop. Accordingly, current dislocations may create excellent long-term buying opportunities. It is moments like these where active management can take advantage of market dislocations.

For marketing and information purposes by UBS. For global professional / qualified / institutional clients and investors.

This document does not replace portfolio and fund-specific materials. Commentary is at a macro or strategy level and is not with reference to any registered or other mutual fund.

Americas

The views expressed are a general guide to the views of UBS Asset Management as of August 2024. The information contained herein should not be considered a recommendation to purchase or sell securities or any particular strategy or fund. Commentary is at a macro level and is not with reference to any investment strategy, product or fund offered by UBS Asset Management. The information contained herein does not constitute investment research, has not been prepared in line with the requirements of any jurisdiction designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research. The information and opinions contained in this document have been compiled or arrived at based upon information obtained from sources believed to be reliable and in good faith. All such information and opinions are subject to change without notice. Care has been taken to ensure its accuracy but no responsibility is accepted for any errors or omissions herein. A number of the comments in this document are based on current expectations and are considered "forward-looking statements." Actual future results, however, may prove to be different from expectations. The opinions expressed are a reflection of UBS Asset Management's best judgment at the time this document was compiled, and any obligation to update or alter forward-looking statements as a result of new information, future events or otherwise is disclaimed. Furthermore, these views are not intended to predict or guarantee the future performance of any individual security, asset class or market generally, nor are they intended to predict the future performance of any UBS Asset Management account, portfolio or fund.

EMEA

The information and opinions contained in this document have been compiled or arrived at based upon information obtained from sources believed to be reliable and in good faith, but is not guaranteed as being accurate, nor is it a complete statement or summary of the securities, markets or developments referred to in the document. UBS AG and / or other members of the UBS Group may have a position in and may make a purchase and / or sale of any of the securities or other financial instruments mentioned in this document. Before investing in a product please read the latest prospectus carefully and thoroughly. Units of UBS funds mentioned herein may not be eligible for sale in all jurisdictions or to certain categories of investors and may not be offered, sold or delivered in the United States. The information mentioned herein is not intended to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments. Past performance is not a reliable indicator of future results. The performance shown does not take account of any commissions and costs charged when subscribing to and redeeming units. Commissions and costs have a negative impact on performance. If the currency of a financial product or financial service is different from your reference currency, the return can increase or decrease as a result of currency fluctuations. This information pays no regard to the specific or future investment objectives, financial or tax situation or particular needs of any specific recipient. The details and opinions contained in this document are provided by UBS without any guarantee or warranty and are for the recipient's personal use and information purposes only. This document may not be reproduced, redistributed or republished for any purpose without the written permission of UBS AG. This document contains statements that constitute "forward-looking statements", including, but not limited to, statements relating to our future business development. While these forward-looking statements represent our judgments and future expectations concerning the development of our business, a number of risks, uncertainties and other important factors could cause actual developments and results to differ materially from our expectations.

UK

Issued in the UK by UBS Asset Management (UK) Ltd. Authorised and regulated by the Financial Conduct Authority.

APAC

This document and its contents have not been reviewed by, delivered to or registered with any regulatory or other relevant authority in APAC. This document is for informational purposes and should not be construed as an offer or invitation to the public, direct or indirect, to buy or sell securities. This document is intended for limited distribution and only to the extent permitted under applicable laws in your jurisdiction. No representations are made with respect to the eligibility of any recipients of this document to acquire interests in securities under the laws of your jurisdiction. Using, copying, redistributing or republishing any part of this document without prior written permission from UBS Asset Management is prohibited. Any statements made regarding investment performance objectives, risk and/or return targets shall not constitute a representation or warranty that such objectives or expectations will be achieved or risks are fully disclosed. The information and opinions contained in this document is based upon information obtained from sources believed to be reliable and in good faith but no responsibility is accepted for any misrepresentation, errors or omissions. All such information and opinions are subject to change without notice. A number of comments in this document are based on current expectations and are considered "forward-looking statements". Actual future results may prove to be different from expectations and any unforeseen risk or event may arise in the future. The opinions expressed are a reflection of UBS Asset Management's judgment at the time this document is compiled and any obligation to update or alter forward-looking statements as a result of new information, future events, or otherwise is disclaimed. You are advised to exercise caution in relation to this document. The information in this document does not constitute advice and does not take into consideration your investment objectives, legal, financial or tax situation or particular needs in any other respect. Investors should be aware that past performance of investment is not necessarily indicative of future performance. Potential for profit is accompanied by possibility of loss. If you are in any doubt about any of the contents of this document, you should obtain independent professional advice.

