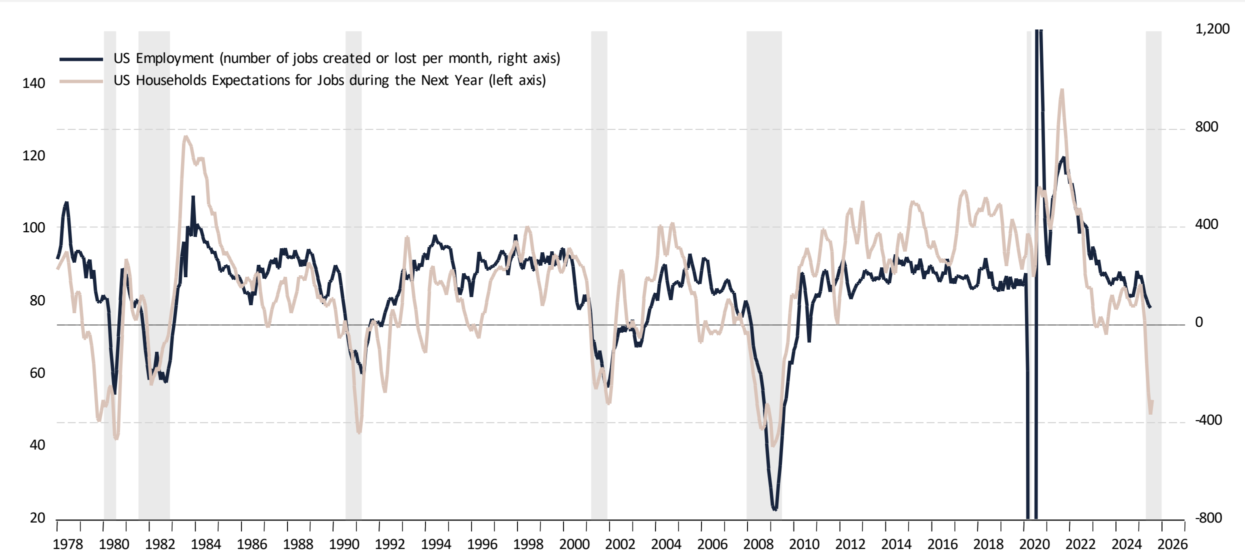
The flexiweekly that reaches new heights - published on 11 August 2025

"EMPLOYMENT CRISIS: THE ALARM IS SOUNDING"

- The US economy is showing signs of weakness, particularly on the employment front
- A recession is becoming increasingly likely, and the consensus is seeking to adjust
- For its part, the Fed is biding its time and running the risk of falling behind the cycle
- This situation gives bonds an advantage over equities

CHART OF THE WEEK: "The labour market continues to slide dangerously"



Source: Bloomberg, Altitude IS

FINANCIAL MARKETS ANALYSIS

The latest US economic data surprised investors, shaking financial markets. These figures are all the more significant as they **confirm the scenario of a recession and monetary easing** that our econometric models have been anticipating since last December (see WIF of 2 December 2024). The consensus among strategists is likely to gradually converge towards this outlook. For their part, investors are likely to be much quicker to adjust their expectations, whether in terms of US bond yields, credit spreads, listed company earnings growth, volatility, or the dollar. **Another stock market "air pocket",** similar to the one experienced in March and April, **would come as no surprise in the coming months.**

The US Gross Domestic Product (GDP) for the second quarter has been published. After contracting by -0.5% on an annualised basis between January and March, it grew by +2.9% between April and June. This upturn is welcome, but it should not hide a much less encouraging reality. The introduction of tariffs has caused abnormal volatility in GDP components. Anticipating the application of this new tax, companies imported their German machinery and French champagne in the first quarter rather than the second. Net exports thus dampened growth in the first quarter and boosted it in the second (see Fig. 2). Conversely, capital expenditures and inventory changes initially supported activity, but have recently slowed it down. While these factors are important, their effects ultimately offset each other. **Beneath the surface, domestic demand is losing momentum.** Household consumption, which usually accounts for 69% of US potential growth, now contributes only 33%. While this sharp slowdown may have seemed temporary in the first quarter, its continuation between April and June is a clear warning signal.

