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SUMMER FINANCIAL MARKETS USUALLY HOLD NO SURPRISES. THIS BEGINNING OF AUGUST WAS DIFFERENT.

The past week has created some tensions on the world stock markets.
The Asian ones, especially Japan, suffered the most, followed by the European indices. Wall Street did better, but with drops that have unsettled investors.

Normally, during the summer, financial markets are characterized by small volumes, some ups and downs and little action. Last week, however, we got some action, with a significant slump at a global level (Nasdaq (US-TECH 100) -4.7%, S&P 500 -3.4%, Dow Jones Industrial Average (USA 30) -3.3%, Nikkei 225 -10.3%).
The triggers were essentially two: the decision by the Fed to leave high interest rates unchanged for the time being and the publication of the US jobs data for July, showing signs of ongoing weakness (unemployment rate surged to 4.3% from 4.1%).
The coincidence of these news and their interdependence, namely the concern that the Fed is waiting too long to cut rates with the risk of sparking a "recession", made it an explosive mix for the stock markets.
It is not easy to judge the policy conducted by the Fed from the pandemic until today, also because no recession (much feared) has appeared on the horizon, the labor market has been solid almost all the time, as has consumption.

Furthermore, in the wake of the Tech and Artificial intelligence revolution, Wall Street has experienced many months of indisputable bull market.
The recent earnings released by technology giants, such as Apple, Microsoft, Meta and Amazon have been good and very good, even if analysts are starting to wonder how AI will be monetized and how much the huge capital invested will be able to yield in the future (AI bubble risk?).

A few words on Japan

It is said that in the Japanese archipelago the economy is politics and finance is society.
Apparently, there is no other country in the world where the stock market represents the political, social and economic trend of the nation so well as in Japan.
And so it was also last Monday (a Black Monday for the Tokyo Stock Exchange, the worst since 1987), when the Nikkei 225 lost more than 12% following the decision by the Governor of the Bank of Japan (BoJ), Kazuo Ueda, to surprisingly raise interest rates to 0.25% (second increase since 2007).
Everyone agrees that what happened will further increase volatility on the Japanese financial market, the same volatility that characterizes the current Japanese political landscape.

What to do now and how to invest during the month of August?

Panic and tensions on the world financial markets have subsided in just over 24 hours, but a certain volatility will remain throughout the month.
However, let's remember that this is still a market characterized by typical summer dynamics.

In terms of purchases, Big Cap stocks stay relevant and, in a more general approach, value stocks.

In order to diversify the portfolio and to look for good opportunities in the near future, analysts also recommend taking a look at sectors that have been particularly battered in recent years (Great Rotation Trade), such as real estate, financials and utilities.

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