
# Monthly Market Metrics and Trends: August

Analyzing Volatility, Market Performance, and Equity and Options Volumes

Plus a Look at a Key Equity Markets Theme for the Month

**September 2024**

### Monthly Highlight

- Unwinding of the USD-JPY carry trade: On July 31, the Bank of Japan unexpectedly raised its rate 25 bps, ending its longstanding zero rate policy. The Japanese yen (JPY) appreciated, triggering the unwinding of the carry trade.
- U.S. economic data scare: July nonfarm payrolls came in below expectations, and the unemployment rate reached 4.3%. This fueled fears of a hard landing and triggered the Sahm Rule.
- Markets fell/volatility spiked: The S&P 500 began August -1.4% from the prior day and fell another 3.0% after the jobs report, bringing the total decline since the end of July to 6.1%. The VIX began August up 13.6% from the prior day and rose another 64.9% after the jobs report, bringing the total increase since the end of July to 135.8%.
- The event was short lived: Calming commentary from the Bank of Japan and better U.S. economic data led to a market recovery and settling of volatility. The S&P 500 ended August up 8.9% from its trough. The VIX ended August down 61.1% from its peak.

### Monthly Metrics

- Volatility (VIX): Monthly average 19.31; 33.5% M/M, +21.8% Y/Y
- S&P 500 (Price): Monthly average 5,478.21; -1.1% M/M, +22.9% Y/Y
- Performance (month/year): best = cons staples/tech +5.8%/+26.5%; worst = energy/cons disc -2.3%/+5.8%
- Equity ADV: Monthly average 11.5 billion shares; +2.3% M/M, +9.0% Y/Y
- Options ADV: Monthly average 47.0 million contracts; -3.4% M/M, +8.1% Y/Y

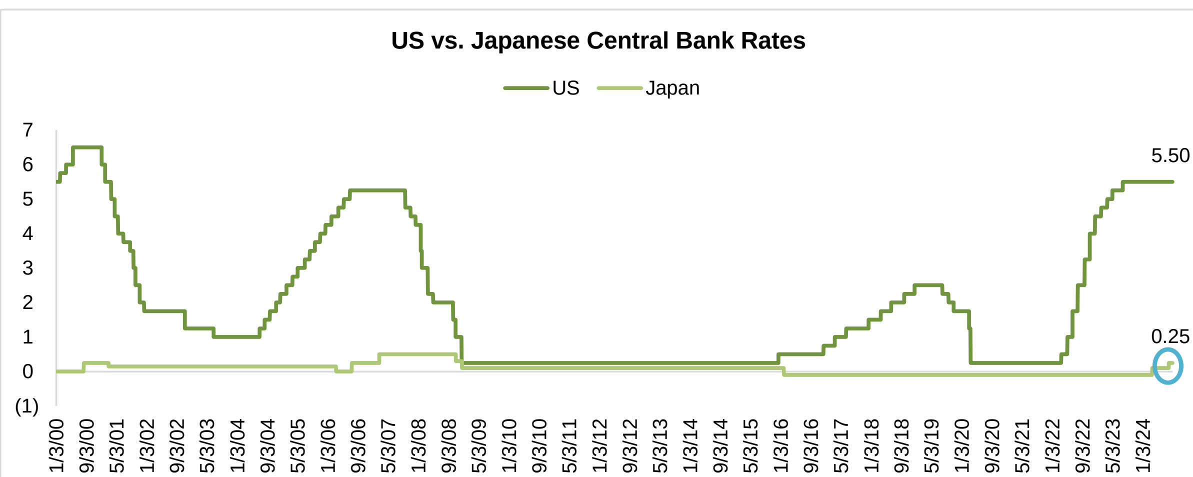
# Monthly Highlight

## Unwinding the Carry Trade

**What is a carry trade?** In this investment strategy, an investor borrows funds in a low interest rate currency and uses those funds to invest in an asset with a higher yielding return currency and expected return, such as equities. To do this, a popular currency trading strategy is where an investor borrows money in a currency with the low interest rate and invests in another currency with a higher interest rate, profiting from the interest rate differential between the two currencies.

