RAYMOND JAMES

Low notes and high notes

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"A Comedy With Machines"

Transport yourself for a few moments back to a warm August day in Vienna in the summer of 1791. You find yourself amidst a gathering of cityfolk, excitedly sharing what they know regarding a forthcoming operatic production. Genius composer Wolfgang Amadeus Mozart is about to strike again! Despite his ailing health, at a mere 35 years of age, advertising billboards thrown up around this most cultured of cities proclaim a new musical event in the offing, an opera but taking the form of a Singspiel (song and speech) and very much in the Austrian tradition. What to wear to an opening night of The Magic Flute, not in the city's grand palaces or salons, but at the decidedly more edgy Theatre auf der Wieden? A pointed question indeed, especially so as the hoardings describe the spectacle to come as "A Comedy With Machines!"

A comedy with machines? Casting aside certain inconsistencies in the plotline as your consciousness gives way to a series of "operatic bangers", might not investors in the financial markets of today be tempted to view what has taken place over the past month with a similar willing suspension of disbelief? August is typically a quiet month in the world of investment, volumes are thin and conditions broadly illiquid as market traders take a break ahead of a busy autumn for news flow and this year in particular, no shortage of "event risk" not least of which the hard to predict outcome of the US presidential and congressional elections.

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Thin volumes and illiquid markets can, and often do, provide a backdrop for trading algorithms, machines that never sleep, to take control, sometimes generating extreme if temporary volatility. While few will describe the early month stock market turbulence as a comedy, at least it didn't last long! Seasoned investors know only too well that markets seldom go up in a straight line and that periodic corrections and pullbacks are a regular feature of the investing topography.

Indeed, risky assets quickly rediscovered their poise, Sarastro's Low C racing through the octaves to the Queen Of The Night's spellbinding F6, as the global stock market aggregate reignited, surging back to yet another all-time high and seemingly insouciant to the tests yet to come.

Investing algorithms will do their work, but even a machine needs an ignition trigger. On this occasion, there were two proximate causes of that which was to follow. Firstly, the for-so-long dormant Bank of Japan decided the time was right to add another gentle nudge to the monetary policy tiller after March's momentous decision to exit negative interest rates for the first time in well over a decade. So what? For many professional investors, the opportunity to borrow in cheap yen and reinvest the funds in higher-returning assets elsewhere proved too alluring an opportunity to miss. Where did the money go? Why, into the go-go US mega technology sector and to already highly rated Artificial Intelligence darlings more specifically. Cue chaotic scenes as the so-called "carry trade" was unwound in a hurry as the yen strengthened on the foreign exchanges, including against the US dollar.

Following hard on the heels of the Japanese rate hike, data from the United States which underwhelmed expectations and gave rise to fears that the economy might not so much be slowing as falling off a cliff. Weak employment numbers (subsequently augmented by downwardly revised historical data) and a very downbeat manufacturing survey crystalised the markets' concerns, driving stock prices even lower and "safe haven" government bond prices higher (yields lower). Yet all the while canny investors kept preserved hopes of a soft economic landing, neither too hot nor too cold, a picture of heroine Pamina the distant, but obtainable, goal.

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How though, might Pamina be saved from a recessionary Monostatos? Federal Reserve Chairman Mr Jerome Powell might strike readers as an unlikely Prince Tamino but he, surrounded by his senior central banking coterie (merrymaking Papageno's?), has the capacity to fashion a "magic flute", an instrument designed to turn sorrow into joy in the form of lower interest rates. Long mothballed during the post-pandemic inflation surge, the flute is being played once again. The Bank of England cut the UK base rate for the first time on 1st August and is thought likely to do so again as the autumn progresses and providing conditions are right. Similarly, the European Central Bank is moistening its lips and exercising its fingers, a rate reduction back in June the potential springboard for further policy easing going forward. By months'-end "Prince Powell" had given the flute a mighty blow, using a high-profile speech at the Kansas City Fed's annual symposium at Jackson Hole to confirm that, finally and in response to adjusting labour market conditions, "The time has come for policy to adjust".

Cue triumphal fanfare and a joyous whole cast rapture. From chaos and turmoil order can once again be restored. The libretto is written, the score is ready, and the stage is set. We, the audience, await the performance to begin. The autumn may hold numerous traps for the unwary and uninitiated; a UK Budget lies in wait, as does France' date with the European Commission regarding an austerity plan necessary to extricate itself from the regional body's dreaded "Excessive Deficit Procedure". And how might the final weeks of the US election drama unfold? Ms Kamala Harris has been confirmed as the Democrat's challenger to Mr Donald Trump, but she is, as yet, untested at the highest level of office. Behind the presidential election the equally important battle for control of Congress and by extension how policy, both domestic and foreign, might be shaped. The outcome is truly unknowable at this time thus some caution might be warranted in the very near-term. For longer-term investors with broadly diversified portfolios such risks can be mitigated and of course, there's always a magic flute in the knapsack!