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0.4%
EU Q3 GDP

GDP in the EU expanded further in Q3 in comparison to 0.2% growth in Q2.

2.4%
US inflation rate

US Inflation continued to migrate towards the Fed's 2% target.

-4.5%
Global REITs

Global REITs fell due to rising bond yields.

October 2024

Market Spotlight

Around the world

- October saw the first UK Budget in 14 years from a Labour government. With £40 billion in tax increases, the measures encompass a wide range of tax policy changes designed to stabilise public finances and influence the economic landscape. Notable adjustments include reforms to the taxation of pensions at death, hikes in CGT, and a freeze on income tax thresholds.
- US GDP rose 2.8% in Q3, driven by strong consumer spending and AI-related investment. The consumer remains the driving force of the economy with monthly spending not showing signs of slowing down.
- The labour market in Europe showed continued strength with the unemployment rate remaining at an all-time low of 6.3%.
- Over 50% of companies in the US and Europe have reported Q3 earnings, with results being positive. Initial readings have shown that earnings growth has come in stronger than expected, with +9% YoY in the US and +3% YoY in Europe.
- Elections in Japan saw the ruling LDP coalition lose parliamentary majority for the first time since 2009. Voters have become concerned with the cost of living as salary hikes have not matched inflation.
- AI demand continues to drive Emerging Market Asia growth. The main beneficiaries have been Taiwan and Singapore. However, broader non-tech and domestic demand in the region remains weak. South Korea's growth has disappointed due to sluggish exports outside of tech.

Market snapshot

Global risk assets experienced a rally in early October but lost momentum and finished the month lower. The resilient US economy and uncertainty surrounding the US election drove yields higher, leading to a sell-off in global government bonds.

In equities, despite sustained growth, global markets ended October in negative territory as concerns over the US elections and limited details on China's stimulus weighed on investor sentiment. Japanese equities nevertheless emerged as top performers, despite a political uncertainty after the Japanese elections.

Gold continues its rally to all-time highs in the wake of heightened central bank buying.

Performance of global asset classes

Precious Metals	3.6%	27.4%
Japanese Equities	3.1%	18.7%
Global High Yield Bonds	-0.6%	8.9%
US Tech	-0.9%	18.2%
US Equities	-0.9%	21.0%
UK Equities	-1.4%	8.3%
Commodities	-2.2%	-0.6%
World Equities	-2.2%	16.0%
Global Corporate Bonds	-2.7%	2.5%
Chinese Equities	-3.2%	13.4%
European Equities	-3.3%	7.3%
Global Government Bonds	-3.4%	0.1%
Emerging Market Equities	-4.4%	11.7%

Source: Bloomberg, Returns are in local currency, as at 31 October 2024.

What is the data telling us?

October saw a marginal improvement in Global Manufacturing PMIs. The largest boost came from China, where PMIs re-entered expansionary territory. This may be a result of the roll-out of China's policy stimulus in late-September. In contrast, we saw the UK manufacturing sector lose momentum with the PMI now in contraction. This was driven by weakening business sentiment ahead of the Autumn Budget.

We continue to see overall growth being driven by the services sector. Notably, ISM Services in the US expanded to the highest level since August 2022. The strong results came from a rebound within employment indexes, continuing the narrative of a strong labour market.

