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# YOUR MARKET REVIEW SEPTEMBER 2024



# INFOGRAPHIC: THE GLOBAL ECONOMY

## US Fed chairman Powell pivots to interest rate cuts at Jackson Hole summit



1%

Schroders forecast for reduction in US interest rates by mid 2025



Chairman of the US Federal Reserve (Fed) Jerome Powell has said there is “ample room” to respond to a cooling US economy



Speaking at the annual Jackson Hole gathering of central bankers his comments set the stage for interest rate cuts

We project a one percentage point reduction in the Fed Funds target rates range, presently 5.25% – 5.50%, as sufficient to safeguard the economy and keep inflation in check

5.25%-5.50%



## Faster UK economic growth against backdrop of “supply-side constraints” leaves less scope for rate cuts



0.6%

Growth in UK GDP in Q2 of 2024 (versus Q1)



The first estimate of UK GDP growth for Q2 was much better than we had anticipated, prompting us to upgrade our forecasts for this year and next...



...however, limits on the supply of goods and labour (supply-side constraints), mean the economy is likely to run up against its capacity to meet higher levels of demand...

...which means inflationary pressures could well linger, leaving the Bank of England with less scope to front-load interest rate cuts



## View at a glance: Schroders' latest GDP growth forecasts



Source: [Schroders as at September 2024.](#)





# MULTI-ASSET INVESTMENT VIEWS

KEY

▲ Up from last month ▼ Down from last month

●  
Long /  
Positive

●  
Neutral

●  
Short /  
Negative

	Category	View	Comments
Main Asset Classes	Equities	●	We continue to hold a positive view on equities due to strong underlying fundamentals. Although the rate of upgrades for US companies' earnings has slowed down, the upward trend in revisions continues.
	Government Bonds	●	Low layoffs, strong consumer consumption and healthy household balance sheets support our base case of a soft landing. Hence, we remain negative as we believe market expectations for rate cuts are too optimistic.
	Commodities	●	A modest growth outlook, weak sentiment in China and disappointing manufacturing data keep us neutral on most sectors. However, we remain positive on gold, anticipating further upside.
	Credit	●	Implied volatility in credit markets has remained elevated, likely reflecting lingering uncertainty on the economy. However, attractive yields have remained a strong tailwind for the market, leaving us neutral overall.
Equities	US	●	We expect US equity prices to rise in Q4 as the Federal Reserve is set to continue to cut interest rates whilst US political uncertainties should subside.
	UK	●	The election outcome has stabilised the market and improved sentiment, which should allow prices to return to historical levels.
	Europe	● ▲	We have upgraded to neutral as the recent drop in inflation towards the European Central Bank's 2% target increases the probability of a rate cut. However, manufacturing purchasing manager indices remain weak.
	Japan	●	Despite the recent market turbulence, corporate earnings and macro data have improved. We maintain a neutral stance due to the less attractive risk/return profile.
	Global Emerging Markets <sup>1</sup>	● ▼	Our conviction in the region has weakened with the slowdown of the global manufacturing cycle. Without stronger performance from China, the likelihood of emerging markets outperforming developed markets is low.
	Asia ex-Japan: China	●	We retain our neutral score - the domestic economy continues to be sluggish, hampered by the property sector, while the export sector has performed better.
	EM Asia ex China	● ▼	We have downgraded our view as we expect the recent slowdown in the global manufacturing cycle to impact key export markets such as Taiwan and South Korea.
Government Bonds	US	●	We maintain a negative score as valuations look extremely expensive, particularly at the front end of the yield curve. A yield curve is a line that plots the yields of bonds that have equal credit quality but differing maturity dates.
	UK	●	Despite the fall in inflation and the Monetary Policy Committee's decision to lower interest rates in August, we prefer to stay neutral for now.
	Germany	●	We have retained our neutral stance as persistently weak manufacturing data supports the case for more interest rate cuts by the European Central Bank but note that service inflation remains sticky.
	Japan	●	Whilst yields look attractive on a risk adjusted basis, the market is expecting two rate hikes by the end of 2024 as headline inflation is increasing. We therefore remain neutral.
	US Inflation Linked	●	We expect inflationary pressures to continue to abate whilst the growth outlook appears reasonable, and consumption remains healthy.
	Emerging Markets Local	●	While the carry and valuation levels of EM local bonds are appealing, we remain neutral as wider spreads are primarily concentrated among a few distressed issuers. Carry refers to the potential to borrow in a territory where interest rates are relatively low and invest the borrowed money into an asset that provides a higher rate of return in a different territory, otherwise known as a carry trade.