A main example of this interest rate differential is between Japan and the U.S. The Bank of Japan's loose monetary policy over the past decades – including eight years of negative interest rates – led to a weak yen (JPY). To capitalize on this differential, investors borrow JPY at 0% interest and buy U.S. dollars (USD), earning 5.5% (before trading fees). Investors can then use USD to fund investments with higher expected returns.

**What happened to cause the unwind?** On July 31, the Bank of Japan unexpectedly raised its central bank rate by 25 bps, ending its longstanding zero(/negative) rate policy. It also indicated that further rate hikes were to come. Correspondingly, the JPY appreciated – the USD/JPY cross decreased around 2% on the news and finished the month down over 4% to the Bank of Japan announcement. This less favorable interest rate differential triggered the unwinding of these carry trades.




Source: Bloomberg, SIFMA estimates

## Causing Markets to Drop…

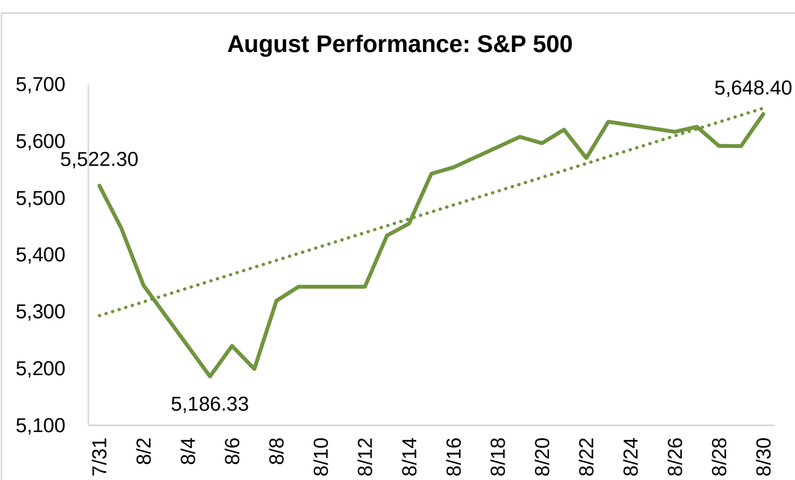
Then, on August 2, the July U.S. jobs report was released. Nonfarm payrolls came in below expectations, and the unemployment rate reached 4.3%, after only crossing the 4.0% level in May. The report fueled fears of a hard landing – or an undesirably rapid decline in economic growth – and also triggered the Sahm Rule. Created by economist Claudia Sahm, the rule identifies signals related to the start of a recession when the three-month moving average of the national unemployment rate (U3) rises by 0.50 percentage points or more relative to its low during the previous 12 months.

The S&P 500 began August down 1.4% from the prior day, after the Bank of Japan announcement. After the jobs report, markets dropped 3.0% from the prior day's close, bring the total decline since the end of July to 6.1%. However, the event was short lived.

First, reacting to the global market turmoil, the Bank of Japan noted that it would not raise rates when markets were unstable. Then, putting the U.S. economic data in perspective, the nonfarm payrolls may have missed expectations but remained at levels healthier than historically seen at the start of a recession. As to the Sahm Rule, there were some rounding questions with the 4.3% (or 4.25%), and some of the weakness was attributed to weather disruptions from Hurricane Beryl. Additionally, later economic reports showed a rosier picture of the economy. July retail sales came in 3.3x above expectations at +1.0%, and weekly jobless claims came in lower than estimates by 3.4%. Inflation data eased in July, indicating inflation was under control.

This returned markets' focus to the impending Fed rate cut, and the S&P 500 ended the month on an upswing. The 5,478.21 average price for the month marked the second highest monthly average for the year (after July at 5,538.00). Removing the early turmoil, the average price for the month would have been 5,562.54, 1.5% greater than the actual average, making it the highest month of the year.

The August market peak was on the last day of the month, up 8.9% from the trough.

