



September 2024

Market Spotlight Around the world

- The Federal Reserve (Fed) surprised the markets with an out-of-consensus rate cut of 50bps. This larger-than-expected reduction came despite inflation remaining above target, indicating that the Fed prioritised concerns **about** the weakening labour market over inflationary pressures. Jay Powell did not provide clear guidance for the next moves but emphasised that they will remain data dependent.
- The Bank of England (BoE) held its benchmark rate of 5%, following its August cut of 25bps. With services inflation still elevated, the BoE is taking a cautious approach.
- The US labour market showed unexpected strength, with the economy adding 254,000 jobs in September.
- The Eurozone's automotive sector continues to struggle in the face of significant Chinese competition. Europe's largest carmakers including Volkswagen, Stellantis, and Renault, have all reported double-digit year-on-year falls in sales. Citing the challenging market environment, Volkswagen has further lowered its annual guidance in response to weaker sales.
- The AI investment boom continues among tech giants. Microsoft has partnered with BlackRock to launch a substantial AI investment fund, exceeding \$30billion. This fund aims to finance the construction of data centres and energy projects to meet the needs of AI advancements.

9.0%
Q3 increase in the
equal-weighted
S&P 500

In Q3, a broader selection of companies within the S&P 500 outperformed the larger tech names, signalling a more rounded rally.

1.8%
Eurozone
inflation

Eurozone inflation falls below ECB target for the first time in over three years.

30th October
UK's Autumn Budget
statement

Chancellor of the Exchequer, Rachel Reeves, will deliver the Autumn Budget.

Market snapshot

Markets experienced a robust rally in September, driven by two key factors: the long-awaited Fed rate cut and the announcement of new stimulus measures in China. Asian stocks emerged as the top performer in September driven by the Chinese stimulus. In contrast, European equities remained subdued throughout the month, reflecting the region's weaker economic data. The United Kingdom saw a decline in its equity markets as consumer confidence waned following downward revisions to GDP growth projections.

Meanwhile, fixed income markets delivered solid returns, benefiting from the prospect of lower interest rates on the horizon.

Performance of global asset classes

	1 Month	YTD
Chinese Equities	21.0%	17.1%
Emerging Market Equities	6.7%	16.9%
Precious Metals	5.9%	23.0%
Commodities	4.4%	1.7%
US Tech	2.5%	19.2%
World Equities	2.3%	18.7%
US Equities	2.1%	22.1%
Global High Yield Bonds	2.0%	9.6%
Global Corporate Bonds	1.8%	5.3%
Global Government Bonds	1.7%	3.6%
European Equities	1.0%	10.9%
Japanese Equities	-1.2%	15.2%
UK Equities	-1.5%	9.9%

Source: Bloomberg, Returns are in local currency, as at 30th September 2024.



What is the data telling us?

Manufacturing PMIs fell across all major regions in September. EU manufacturing data continued its slump, with business confidence in Germany falling. Manufacturing strength in China has turned, prompting PBOC to take stimulus action. As the Budget looms, UK PMIs fell, driven by business and consumer fears on the looming UK budget.

The services sector of the global economy is still strong, despite a slight contraction. The US has been the key source of strength as the labour market remains healthy, boosting the consumer and services.