Australia

This document is intended to provide general information only and has been provided by UBS Asset Management (Australia) Ltd (ABN 31 003 146 290) (AFS Licence No. 222605). This document and its contents have not been reviewed by, delivered to or registered with any regulatory or other relevant authority in any jurisdiction. This document is for informational purposes and should not be construed as an offer or invitation to the public, direct or indirect, to buy or sell securities. This document is intended for limited distribution and only to the extent permitted under applicable laws in any jurisdiction. No representations are made with respect to the eligibility of any recipients of this document to acquire interests in securities under the laws of any jurisdiction. Using, copying, redistributing or republishing any part of this document without prior written permission from UBS Asset Management is prohibited. Any statements made regarding investment performance objectives, risk and/or return targets shall not constitute a representation or warranty that such objectives or expectations will be achieved or risks are fully disclosed. The information and opinions contained in this document is based upon information obtained from sources believed to be reliable and in good faith but no responsibility is accepted for any misrepresentation, errors or omissions. All such information and opinions are subject to change without notice. A number of comments in this document are based on current expectations and are considered "forward-looking statements". Actual future results may prove to be different from expectations and any unforeseen risk or event may arise in the future. The opinions expressed are a reflection of UBS Asset Management's judgment at the time this document is compiled and any obligation to update or alter forward-looking statements as a result of new information, future events, or otherwise is disclaimed. You are advised to exercise caution in relation to this document. The information in this document does not constitute advice and does not take into consideration your investment objectives, legal, financial or tax situation or particular needs in any other respect. Investors should be aware that past performance of investment is not necessarily indicative of future performance. Potential for profit is accompanied by possibility of loss. If you are in any doubt about any of the contents of this document, you should obtain independent professional advice.

China

The securities may not be offered or sold directly or indirectly in the People's Republic of China (the "PRC"). Neither this document or information contained or incorporated by reference herein relating to the securities, which have not been and will not be submitted to or approved/verified by or registered with the China Securities Regulatory Commission ("CSRC") or other relevant governmental authorities in the PRC pursuant to relevant laws and regulations, may be supplied to the public in the PRC or used in connection with any offer for the subscription or sale of the Securities in the PRC. The securities may only be offered or sold to the PRC investors that are authorized to engage in the purchase of Securities of the type being offered or sold. PRC investors are responsible for obtaining all relevant government regulatory approvals/licenses, verification and/or registrations themselves, including, but not limited to, any which may be required from the CSRC, the State Administration of Foreign Exchange and/or the China Banking Regulatory Commission, and complying with all relevant PRC regulations, including, but not limited to, all relevant foreign exchange regulations and/or foreign investment regulations.

Hong Kong

This document and its contents have not been reviewed by any regulatory authority in Hong Kong. No person may issue any invitation, advertisement or other document relating to the Interests whether in Hong Kong or elsewhere, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to the Interests which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" within the meaning of the Securities and Futures Ordinance (Cap. 571) and the Securities and Futures (Professional Investor) Rules made thereunder.

Singapore

This document has not been registered with the Monetary Authority of Singapore pursuant to the exemption under Section 304 of the SFA. Accordingly, this document may not be circulated or distributed, nor may the Securities be offered or sold, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor pursuant to Section 304 of the SFA.

Taiwan

This document and its contents have not been reviewed by, delivered to or registered with any regulatory or other relevant authority in the Republic of China (R.O.C.). This document is for informational purposes and should not be construed as an offer or invitation to the public, direct or indirect, to buy or sell securities. This document is intended for limited distribution and only to the extent permitted under applicable laws in the Republic of China (R.O.C.). No representations are made with respect to the eligibility of any recipients of this document to acquire interests in securities under the laws of the Republic of China (R.O.C.).

Source for all data and charts (if not indicated otherwise):
UBS Asset Management.

Japan

This document is for informational purposes only and is not intended as an offer or a solicitation to buy or sell any specific financial products, or to provide any investment advisory/management services.

Korea

The securities may not be offered, sold and delivered directly or indirectly, or offered or sold to any person for re-offering or resale, directly or indirectly, in Korea or to any resident of Korea except pursuant to the applicable laws and regulations of Korea, including the Capital Market and Financial Investment Business Act and the Foreign Exchange Transaction Law of Korea, the presidential decrees and regulations thereunder and any other applicable laws, regulations or rules of Korea. UBS Asset Management has not been registered with the Financial Services Commission of Korea for a public offering in Korea nor has it been registered with the Financial Services Commission for distribution to non-qualified investors in Korea.

Malaysia

This document is sent to you, at your request, merely for information purposes only. No invitation or offer to subscribe or purchase securities is made by UBS Asset Management as the prior approval of the Securities Commission of Malaysia or other regulatory authorities of Malaysia have not been obtained. No prospectus has or will be filed or registered with the Securities Commission of Malaysia.

C-08/24 NAMT-1558



[ubs.com/am-linkedin](https://www.ubs.com/am-linkedin)

© UBS 2024. The key symbol and UBS are among the registered and unregistered trademarks of UBS. All rights reserved.

[ubs.com/am](https://www.ubs.com/am)