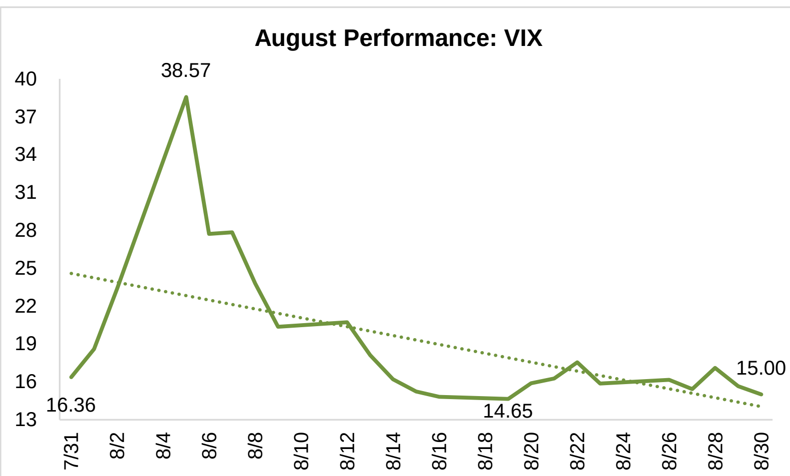



Source: Bloomberg, SIFMA estimates

## …And Volatility to Spike

As markets fell, volatility spiked. Being based on a global derivatives market, the VIX reacted more quickly – and to a significantly greater degree – to the Bank of Japan announcement. The VIX began August up 13.6% from the prior day. After the jobs report, the VIX spiked to 38.57, +64.9% to the prior day, bringing the total increase since the end of July to 135.8%.

As with the market decline, the increase in volatility was short lived. A day after the peak, the VIX declined 28.2% and remained on a downward path until leveling out in line with previous monthly levels. The VIX ended August at 15.00, down 61.1% from the peak.