Purchasing Managers Index

Manufacturing

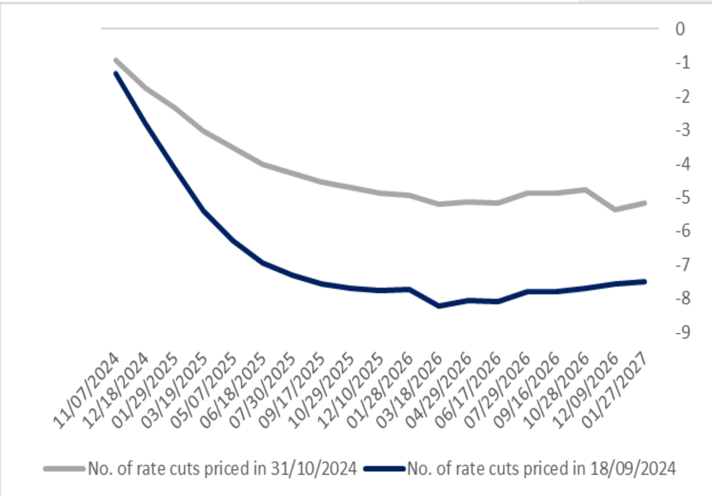
	2023		2024									
	11	12	1	2	3	4	5	6	7	8	9	10
Global	49.3	49	50	50.3	50.6	50.3	51	50.9	49.7	49.5	48.8	49.4
US	46.7	47.4	49.1	47.8	50.3	49.2	48.7	48.5	46.8	47.2	47.2	46.5
EU	44.2	44.4	46.6	46.5	46.1	45.7	47.3	45.8	45.8	45.8	45	46
UK	47.2	46.2	47	47.5	50.3	49.1	51.2	50.9	52.1	52.5	51.5	49.9
China	50.7	50.8	50.8	50.9	51.1	51.4	51.7	51.8	49.8	50.4	49.3	50.3
Japan	48.3	47.7	48	47.2	48.2	49.6	50.4	50	49.1	49.8	49.7	49.2

Service

	2023		2024									
	11	12	1	2	3	4	5	6	7	8	9	10
Global	50.6	51.6	52.3	52.4	52.4	52.7	54	53.1	53.3	53.8	52.9	53.1
US	52.7	50.6	53.4	52.6	51.4	49.4	53.8	48.8	51.4	51.5	54.9	56
EU	48.7	48.8	48.4	50.2	51.5	53.3	53.2	52.8	51.9	52.9	51.4	51.6
UK	50.9	53.4	54.3	53.8	53.1	55	52.9	52.1	52.5	53.7	52.4	52
China	51.5	52.9	52.7	52.5	52.7	52.5	54	51.2	52.1	51.6	50.3	52
Japan	50.8	51.5	53.1	52.9	54.1	54.3	53.8	49.4	53.7	53.7	53.1	49.7

Source: JP Morgan, ISM Institute, HCOB, S&P Global/CIPS, Caixin, au Jibun Bank, from 1 November 2023 to 31 October 2024.

Market participants are now expecting a less aggressive Fed rate cutting cycle



Source: Bloomberg. Data rebased.
As at 31 October 2024.

Chart of the month

In September, the Fed proceeded with its first rate cut of the cycle, driven by concerns of a weakening labour market which appeared fragile through August. Following the cut, market participants anticipated a more aggressive easing approach from the Fed, expecting 7-8 rate cuts by the end of 2025.

As we moved into October it became clear that US growth remained robust and the cooling in labour market signalled normalisation as opposed to recession. Data showed the US economy grew a robust 2.8% GDP in the third quarter, suggesting that inflation pressures are moderating without harming economic growth.

Given these developments, the market started to price a less aggressive Fed rate cutting cycle than anticipated in August. If inflation continues to move toward the 2% target and the economy achieves a soft landing, the Fed may opt for a slower pace of rate cuts, unless economic growth or labour market conditions deteriorate significantly.

Looking ahead

Despite signs of weakness in the US labour market data released in October, we believe these are largely driven by transitory factors, such as hurricanes and strikes, rather than a fundamental decline in labour market health. We expect a rebound as the workforce normalises following these one-off disruptions. While global inflation shows continued signs of easing, yields surged in October due to strong growth expectations. With solid US economic fundamentals, an aggressive easing cycle seems inconsistent with current macroeconomic dynamics. Additionally, fiscal policies from President-elect Trump are likely to substantially boost demand in the US. Given these economic and fiscal conditions, we see increased downside risk for bond prices, as elevated yields appear poised to persist.

In the UK, the Autumn budget revealed higher-than-forecast borrowing, which pushed up government yields as markets reacted to potential inflationary pressures. Although the budget aims to stimulate economic growth, it is too early to assess its impact on UK equities. The success of the fiscal measures in driving growth will play a critical role in determining any positive effects on earnings growth for UK stocks.

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