The markets moved in slow-motion in August. August 31 marked the 38th straight day without so much as a 1% daily change in the S&P 500 – either up or down. In fact, when it comes to US equities, last month saw the fourth narrowest August trading range since at least 1928 (it was smaller in 1958, 1964 and 1965).

The S&P 500 closed August 31 at 2170.95, a decline of 0.12% from the 2173.60 at which it ended the month in July.

![SPX Chart]

Although the Fed took no action in August, a speech August 26 by Fed Chair Janet Yellen raised speculation that the Fed may raise rates in September for the first time this year. "In light of the continued solid performance of the labor market and our outlook for economic activity and inflation," said Yellen in her Jackson, WY speech, "I believe the case for an increase in the federal funds rate has strengthened in recent months."

Interest rates edged up slightly in August, but remain at historically low levels. After dropping to a four-year low of 1.36% on July 8, 10-year U.S. Treasury yields have recovered slightly to end August at 1.58%. 
The best-performing government bond market last month was again the UK, where concerns over the impact of the Brexit referendum, and the result of the related response from the Bank of England, have caused a large rally in their prices. It’s interesting to see the strength of the Italian and Spanish markets ahead of the next European Central Bank meeting on 8 September. It would be totally understandable if some investors believe more action is coming at that meeting given the weakness of inflation in the eurozone. However, the mixed response to negative rates and a shrinking pool of assets to buy could well mean the ECB stays its hand at that meeting.

Oil Gains While Gold Fades
After tumbling in July, oil prices rebounded in August as the balance between supply and demand appeared to be improving.

After starting the month at $41.60 a barrel (West Texas Intermediate), the price made a strong move up, tapering off in the final days to finish the month at $44.70 per barrel – a 7.45% increase.

Gold prices, which surged to a two-year high of $1,367.10 on August 2, retreated during the month, falling sharply to $1,311.40 on August 31.

What’s ahead for the economy and the markets? Here’s our assessment:

**On U.S.:**
U.S. GDP growth was a bit more sluggish than expected in the second quarter as businesses aggressively ran down stocks of unsold goods, which offsets a spurt in consumer spending. U.S. consumption and employment situation remain strong. U.S. stocks continue to gain, fueled in part by the Federal Reserve staying put and concerns about the rest of the world. Further gains require significant improvement in earnings, but earnings do not justify the valuations. We continue to temper our expectations for the stock market and the economy in the months ahead. We think gross domestic product (GDP) growth will be slightly lower this year than it has been the past few years. GDP has edged up only 0.8% (on an annualized basis) in the first quarter and 1.2% in the second, according to a report issued July 29 by the U.S. Bureau of Economic Analysis.

The consensus outlook for GDP growth for all of 2016 is 1.5%, according to the August Blue Chip survey report, which is based on a monthly survey of more than 50 leading business economists. We expect GDP growth to be closer to 1.0% for 2016.

**On Eurozone:**
We are fairly bullish on Europe despite its stagnant economy, and project GDP growth of about 1.6% this year. Growth in the eurozone manufacturing sector lost momentum in August. The Markit Eurozone Manufacturing PMI final data came in at 51.7 in August 2016 from 52 in July, a three-month low. New orders inflows rose to the weakest extent in one-and-a-half years, companies posted slower increases in new business from domestic and export sources, production expanded slower, resulting in weak job creation. The European Central Bank
stimulus is supportive, but post-Brexit uncertainty challenges already poor profits. Investors should be cautious on European banks.

**On U.K:**
We are still concerned about economic growth in the U.K., which is continues to adjust to the repercussions from Brexit. A weak pound helps U.K. exporters however, investors should remain cautious on U.K. domestic stocks. At its August 4 meeting, the Monetary Policy Committee of the Bank of England (BOE) sparked considerable excitement when it announced a program of monetary easing via a wide variety of measures. The sharp market moves that followed indicate that the consensus did not expect the MPC to deploy such a wide array of policy options. The BOE also forecasts the U.K. economy slowing to marginally positive growth rates and inflation rising to slightly above the 2% target. At home, all eyes will be on the economic data as we watch for signs of a post-referendum slowdown. If the economy brushes it off, then domestically focused stocks and sterling should benefit at the expense of the large internationally focused companies in the main indices. The landmark event for investors will be the autumn statement in November. Even if the economy is in better shape than feared, it is likely the Chancellor will feel compelled to act in order to support economic conditions.

**On Japan:**
Over the next 12 months, we believe that and Japan will have negative growth. The government's decision to make a significant investment has been made in light of Cool Japan Fund Inc. being established in 2013, and the hosting of 2020 Tokyo Olympic and Paralympics Games, and now may be the appropriate time to reconsider the public perception of Cool Japan. The Bank of Japan is nearing the limits of monetary policy and structural reforms are needed. Attractive valuations and better corporate governance are not enough to offset a soft economy and rising yen.

**On China:**
PBOC started supplementing those 7-day repos with pricier 14-day repos, a move that decreases the amount of cheap, short-term credit available in the financial system and guides demand toward longer-term borrowing. Financial sector reform and rising current account...
surpluses are encouraging. China's economic transition is ongoing, but the lower GDP growth rates of about 6% are priced in. China is on the verge of changing from an economy where prices keep dropping to one in which deflation is expected to dwindle to almost nothing. That is a dramatic departure from the past 50 months, when deflation dragged down not only prices in China but in most of the world, thanks to exports of ever cheaper manufactured goods, as well as falling commodity prices.

**On Real Assets:**
Commodity markets are oversupplied. Oil fundamentals have improved but much of this is priced in. The strongest performing major asset class so far this year is gold, partially because 2016 has been marked by political turmoil, causing investors to seek safe-haven assets, and the delay of further interest rate hikes by the Fed. While inflation is expected to remain low for now, investing in natural resources has historically provided an effective hedge against inflation and deflation.

When considering asset allocation for the rest of 2016, investors find themselves in a familiar position: waiting for central banks to act. With this market recap being published a week later than usual due to travel, we already know that the ECB failed to meet expectation and the Fed meeting on 21-22 September will most likely not give us a rate hike. The ISM data and the jobs report came in sufficiently weak to take that off the table.

In the short term, investors should be mindful that over the last 100 years, September has been easily been the worst month for US stocks. With long speculative positions in the S&P close to all time highs and short positions in the vix at all time high, we continue to believe that there is no upside in equities in the near term, but rather probabilities favor a short equity position.