<sup>1</sup> Global Emerging Markets includes Central and Eastern Europe, Latin America and Asia.



	Category	View	Comments
Investment Grade Credit	US	●	We maintain a neutral score. Whilst valuations have improved and the liquidity environment remains stable, the uncertain macro outlook poses a risk.
	Europe	●	European credit has experienced a slightly slower recovery and remains attractive relative to the US. However, we remain neutral as the backdrop in Europe is not as positive.
	Emerging Markets USD	●	We have maintained our neutral stance. Even though EM corporate bonds are expected to benefit from strong fundamentals and technical tailwinds, valuations remain expensive.
High Yield Bonds (Non-IG)	US	●	We remain neutral as valuations have improved but are not yet attractive enough. The maturity wall remains under control, however, fundamentals have weakened slightly.
	Europe	●	Attractive valuations and easing financial conditions in Europe are supportive. However, the macroeconomic backdrop remains relatively weak, leaving us neutral overall.
Commodities	Energy	●	Chinese demand growth is falling short of expectations, while the supply side is maintaining market stability. OPEC+ have confirmed the decision to postpone the re-deployment of production in Q4.
	Gold	●	We maintain a positive view. Real yields should fall as growth and inflation slow, while technical factors remain supportive for limiting downside.
	Industrial Metals	●	Weak Chinese data remains the main factor capping any upside for metal prices. While there have been some small indications of reduced inventory, overall, economic conditions are not strong enough to support a positive outlook.
	Agriculture	●	An abundance of supply continues to dominate the backdrop and expectations of La Niña conditions have faded further, which has improved the supply outlook.
Currencies	US \$	● ▼	We have switched our view on the US dollar to neutral. The risks of a more pronounced slowdown have reduced following the large cut in US rates.
	UK £	●	While the pound should benefit from political stability and improved sentiment, we remain neutral overall given the recent volatility.
	EU €	● ▲	Although the macroeconomic outlook remains weak, we have upgraded our score to neutral as interest rate differentials relative the US dollar have narrowed.
	CNH ¥	●	Growth remains weak and the recent appreciation can be explained by the interest rate differential versus the US, leaving us neutral.
	JAP ¥	● ▲	Whilst other major central banks are implementing easing policies, we have revised our outlook to positive given the contrasting tightening stance of the Bank of Japan.
	Swiss F	●	We remain negative as the persistent deflationary pressures in Switzerland should lead the Swiss National Bank to ease more or to weaken the domestic currency.

Source: [Schroders, September 2024](#).

**Past performance is not a guide to future performance and may not be repeated. The value of investments and the income from them may go down as well as up and investors may not get back the amounts originally invested.**

The views for equities, government bonds and commodities are based on return relative to cash in local currency. The views for corporate bonds and high yield are based on credit spreads (i.e. duration-hedged). The views for currencies are relative to US dollar, apart from US dollar which is relative to a trade-weighted basket.





# MARKETS REVIEW

**A look back at markets in Q3, when the Federal Reserve cut interest rates and China announced stimulus.**

## THE QUARTER IN SUMMARY

Global equities gained in the third quarter despite pronounced volatility on several occasions. Emerging markets performed strongly, supported by the announcement of new stimulus measures in China. Interest rate cuts in the quarter, and the prospect of more to come, helped fixed income markets to deliver solid returns.

## THE US

US shares advanced over the quarter but sector performances were mixed as some previous winners lagged. Meanwhile, other sectors that had previously been shunned gained renewed favour with investors. All sectors aside from energy posted positive returns but top performing sectors included utilities and real estate while information technology posted only a small advance.

Changing expectations for the path of US interest rates shaped the quarter and contributed to the divergent sector performances. The US Federal Reserve (Fed) had left interest rates on hold at a 23-year high in July. However, this was followed in early August by weaker jobs data. The non-farm payrolls report showed that 114,000 jobs were added in July, well below the consensus expectation of 175,000, while the unemployment rate rose to 4.3%.