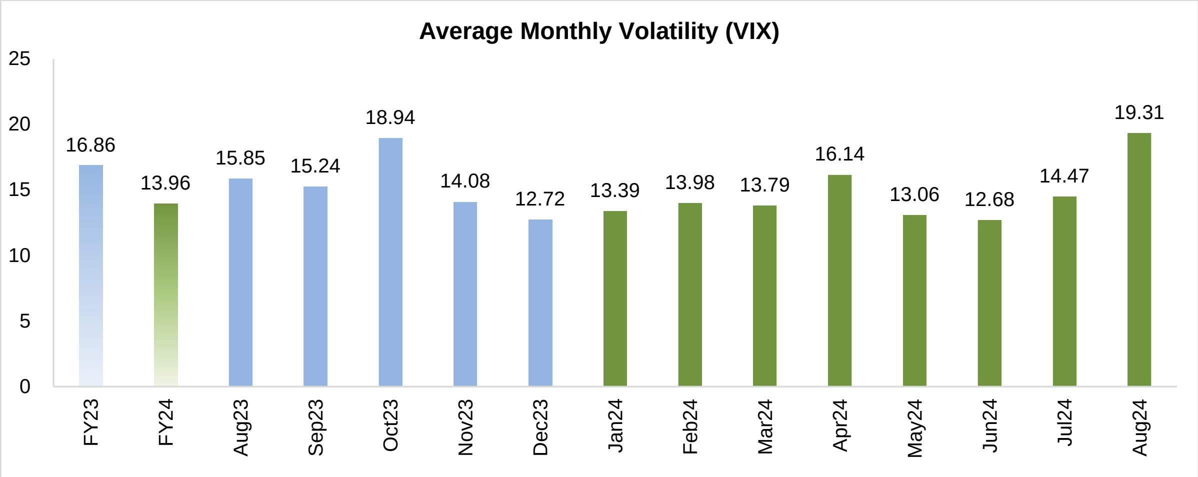
Source: Bloomberg, SIFMA estimates

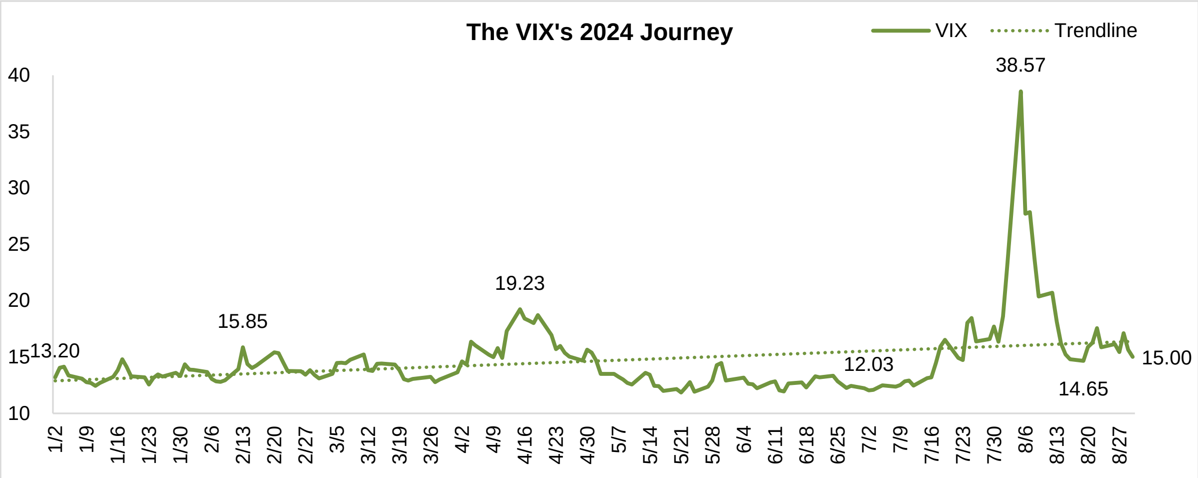
# Monthly Market Metrics

In this section, we highlight the monthly market trends for volatility, price, and volumes.

## Volatility (VIX)

- Monthly average 19.31
  - +33.5% M/M
  - +21.8% Y/Y
  - +46.3% from the start of the year
- Monthly peak on the 5th at 38.57, troughed on the 19th at 14.65