Fig. 2 – Contributors to GDP growth

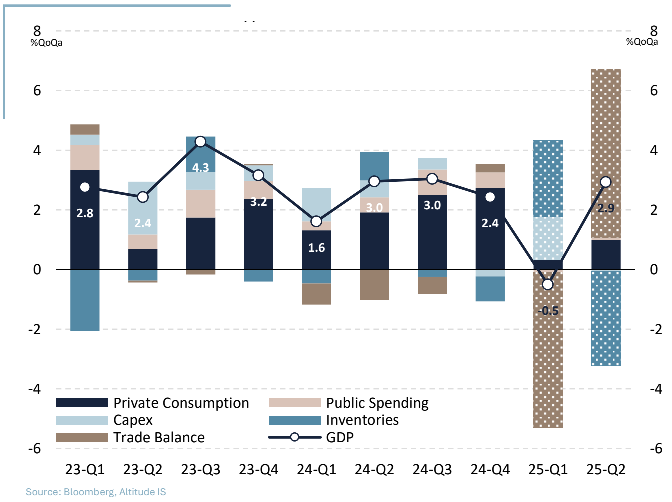
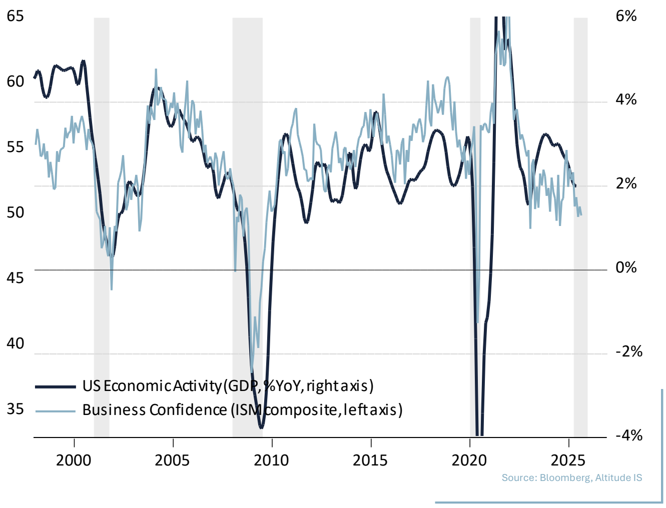


Fig. 3 – Business confidence



Over the next six months, trade flows will continue to be volatile due to the Trump administration's contradictory tariff announcements. Companies' anticipatory and reactive behaviours, while rational, will therefore continue to cloud the GDP figures, but the scenario of a sharp economic slowdown will become increasingly credible. This reinforces our assumption of a mild recession, resulting in annual growth of 1.1%. Purchasing managers are equally concerned. The latest surveys published by the Institute for Supply Management are consistent with annual GDP growth of 1.3% (see Fig. 3).

Signals from the labour market are mixed but continue to deteriorate. Layoffs and jobless claims do not point to a depressed job market. Labour income remains buoyed by wage growth and the number of hours worked. However, the pace of hiring has slowed significantly, and the results of household surveys have become alarming (see Chart of the Week). In the private sector, job creation grew by only 35,000 per month on average between May and July (see Fig. 4), mainly in health and education. Investors were particularly disappointed by the July statistics. Non-farm payrolls rose by only 73,000, while the previous two months saw the sharpest downward revision since 1979 (excluding COVID), with 258,000 fewer jobs created than initially reported. The unemployment rate rose from 4.1% to 4.2%, while the ratio including involuntary part-time workers and discouraged workers increased by 0.3% to 7.9%. **Historically, every phase of job contraction has ended in a recession** (see Fig. 5).

Fig. 4 – Job creation

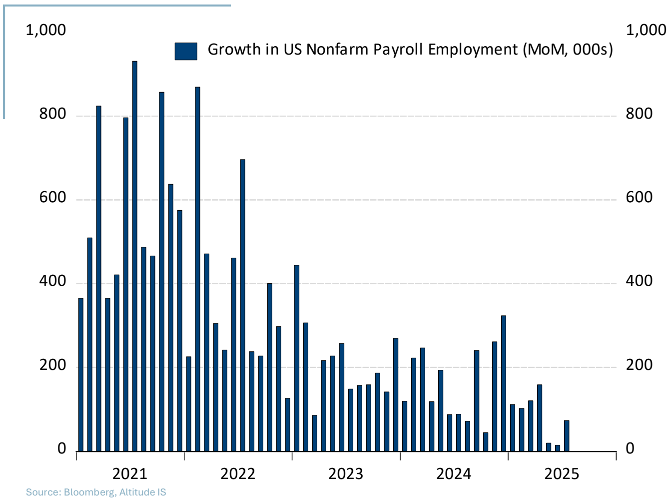
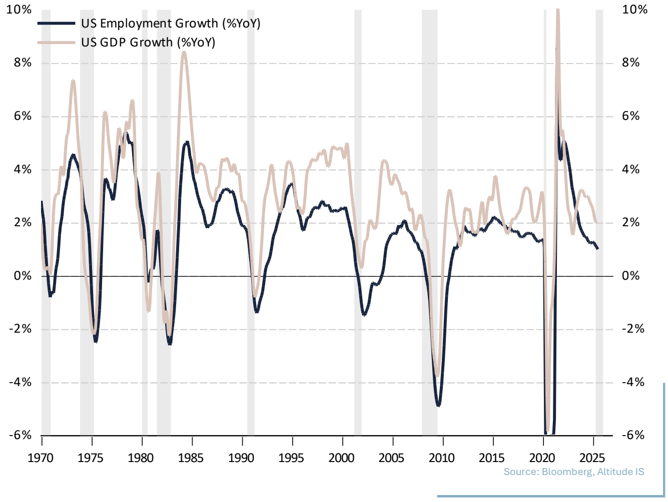


