

Investments - Flash

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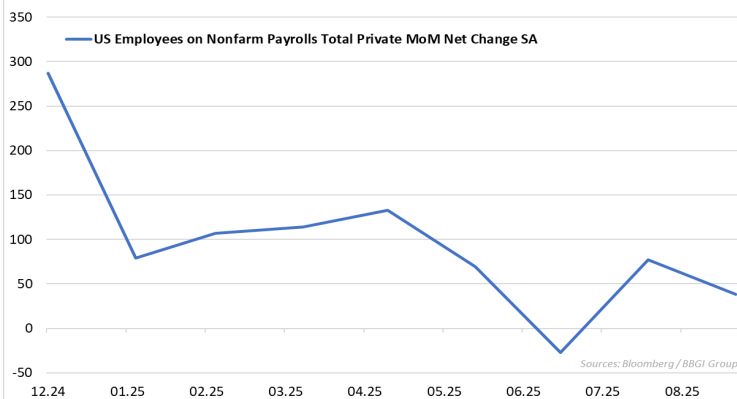
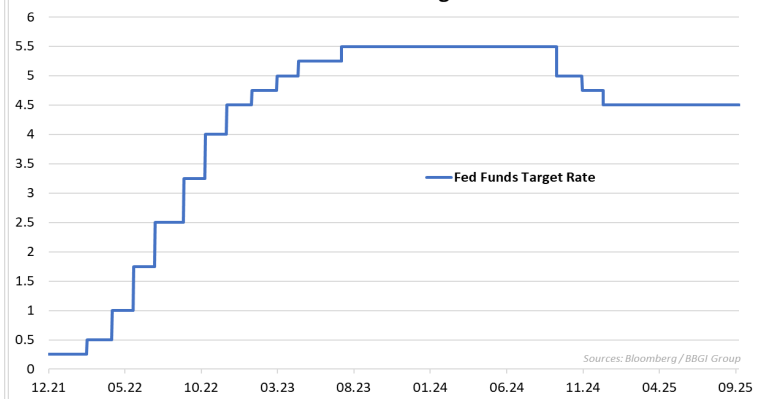


RISK OF A SELL-OFF ON THE STOCK MARKETS?

A Fed rate cut could trigger significant profit-taking.

The downturn in the job market could prove to be much more significant than it appears. Friday's poor job creation figures have already impacted expectations of a resumption of the Fed's rate-cutting cycle and have also caused ten-year rates to fall. Now back close to 4% after reaching 4.8% under pressure from inflationary risks, they could well quickly retest the year's low of 3.6%. The revision of job creation over twelve months and August inflation may precipitate a change in perceptions of the resilience of the US economy. It is estimated that the Bureau of Labor Statistics' year-on-year revisions will show a correction in job creation of 700k-900k less than initially reported. This will lend credence to those who suggested that the Fed should have already eased its policy in June. But it will also indicate that the Fed is probably behind the curve, once again, in its monetary policy and is mistaken about the real health of the economy. By balancing the risks of recession

and renewed inflation to maintain the status quo amid the chaotic political climate of recent months, it may well have increased the risks of a slowdown through a policy that is ultimately too restrictive. While these factors favor cuts in key interest rates and a flattening of yield curves, they could well have a very different impact on risky assets. Indeed, on the equity side, the 30% recovery over the last five months seems unstoppable, but it is losing momentum in August and running out of arguments to justify further gains. It could therefore ultimately give way under the weight of increasing economic risks and their impact on corporate earnings. Seasonality also suggests risks of "sell the news," shortly before the corporate earnings season, creating a context conducive to significant profit-taking.


US Private Job Openings (in thousands)

Fed Funds Target Rate

S&P500 Index

US Government 10 Year Yield


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