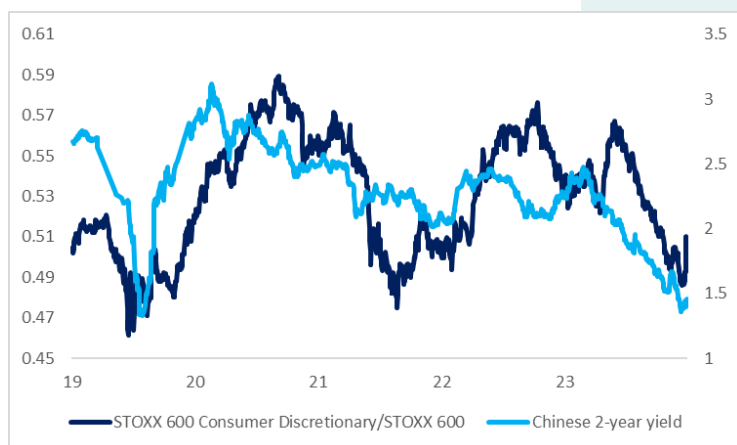
Purchasing Managers Index

	Manufacturing											
	2023						2024					
	10	11	12	1	2	3	4	5	6	7	8	9
Global	48.8	49.3	49	50	50.3	50.6	50.3	51	50.9	49.7	49.5	48.8
US	46.7	46.7	47.4	49.1	47.8	50.3	49.2	48.7	48.5	46.8	47.2	47.2
EU	43.1	44.2	44.4	46.6	46.5	46.1	45.7	47.3	45.8	45.8	45.8	45
UK	44.8	47.2	46.2	47	47.5	50.3	49.1	51.2	50.9	52.1	52.5	51.5
China	49.5	50.7	50.8	50.8	50.9	51.1	51.4	51.7	51.8	49.8	50.4	49.3
Japan	48.7	48.3	47.7	48	47.2	48.2	49.6	50.4	50	49.1	49.8	49.7

	Service											
	2023						2024					
	10	11	12	1	2	3	4	5	6	7	8	9
Global	50.4	50.6	51.6	52.3	52.4	52.4	52.7	54	53.1	53.3	53.8	52.9
US	51.8	52.7	50.6	53.4	52.6	51.4	49.4	53.8	48.8	51.4	51.5	54.9
EU	47.8	48.7	48.8	48.4	50.2	51.5	53.3	53.2	52.8	51.9	52.9	51.4
UK	49.5	50.9	53.4	54.3	53.8	53.1	55	52.9	52.1	52.5	53.7	52.4
China	50.4	51.5	52.9	52.7	52.5	52.7	52.5	54	51.2	52.1	51.6	50.3
Japan	51.6	50.8	51.5	53.1	52.9	54.1	54.3	53.8	49.4	53.7	53.7	53.1

Source: JP Morgan, ISM Institute, HCOB, S&P Global/CIPS, Caixin, au Jibun Bank, from 1 September 2023 to 30th August 2024.

Chart of the month



Source: Bloomberg as at 30th September 2024

Chinese growth has disappointed in recent years, primarily due to a sharp property market downturn. Chinese 2-year bond yields are a good proxy for Chinese growth and because of the poorer economic backdrop, Chinese bond yields have fallen.

Weak consumer demand in China has significantly impacted major sectors in European markets, particularly the luxury goods industry. However, the most recent stimulus package had a positive effect on the Chinese market and the impact was not limited within its borders, with European names - particularly in the luxury sector - seeing gains, as investors anticipate increased consumer spending in China.

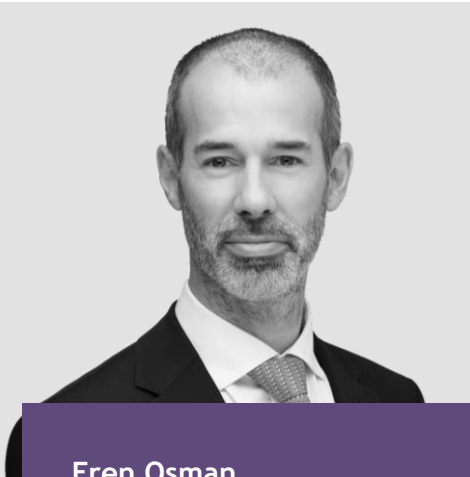
Looking ahead

Global growth has lost momentum recently, which is evident through a slowing US labour market and a struggling global manufacturing sector. Recently, both the US and China have taken steps to temper the slowdown. China's latest stimulus, if followed by further aggressive action, could provide a boost to global growth, with downstream benefits for emerging markets, Europe, and commodities. Similarly, the Fed's rate cuts, by easing financial conditions, may offer timely support before the labour market weakens significantly. The next few US labour market reports will be a key data point to keep an eye on.

One of the main concerns on the horizon is how recent stimulus packages, in the form of central bank easing and Chinese growth measures, may lead to growing upside pressures on inflation. If we see growth pick up, when labour markets are already tight, inflation may become a concern. From this junction, with most of the gains from disinflation already materialising, higher growth may lead to greater inflationary pressures.



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