This weaker jobs report sparked fears that the Fed may have left it too late to cut interest rates, and risked damaging the

economy. Markets began to price in significant monetary policy easing by the end of the year. At the same time, doubts arose over the returns that companies may see from the significant investment being made into technologies such as AI. Both factors contributed to market volatility in early August.

Some resilient corporate earnings over the period helped to settle investor nerves. Fed chair Jerome Powell then used his speech at the Jackson Hole central bank symposium in August to signal an interest rate cut in September. In the event, the Fed announced a 50 basis point (bps) reduction to rates.

Investor attention also turned to the forthcoming US election on 5 November. In July, President Biden announced that he would withdraw from this year's presidential race and endorsed Vice President Kamala Harris as the Democratic candidate instead.

Find out more in this video: [Power play: the White House race and market impact](#)

## EUROZONE

Eurozone shares, as measured by the MSCI EMU index, made gains in Q3. The advance was led by the real estate, utilities and healthcare sectors as the prospect of lower interest rates saw investors reassess some previously out-of-favour parts of the market. Energy and information technology were the main laggards, delivering negative returns for the quarter.

The European Central Bank (ECB) kept interest rates on hold at its July meeting but then cut by 25 bps in September. Data indicated a softening of inflation over the period, with annual inflation falling from 2.6% in July to 2.2% in August and 1.8% in September.



However, activity indicators pointed to a slowdown in the eurozone economy. The HCOB flash eurozone purchasing managers' index (PMI) for September came in at an eight-month low of 48.9. A deepening downturn in the manufacturing sector was behind the reduction in overall activity. Service sector activity rose slightly, with a reading of 50.5. The weaker PMI data, combined with the softer inflation readings, bolstered expectations of further imminent rate cuts from the ECB.

The French parliamentary elections concluded in July with no political grouping achieving an outright majority. In September, President Macron appointed centre-right politician Michel Barnier as prime minister.

## UK

UK equities rose over the quarter as a landslide Labour general election win at the start of the period fuelled hopes for a sustained recovery in the domestic economy. This occurred as expectations also built for a cut in UK interest rates, which the Bank of England (BoE) delivered in August, making its first cut in four years.

The positive sentiment was somewhat offset by the new UK Prime Minister (PM) Keir Starmer warning of a "painful" autumn budget. He signalled potential tax increases and spending cuts due to an estimated £22 billion shortfall in public finances. The PM added those with the "broadest shoulders" will bear the heaviest burden, sparking speculation around which taxes might rise.

After an encouraging first estimate of Q2 GDP, the Office for National Statistics subsequently revised down growth to 0.5%, a step lower than the 0.7% quarter-on-quarter growth achieved

in Q1. Like growth, the official inflation statistics became slightly less encouraging as the quarter progressed. It was revealed annual Consumer Prices Index inflation ticked up slightly to 2.2% after hitting the BoE's 2.0% target in June.

The BoE's governor Andrew Bailey promised to move ahead cautiously with further interest rate cuts. Meanwhile, the deputy governor Clare Lombardelli added that the Bank's base case for inflation is benign, but risks remain of an "alternative world" in which inflation moves higher again. The consumer staples, financials and consumer discretionary sectors were the top performers over the period. Energy was a significant detractor.

## JAPAN

Q3 2024 brought historically high volatility to the Japanese stock market. The market reached a new high early in July as positive momentum persisted. However, the market then corrected sharply toward the end of July and a significant dislocation occurred in early August due to the combination of weaker US economic data and the Bank of Japan's (BoJ) action in raising interest rates. These changes to the interest rate picture caused a significant swing in the currency market. Over the quarter, the yen has sharply strengthened against the US dollar.

Japanese shares stabilised towards the end of August and into September. The US Fed's 50 bps rate cut allayed fears around US economic slowdown. Japanese stocks were also supported by the expectation that Ms Sanae Takaichi, an expansionist, would win the Liberal Democratic Party (LDP) leadership election. However, at the very end of Q3, news came that Mr Ishiba had won the run-off against Ms Takaichi. This caused a significant fall in the market the following day. As a result, the quarterly return of TOPIX Total Return was -4.4% in local currency terms.





The yen's strength also had material impacts on sector performance. Overall, domestically oriented sectors such as retailers, construction, and information & communication performed solidly while exporters such as auto and machinery suffered. Smaller companies held up well compared to large cap stocks.