Fig. 5 – Economic activity & employment



If the Federal Reserve (Fed) had lowered its key interest rates on 30 July, signalling that it was supporting economic activity despite inflation exceeding its 2% target, **investors would have been relieved.** Much to their regret, however, the central bank's governors decided to leave rates unchanged. Worse still, Jerome Powell described the labour market as strong and better balanced. He went so far as to emphasise that a slowdown in job offers is not necessarily a sign of weakness, because if the supply of labour slows down accordingly, unemployment can be kept low. The Fed chairman also mentioned a simultaneous cooling of labour supply and demand, which is consistent with moderate wage and price growth.

Investors have clearly understood that if the Fed gets its analysis wrong, it risks acting too late to support the US economy. If it is perceived as "behind the curve", then any future easing of monetary policy will be interpreted as a sign of a crisis. Under this scenario, **every time it cuts its key rates (even sharply), stock markets will fall. The "Fed Put" will not apply.** Last week gave us a taste of this unusual cause-and-effect relationship. The stock market contracted when the bond market finally began to anticipate Fed action in September.

Fig. 6 – Yield curve

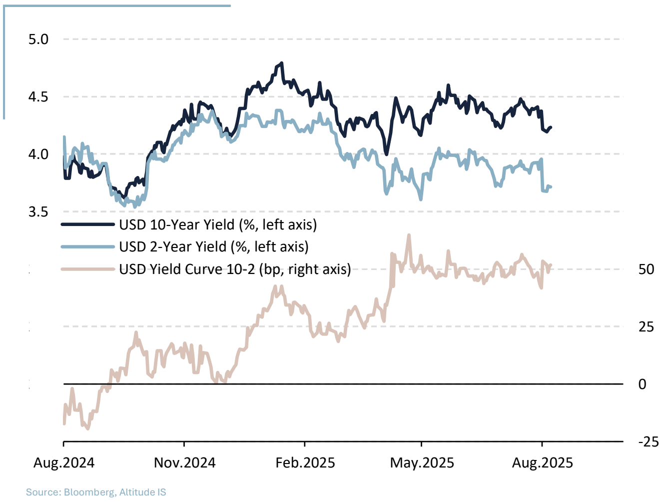
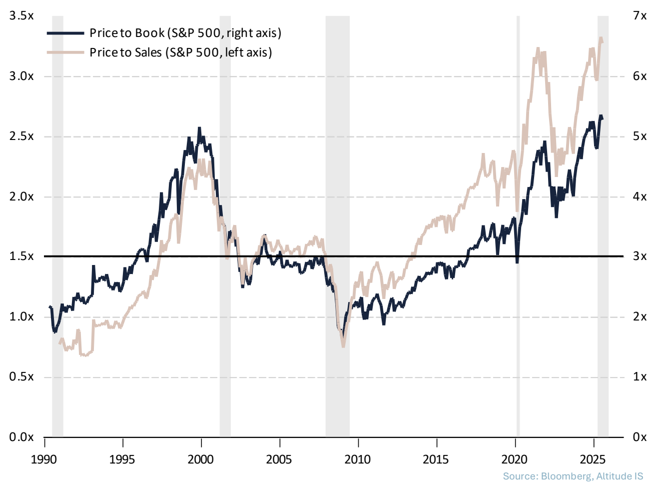


Fig. 7 – Equity valuation ratios



As long as this relationship persists, bonds will retain their advantage over equities (see WIF of 30 June 2025). Since the beginning of August, fixed income investments have delivered very strong returns. While short-term rates have fallen the most (see Fig. 6), long-term bonds are still the best performers. Duration and roll-down effects are very rewarding. Similarly, all strategies aimed at steepening the yield curve have a bright future ahead of them. Conversely, with valuations above their March extremes (see Fig. 7), equities are at risk of falling significantly.

