Red Monday: Decoding the August 5 global sell-off

August 8, 2024

What happened?

Monday, August 5 saw a wild correction that affected all the major global indexes. Market participants were taken aback by a swift and severe sell-off causing one of the most substantial single-day drops in recent memory. While the Canadian stock market was closed for the Civic Holiday, the Nasdaq 100 and the S&P 500 were down about 3.0%. But the Nikkei 225 led the pack with a loss of 12.4%.

Why did it happen?

The sell-off was triggered by a weaker-than-expected U.S. jobs report last Friday, two days after the Federal Reserve decided not to cut interest rates. The report sparked concerns that a recession had already begun in the United States and that the Fed was behind the curve. The Asian markets were already closed for the weekend but reacted to the news late Sunday evening when they reopened for the week. Fears of recession and a strengthening Japanese yen spurred a messy unwinding of the yen carry trade. A favoured strategy of recent decades, it consists of borrowing funds in yen at record-low interest rates and reinvesting them in higher-yielding assets around the world. But, with the Bank of Japan raising its policy rate for the first time in years, the yen appreciated by about 9% in July alone, causing those using a leveraged carry-trade strategy to incur losses and subsequently sell assets to cover margin calls.

The move down in stock prices soon spread to the European and U.S. markets early Monday, while the flight-to-quality benefited bond prices and gold. Panic selling was exacerbated by the limited liquidity typical of late summer, resulting in a volatility spike. The CBOE VIX index shot up to levels last seen during the early weeks of the pandemic.

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What comes next?

The recent tumult might cause alarm, and we acknowledge some weaknesses in the macroeconomic landscape. But the fundamentals are still resilient enough that we liken the recent events to panic selling. The swift and orderly rebound offers some reassurance, but the possibility of further disruptions can’t be ruled out; the outlook remains fraught owing to frothy asset valuations and geopolitical uncertainties. We continue to focus on identifying and capitalizing on oversold investment opportunities created by the volatility while remaining cautious and prudent in our approach.

Volatility and market cycles are a constant in the financial markets; therefore, we encourage our clients to stay disciplined with their long-term investment strategies and emphasize the importance of maintaining composure in the face of market upheavals.

About iA Global Asset Management (iAGAM)

A magnet for top investment talent, iAGAM is one of Canada's largest asset managers, with over $100 billion under management across institutional and retail mandates. We help investors achieve their long-term wealth creation goals through innovative investment solutions designed for today's complex markets. We are building upon our historic success, supporting the growth of our core strengths, and exploring innovative ways to meet investor needs. We are rooted in history and innovating for the future. Our experienced portfolio managers use a proprietary investment methodology, rooted in iAGAM's unifying commitment to strong risk management, analytical rigour and a disciplined, process-driven approach to asset allocation and security selection.

Rooted in history. Innovating for the future.