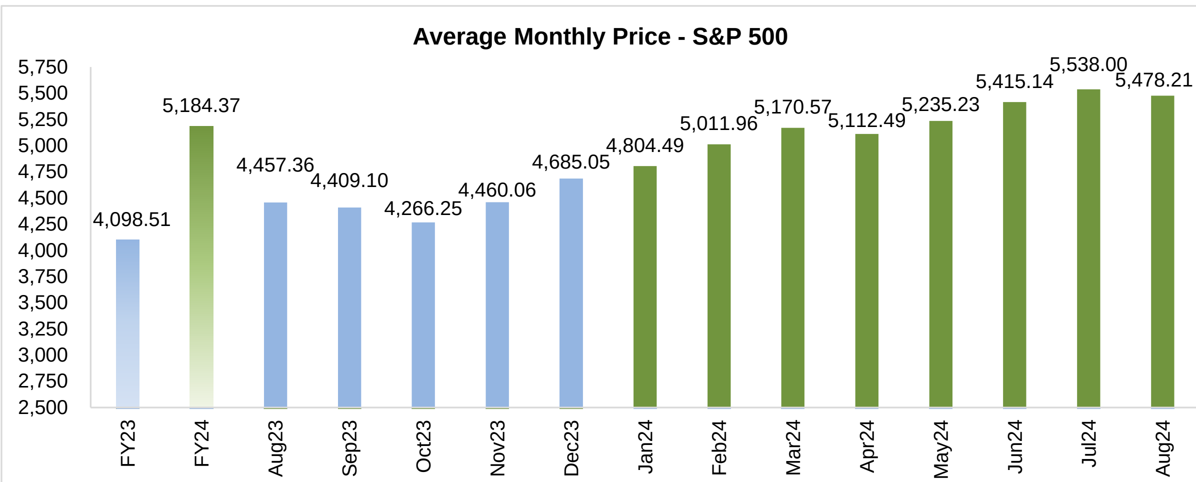


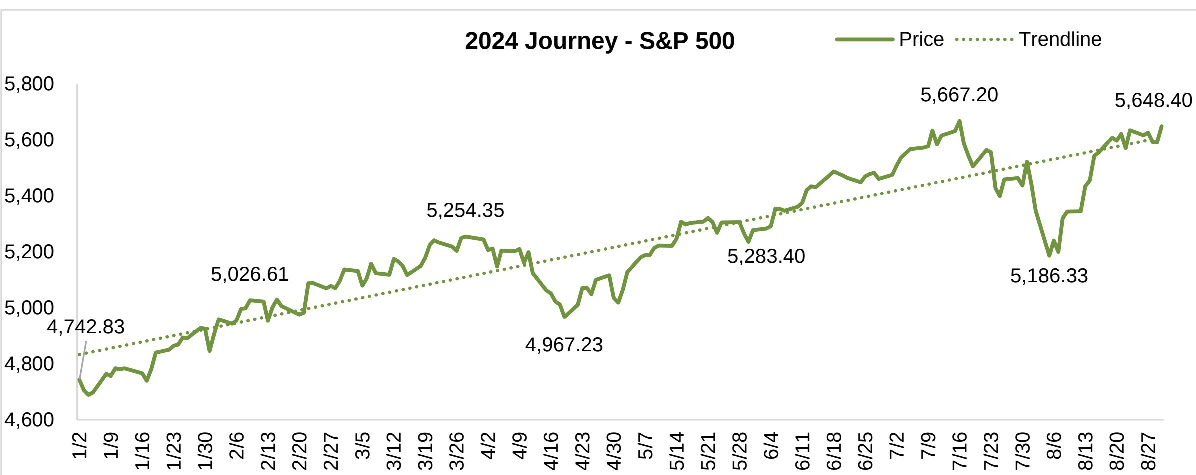




Source: Bloomberg, SIFMA estimates

## S&P 500 Index: Price

- Monthly average 5,478.21
    - -1.1% M/M
    - +22.9% Y/Y
    - +15.5% from the start of the year
- Monthly peak on the 30th at 5,648.40, troughed on the 5th at 5,186.33



