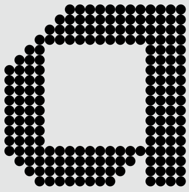

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Market highlights in Q3 2024

October 2024

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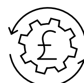
It was a mixed quarter for global markets, with the broadest index for world equities ending the period flat. In the face of cooling inflation and labour market data, most major Western central banks have begun to cut interest rates. However, there are worries that these banks have waited too long to cut and have been slow to pre-empt warnings of a recession, particularly in the US.

In the UK, there was a widely expected victory for the Labour Party in the general election. Having a stable government with a strong mandate may mean that the political instability the UK has faced in recent years is over.

More positive news was to come for the UK, as the Bank of England (BoE) cut borrowing costs by 25 basis points to 5%. A group of three committee members, led by the banks' Governor Andrew Bailey, switched their vote from hold to cut, making it a 5-4 notion in favour. Shortly afterwards, Bailey struck a more cautious tone, remarking "We need to make sure inflation stays low and be careful not to cut interest rates too quickly or by too much".



With a rate cut fully priced in across the pond, the only question facing investors was how much the US Federal Reserve (Fed) would lower borrowing costs – by 25 or 50 bps. The answer came in late September, with the Fed going for the latter and kicking off their rate-cutting cycle with a bang, reducing rates from a range of 5.25%-5.5% to 4.75%-5%. The Fed also projected rates would fall by another 50 bps by the end of 2024 and then by 100 bps next year.

Not to be outdone, the European Central Bank (ECB) also cut rates during the quarter. The bank cut by 25 bps during September, adding to the 25 basis point downward move made in June. "Our path, of which the direction is pretty obvious, a declining path, is not predetermined, neither in terms of sequence nor in terms of volume," ECB President Christine Lagarde told a press conference afterwards. It was also remarked that the bank will require more data before it cuts further, with a higher likelihood of a December rather than October rate cut.

[1] Source: Bloomberg.

Strategic asset allocation

- On the back of a more tranquil political landscape and the rate cut from the BoE, more domestically orientated mid-cap stocks enjoyed a strong quarter. Helped by relatively cheap valuations, investors began to rediscover their appetite for domestic equities, with the pound also performing strongly against a basket of developed currencies.
- Asian markets were mixed during the period, as Chinese indices struggled after a strong rebound during the middle of the year. However, towards the end of September, the Chinese central bank unveiled its largest stimulus package since the pandemic to pull the economy out of a deflationary funk and back towards the government's growth target. The announcement included various measures, from plans to lower borrowing costs to injecting more liquidity into the economy.
- With both inflation and borrowing costs gently falling throughout the quarter, longer-duration assets, such as infrastructure and property, performed particularly strongly, becoming two of the best-performing sectors within the equity asset class.
- Much like the more rate-sensitive areas of the equity market, the majority of fixed income sectors were particular highlights during the quarter. With inflation continuing to fall in the US and investors worrying that the labour market may be weakening more than first anticipated, potentially triggering a recession, it was hardly a surprise that US Treasuries were a star performer for the portfolios.
- On the commodities front, oil prices were volatile throughout the quarter as tensions in the Middle East refused to abate. Such geopolitical tensions, coupled with a weakening US dollar, drove gold prices higher, with the yellow metal regularly hitting all-time highs throughout September.

Outlook for Q4 2024

01

The global economy is slowing but we still forecast a soft landing. While US unemployment is rising in a manner usually consistent with recession, we think this time will be different. However, 'hard landing' has replaced 'no landing' as the key risk. We see a series of consecutive cuts from the Fed throughout the coming months as very much required.

02

The UK economy is enjoying something of a renaissance compared to other developed economies. Growth was well above trend for the first half of the year and, while a slowdown is likely, both business and consumer confidence surveys are consistent with solid growth. Monetary policy remains restrictive but the housing market looks to be slowly recovering. However, having fallen back to target recently, headline inflation is likely to drift higher for much of the rest of the year, as energy bills rise and favourable base effects pass.

03

Following four consecutive quarters of contraction, Japanese consumption finally rebounded amid positive real income growth. This trend must continue for consumers to leave behind the previous 'deflation mindset' and shift the economy toward a virtuous cycle of wage and price growth. The combination of stronger real incomes, a one-off tax cut for households and the temporary return of electricity and gas subsidies should see the economy continue to recover modestly over the coming quarters.

04

China's economic growth targets remain on a knife edge. Policymakers have signalled support to boost domestic demand is on the way but an incremental approach to easing risks falling short of what is needed to spur the economy. Indeed, with house prices continuing to fall and income expectations damaged, household saving is likely to remain a headwind to growth. Should a trade war unfold under a second Trump presidency, next year's growth could also fall below target.

05

US election risks will become increasingly important to the global outlook in the coming months. A second Donald Trump presidency has a wide range of potential outcomes. Whether a Trump presidency is once again positive for equities, as was the case for much of the first half of his initial term in office, will depend on the relative balance of tax cuts, deregulation versus protectionism, and concerns about his governing style.

06

Admittedly, there are substantial risks around these views, which are predominately skewed towards stickier inflation and a slower rate-cutting cycle. History provides plenty of reasons to worry about a difficult last mile of bringing down inflation, and we recognise that core services inflation driven by the tightness of the labour market could remain persistent.

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