Looking at fundamentals, corporate earnings and macroeconomic figures showed solid progress in Japan throughout the quarter. Aggregate quarterly earnings from April to June exceeded expectations. The weakening yen supported this performance, while domestically focused sectors also demonstrated robust recovery. Real wage growth, taking inflation into account, turned positive for the first time in 27 months in August and its positive momentum continued in September.

### ASIA (EX JAPAN)

Asia ex Japan equities achieved solid gains in the third quarter. Thailand, Hong Kong, and China were the best-performing markets in the MSCI AC Asia ex Japan Index, while South Korea, India and Taiwan were the worst-performing index markets.

South Korea was the only index market to end the quarter in negative territory, due to the sell-off in technology stocks during the quarter, with investors starting to question how the expansion in artificial intelligence (AI) will benefit revenue. The appreciation of the Korean won also weighed on export-oriented shares.

Shares in China achieved strong gains in the quarter following a raft of stimulus measures by the Chinese government – ranging from rate cuts to fiscal support – in a bid to reverse a slowdown in the broader economy.

Stocks in Taiwan were also badly hit by the sell-off in technology stocks in the quarter, with AI stocks particularly affected. However, despite the poor quarterly performance Taiwan remains the best-performing index market in the year-to-date period.

### EMERGING MARKETS

Emerging market (EM) equities delivered strong gains in Q3, outperforming developed markets. It was a volatile start to the quarter, when technology-related stocks sold off sharply and a Bank of Japan interest rate hike resulted in carry trades being unwound. Subsequent to these events, however, US and Chinese monetary policy easing measures helped EM post particularly strong returns in September.

Thailand was a top performer over Q3, returns were supported by currency strength and delivery of the first phase of a new government stimulus package in September. China also posted double-digit returns in US dollar terms against a backdrop of monetary stimulus measures announced in September, and in anticipation of further measures which may include fiscal stimulus. South Africa was notably strong on the smooth formation of the Government of National Unity (GNU) and as the central bank followed the Federal Reserve's lead in September and cut interest rates for the first time since 2020.

India and Brazil underperformed with the latter negatively affected by the central bank reversing recent monetary easing by raising rates to contain inflation, and the government loosening fiscal spending. Taiwan lagged the broader index, particularly earlier in the period, amid a wider global sell-off in technology-related stocks, while Colombia's index market lagged its EM peers amid a weaker oil price.



Korea posted negative returns, dragged down by the aforementioned sector rotation away from technology and concerns about the sustainability of the memory recovery. The Mexican index market also finished the quarter in negative territory, despite a cut to interest rates, as uncertainty over judicial reforms weighed. Turkey was the worst-performing index market due to local currency depreciation, some weaker-than-expected second quarter earnings and foreign equity outflows.

## GLOBAL BONDS

The third quarter saw the start of the interest rate cutting cycle in many major economies. In the US, the combination of a stronger-than-anticipated decline in July's non-farm payrolls, the unemployment rate trending higher, and a larger-than-expected drop in inflation August, spurred the Fed's decision to begin its long-awaited cutting cycle with a 50 bps cut.

The cut and expectations of faster monetary policy easing by the Fed led to a weaker dollar against major currencies. In the bond market, US Treasury yields fell substantially over the quarter with 2-year yields leading the way, falling 111 bps, as the yield curve steepened to reflect the outlook for lower interest rate policy. (Yields move inversely to prices and a steeper curve indicates that long-term yields are rising at a faster rate than short-term yields).

July saw the Labour Party take a landslide victory in the UK general election. Gilt yields remained largely unchanged as the election result had been priced in by the market. The BoE announced a 25 bps rate cut in August, which was the first modification since the onset of the Covid-19 pandemic, but kept rates on hold in September. UK gilts rallied over the quarter, fuelled by the government's promise to kick start economic

growth, with investors increasing their bets on two more BoE interest rate cuts before the end of the year.

The ECB also cut interest rates by 25 bps. German and French 10-year government bond yields declined over the quarter (meaning prices rose) but underperformed relative to Italy and Spain, which were the strongest performers in Europe.

Canada's central bank continued to cut rates in response to positive moves in the cost of goods and services, as well as higher unemployment.

Lastly, the Japanese yen gained strength against the dollar, partly due to the actions of the US Federal Reserve, but yen strength was further supported by the Bank of Japan's decision to increase interest rates.