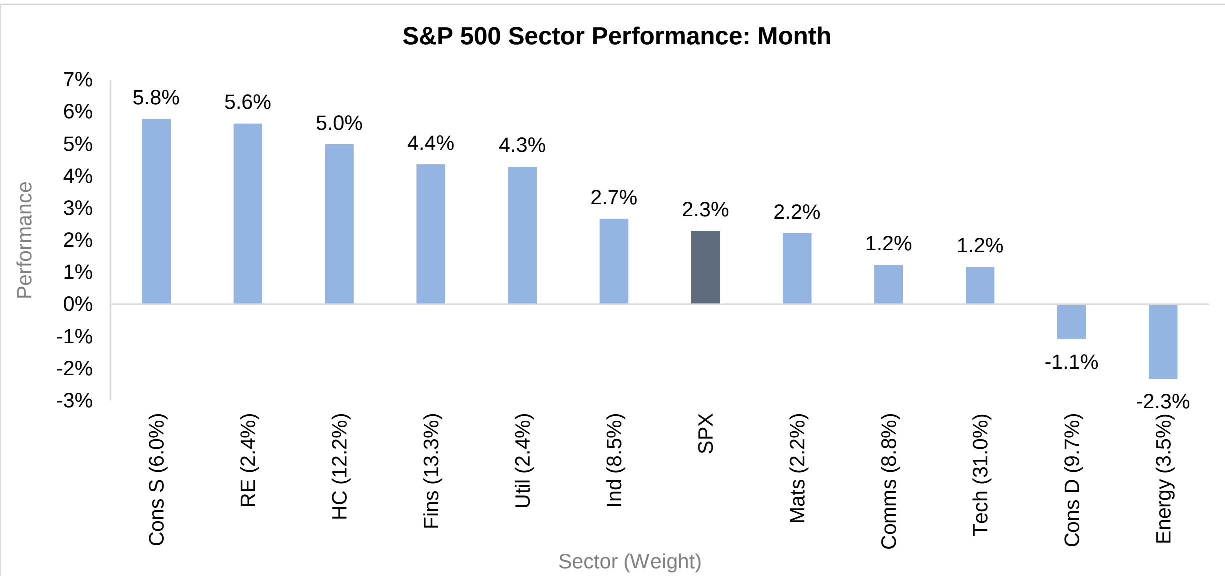



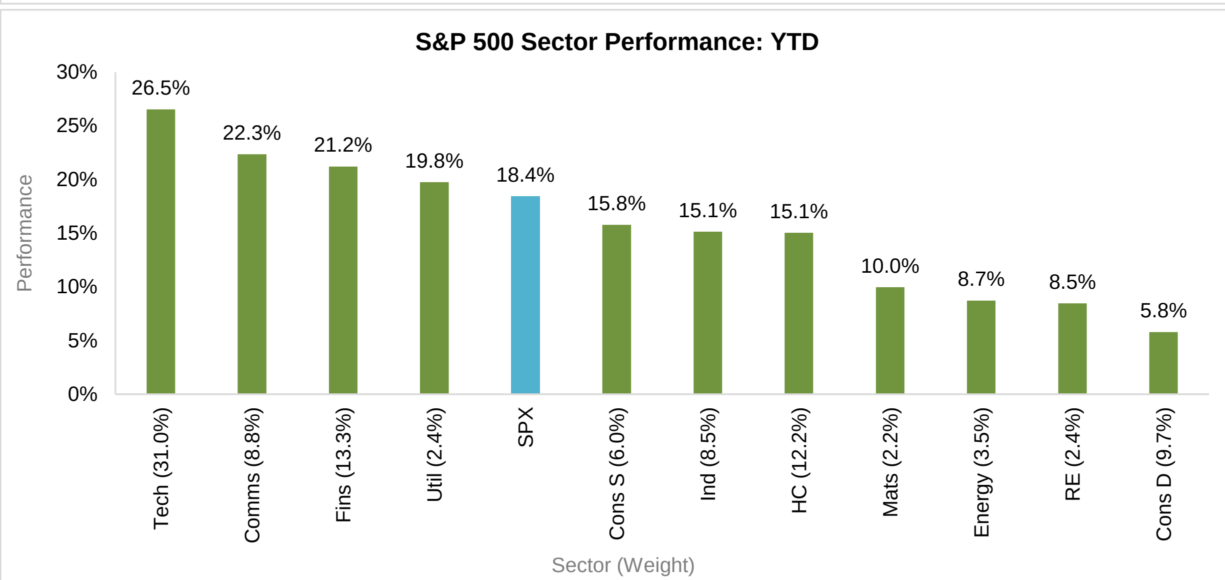

Source: Bloomberg, SIFMA estimates

## S&P 500 Index: Sector Breakout

Looking at market performance by sector, we highlight the following:

- Best performing sectors
  - Month = consumer staples at +5.8% and real estate at +5.6%
  - YTD = technology at +26.5% and communications at +22.3%
- Worst performing sectors
  - Month = energy at -2.3% and consumer discretionary at -1.1%
  - YTD = consumer discretionary at +5.8% and real estate at +8.5%