Conclusion:

Initially controversial, the recession scenario is becoming more credible. To avoid it, companies will need to hire more, otherwise investors will have to protect themselves against the next bear market by seeking refuge in bonds.

RETURN ON FINANCIAL ASSETS

Markets Performances (local currencies)	Last Price	Momentum Indicator (RSI)	1-Week (%)	1-Month (%)	2025 Year-to-Date (%)	2024 (%)	2023 (%)
Equities							
World (MSCI)	940.5	63.33	2.6%	2.4%	13.2%	18.0%	22.8%
USA (S&P 500)	6 389	62.77	2.4%	2.7%	9.5%	25.0%	26.3%
USA (Dow Jones)	44 176	50.98	1.4%	-0.1%	4.8%	15.0%	16.2%
USA (Nasdaq)	21 450	67.39	3.9%	5.1%	11.5%	29.6%	44.7%
Euro Area (DJ EuroStoxx)	570.1	55.37	3.3%	0.7%	16.1%	10.2%	19.5%
UK (FTSE 100)	9 096	58.01	0.5%	3.0%	14.0%	9.6%	7.7%
Switzerland (SMI)	11 867	45.76	0.3%	-0.9%	5.4%	7.5%	7.1%
Japan (Nikkei)	41 820	66.62	2.5%	5.4%	6.0%	21.3%	31.0%
Emerging (MSCI)	1 254	57.39	2.3%	2.1%	19.0%	8.0%	10.2%
Brasil (IBOVESPA)	135 913	53.93	2.6%	-2.4%	13.0%	-10.4%	22.3%
Mexico (IPC)	58 070	59.45	2.1%	1.8%	20.2%	-11.0%	22.4%
India (SENSEX)	80 113	33.23	-0.9%	-4.5%	3.2%	9.6%	20.3%
China (CSI)	4 123	59.27	1.3%	3.4%	6.5%	18.2%	-9.1%
Com. Services (MSCI World)	148.0	68.15	3.5%	5.7%	19.5%	31.9%	38.1%
Cons. Discretionary (MSCI World)	428.8	54.69	3.1%	2.1%	2.5%	20.7%	29.5%
Cons. Staples (MSCI World)	296.1	59.63	2.7%	0.7%	10.4%	4.7%	3.2%
Energy (MSCI World)	250.2	46.02	0.0%	-1.9%	6.5%	2.9%	6.0%
Financials (MSCI World)	209.9	56.89	2.2%	1.3%	19.1%	25.1%	16.4%
Health Care (MSCI World)	340.4	41.00	-0.4%	-2.7%	-1.3%	1.5%	4.1%
Industrials (MSCI World)	447.8	57.14	1.4%	1.8%	20.3%	12.8%	22.5%
Info. Tech. (MSCI World)	886.0	67.83	4.1%	5.2%	15.8%	31.9%	51.4%
Materials (MSCI World)	348.0	59.35	4.2%	1.6%	15.4%	-7.7%	12.6%
Real Estate (MSCI World)	1 002	48.94	0.9%	0.7%	5.3%	-0.4%	5.3%
Utilities (MSCI World)	187.7	60.97	0.9%	3.8%	19.5%	13.0%	1.6%
Bonds (Bloomberg)							
World (Aggregate)	3.50%	57.21	0.4%	0.4%	6.9%	-1.7%	5.7%
USA (Sovereign)	4.06%	59.35	-0.2%	1.1%	4.0%	0.6%	4.1%
Euro Area (Sovereign)	2.80%	49.48	0.1%	0.2%	0.4%	1.9%	7.1%
Germany (Sovereign)	2.40%	46.17	0.0%	0.0%	-1.0%	0.6%	5.6%
UK (Sovereign)	4.53%	51.58	-0.3%	0.6%	3.4%	-3.0%	5.6%
Switzerland (Sovereign)	0.42%	73.09	0.8%	1.5%	1.0%	5.4%	7.9%
Japan (Sovereign)	1.25%	55.74	0.4%	-0.1%	-1.5%	-2.1%	0.9%
Emerging (Sovereign)	6.42%	81.34	0.4%	1.8%	7.3%	7.0%	11.0%
USA (IG Corp.)	4.98%	62.17	-0.3%	1.4%	4.8%	2.1%	8.5%