On the corporate bond front, US investment grade performed strongly although global high yield still outperformed global investment grade.

Amid the equity market volatility, convertible bonds protected efficiently on the downside and showed good upside participation with stocks in the subsequent recovery. The convertible index, FTSE Global Focus, advanced 5.8%. This implies an above average participation rate of almost 90%, driven by the robust downside protection.

## COMMODITIES

The S&P GSCI Index fell in the third quarter. Energy was the weakest component of the index due to lower global demand, while agriculture, industrial metals, livestock, and precious metals gained. Within energy, there were sharp price declines,






despite heightened tensions in the Middle East, as global demand weakened due to growth concerns.

In agriculture, the price of coffee, cocoa, and sugar rose significantly in Q3, while soybeans and wheat prices were modestly lower. Within industrial metals, aluminium, zinc, and copper achieved modest gains, while the price of lead declined. The precious metals component was sharply higher in Q3, with gold achieving solid gains.

### DIGITAL ASSETS



Digital asset markets had mixed returns during the quarter. Bitcoin returned 1% in Q3 (+50% year-to-date, YTD), while Ethereum was down -24% during the quarter to bring its YTD return to +14%. Following drawdowns in August, digital asset markets recovered in September, supported by Fed rate cuts mid-month.

The main crypto theme this year has been institutional access, and this continued in Q3 as several large asset managers launched their Ethereum spot ETFs. The SEC also approved options to be traded on the Bitcoin ETF, which will lead to market efficiencies, and further connects crypto with traditional markets. This trend of further institutionalisation of digital assets is likely to continue, fuelled in part by better regulatory clarity which should be expected in the US, as both presidential candidates have now shown support for the digital asset industry.

# TOTAL RETURNS (NET) % – TO END SEPTEMBER 2024

Equities	3 MONTHS			12 MONTHS		
	USD	EUR	GBP	USD	EUR	GBP
MSCI World	6.4	2.1	0.2	32.4	25.6	20.5
MSCI World Value	9.6	5.2	3.3	27.2	20.6	15.7
MSCI World Growth	3.5	-0.6	-2.5	37.5	30.4	25.1
MSCI World Smaller Companies	9.4	5.0	3.1	24.9	18.4	13.6
MSCI Emerging Markets	8.7	4.4	2.5	26.1	19.6	14.7
MSCI AC Asia ex Japan	10.4	6.0	4.0	28.9	22.3	17.3
S&P500	5.9	1.7	-0.2	36.4	29.3	24.1
MSCI EMU	7.3	3.1	1.1	26.8	20.3	15.4
FTSE Europe ex UK	6.2	2.0	0.0	26.7	20.2	15.3
FTSE All-Share	8.5	4.2	2.3	24.6	18.2	13.4
TOPIX*	7.0	2.7	0.8	21.6	15.4	10.7

Government Bonds	3 MONTHS			12 MONTHS		
	USD	EUR	GBP	USD	EUR	GBP
JPM GBI US All Mats	4.7	0.5	-1.4	9.7	4.1	-0.2
JPM GBI UK All Mats	8.7	4.3	2.4	18.7	12.6	8.0
JPM GBI Japan All Mats**	14.0	9.5	7.5	3.3	-2.0	-6.0
JPM GBI Germany All Traded	7.5	3.2	1.3	13.2	7.4	3.0
Corporate Bonds	3 MONTHS			12 MONTHS		
	USD	EUR	GBP	USD	EUR	GBP
BofA ML Global Broad Market Corporate	6.4	2.1	0.2	14.6	8.8	4.3
BofA ML US Corporate Master	5.7	1.6	-0.3	14.1	8.3	3.9
BofA ML EMU Corporate ex T1 (5-10Y)	8.3	4.0	2.1	18.0	11.9	7.3
BofA ML £ Non-Gilts	8.5	4.2	2.3	20.6	14.4	9.7
Non-investment Grade Bonds	3 MONTHS			12 MONTHS		
	USD	EUR	GBP	USD	EUR	GBP
BofA ML Global High Yield	5.9	1.7	-0.2	17.0	11.0	6.5
BofA ML Euro High Yield	8.1	3.8	1.8	19.7	13.6	8.9

Source: LSEG DataStream. Local currency returns in Q3 2024: \*-4.9%, \*\*1.4%.

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Source: [Schroders, September 2024](#)

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