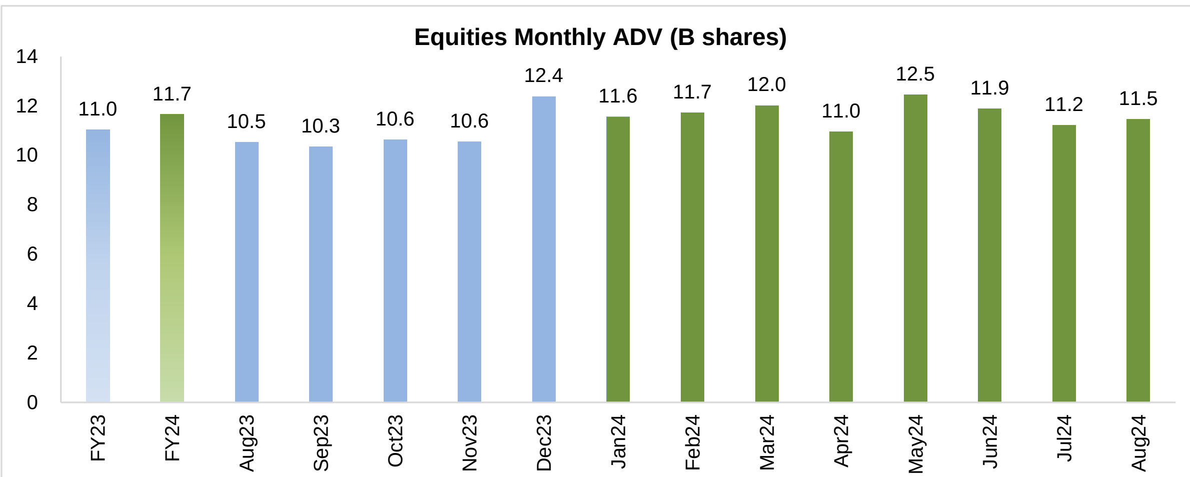



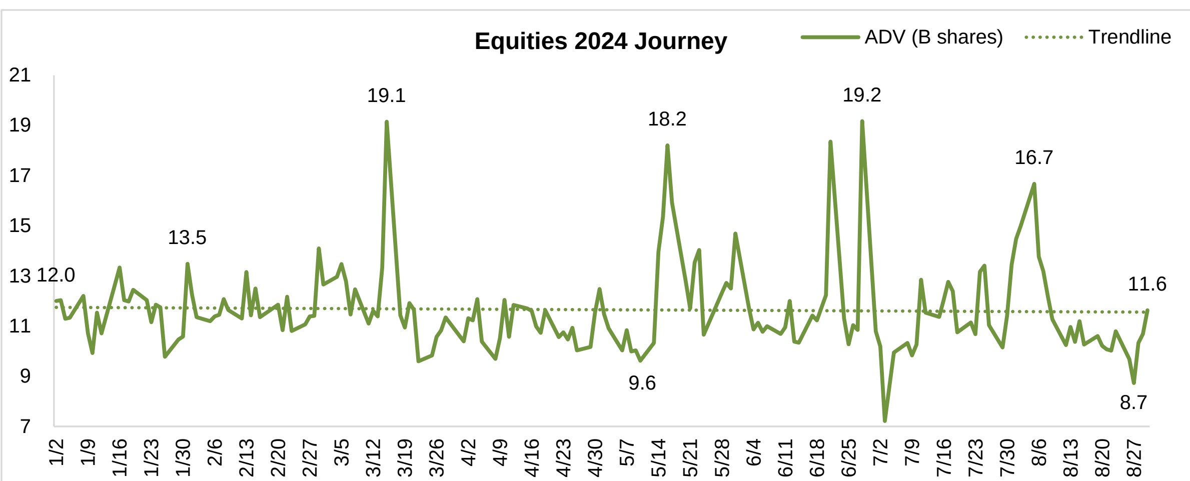

Source: Bloomberg, SIFMA estimates

Note: Cons S = consumer staples, HC = healthcare, Mats = materials, RE = real estate, Ind = industrials, Fins = financials, Tech = technology, Cons D = consumer discretionary, Comms = telecommunications, Util = utilities

## Equity Volumes (ADV)

- Monthly average 11.5 billion shares
  - +2.3% M/M
  - +9.0% Y/Y
  - -4.4% from the start of the year
- Monthly peak on the 5th at 16.7 billion, troughed on the 27th at 8.7 billion
- Monthly average off exchange trading 47.0%; -0.5 pps M/M, +1.5 pps Y/Y