Euro Area (IG Corp.)	3.06%	55.03	-0.1%	0.5%	2.4%	4.7%	8.2%
Emerging (IG Corp.)	6.22%	84.41	0.2%	1.3%	5.5%	7.0%	6.7%
USA (HY Corp.)	6.99%	72.05	0.1%	0.7%	5.3%	8.2%	13.4%
Euro Area (HY Corp.)	5.39%	82.47	0.2%	0.7%	4.0%	8.2%	12.1%
Emerging (HY Corp.)	7.83%	82.57	0.4%	1.8%	7.5%	14.9%	13.1%
World (Convertibles)	499.8	59.61	1.0%	1.8%	13.5%	9.4%	12.3%
USA (Convertibles)	656.8	56.84	0.9%	2.0%	9.7%	10.1%	14.6%
Euro Area (Convertibles)	289.2	55.81	0.3%	1.2%	24.3%	14.7%	7.3%
Switzerland (Convertibles)	278.7	39.24	-2.8%	-1.3%	15.7%	-10.5%	5.8%
Japan (Convertibles)	240.5	76.40	1.5%	3.3%	6.1%	6.4%	7.6%
Hedge Funds (Bloomberg)							
Hedge Funds Industry	1 696	83.16	n.a.	1.2%	5.3%	11.1%	7.8%
Macro	1 350	68.56	n.a.	0.1%	0.6%	7.4%	1.6%
Equity Long Only	2 395	74.03	n.a.	2.6%	8.3%	12.0%	15.9%
Equity Long/Short	1 816	81.40	n.a.	1.9%	8.3%	14.0%	7.7%
Event Driven	1 832	82.34	n.a.	3.5%	6.2%	8.7%	7.3%
Fundamental Equity Mkt Neutral	1 739	94.17	n.a.	0.5%	5.3%	12.4%	6.6%
Quantitative Equity Mkt Neutral	1 750	85.40	n.a.	1.6%	5.2%	9.8%	7.8%
Credit	1 656	96.72	n.a.	0.2%	3.8%	8.5%	8.1%
Credit Long/Short	1 683	100.00	n.a.	0.7%	3.4%	10.0%	11.2%
Commodity	1 910	92.16	n.a.	1.0%	6.8%	14.7%	7.3%
Commodity Trading Advisors	1 283	50.84	n.a.	0.3%	-4.4%	7.9%	-3.6%
Volatility							
VIX	15.15	42.97	-25.7%	-9.9%	-12.7%	39.4%	-42.5%
VSTOXX	17.40	46.37	-20.2%	-0.1%	2.3%	25.3%	-35.0%
Commodities							
Commodities (CRB)	560.3	n.a.	0.1%	-0.8%	4.4%	5.1%	-8.0%
Gold (Troy Ounce)	3 364	n.a.	-0.3%	0.2%	28.2%	27.2%	13.1%
Silver (Troy Ounce)	38.02	n.a.	1.6%	-1.0%	31.6%	21.5%	-0.7%
Oil (WTI, Barrel)	63.88	n.a.	-5.1%	-6.5%	-10.9%	0.1%	-10.7%
Oil (Brent, Barrel)	67.87	n.a.	-4.9%	-5.7%	-8.4%	-4.6%	-4.5%
Currencies (vs USD)							
USD (Dollar Index)	98.12	47.10	-0.7%	0.3%	-9.6%	7.1%	-2.1%
EUR	1.1660	53.37	0.8%	-0.2%	12.6%	-6.2%	3.1%
JPY	147.61	48.23	-0.4%	-0.1%	6.5%	-10.3%	-7.0%
GBP	1.3462	53.29	1.3%	-0.2%	7.6%	-1.7%	5.4%
AUD	0.6520	51.45	0.8%	-0.9%	5.4%	-9.2%	0.0%
CAD	1.3765	45.86	0.1%	-0.5%	4.5%	-7.9%	2.3%
CHF	0.8072	46.60	0.1%	-1.3%	12.4%	-7.3%	9.9%
CNY	7.1833	47.93	0.0%	-0.2%	1.6%	-2.7%	-2.8%
MXN	18.577	60.40	1.7%	0.3%	12.1%	-18.5%	14.9%
EM (Emerging Index)	1 837.8	48.54	0.6%	-0.7%	6.4%	-0.7%	4.8%
XBT	122 171	n.a.	6.2%	3.8%	30.4%	120.5%	157.0%

Source: Bloomberg, Altitude Investment Solutions

Total Return by asset class (Negative \ Positive Performance)

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