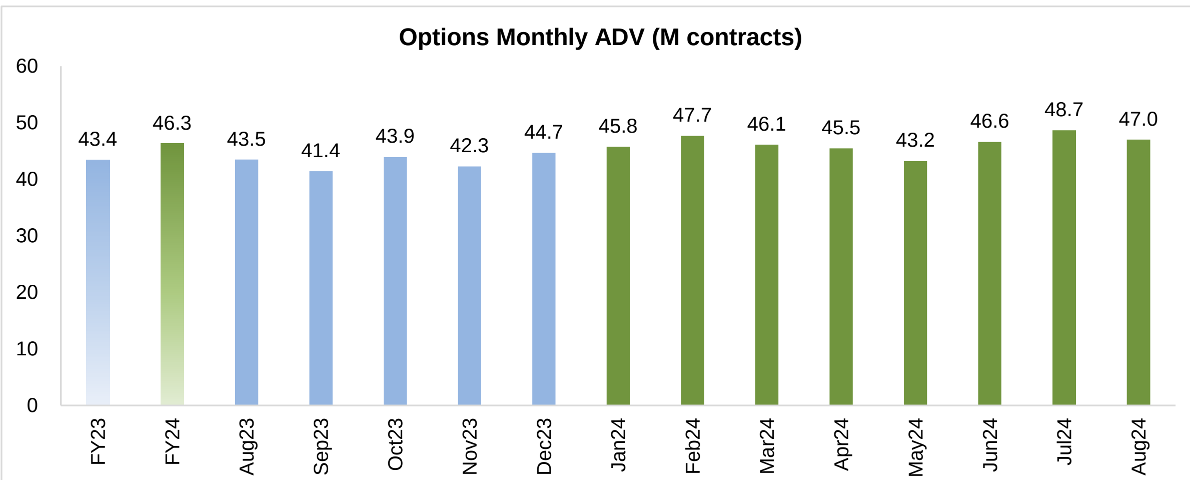


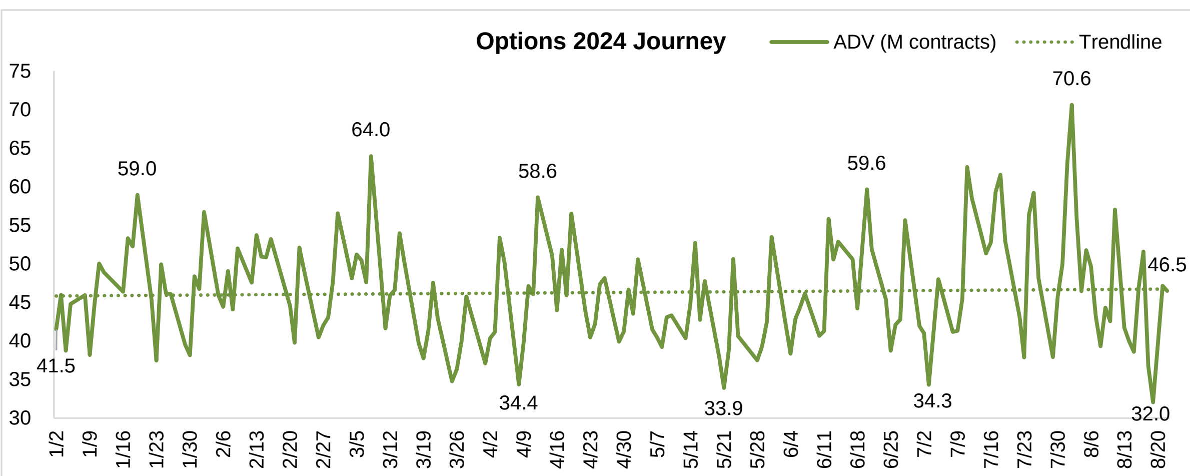




Source: Cboe Global Markets, SIFMA estimates

## Options Volumes (ADV)

- Monthly average 47.0 million contracts
  - -3.4% M/M
  - +8.1% Y/Y
  - +13.2% from the start of the year
- Monthly peak on the 2nd at 70.6 million contracts, troughed on the 19th at 32.0 million contracts
- Monthly equity options 42.6 million contracts (-4.3% M/M, +7.4% Y/Y), index options 4.4 million contracts (+6.0% M/M, +15.4% Y/Y)




Source: Cboe Global Markets, SIFMA estimates

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