Market Overview – Q3 2024

Financial markets continued to perform well in the last quarter supported by lower inflationary pressures allowing Central banks in the US, UK and Europe to start cutting interest rates. The European Central Bank and the Bank of England cut interest rates by 0.25% in June and August respectively. The US Federal Reserve surprised markets with a 50-basis point cut in September. The prospect of lower interest rates has led to a broad market rally and strong performance from fixed income and other interest rate sensitive assets such as property, infrastructure and dividend paying properties.

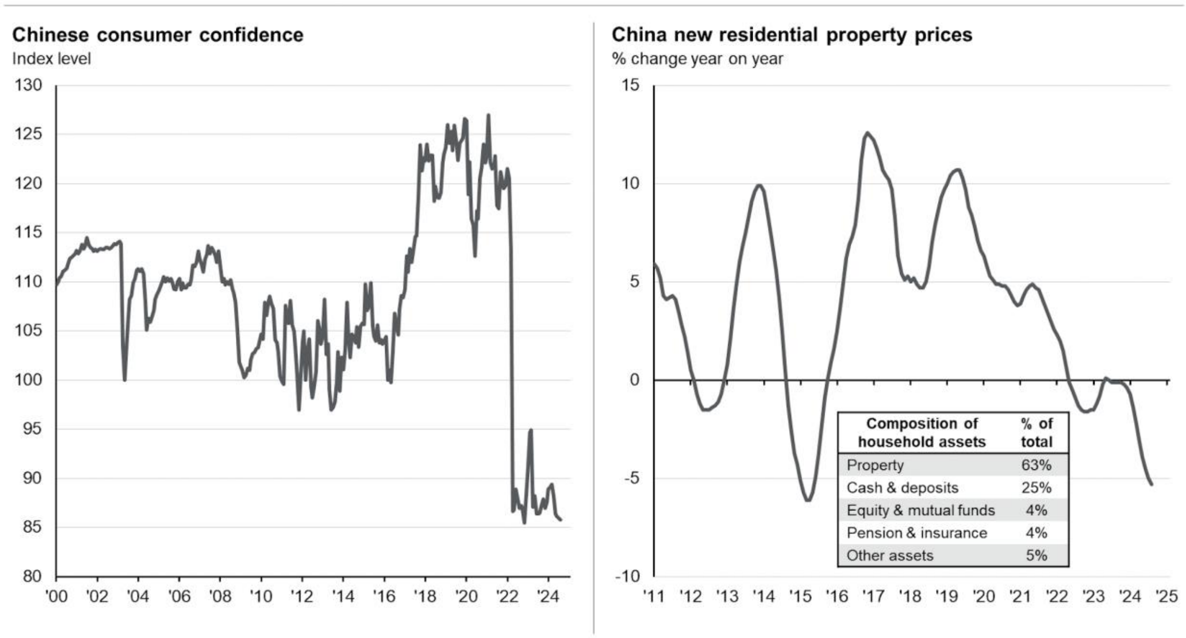
The cut in US interest rates and expectations for further interest rate cuts have led to a weakening of the US dollar as the differential between US interest rates and interest rates in other countries has narrowed. The US dollar has fallen by 4.5% against a broad basket of currencies (as measured by Dollar index shown below) and as much as 10.6% against the Japanese yen. This has boosted the performance of international assets against US assets in the last quarter.

A lower US dollar is generally beneficial for emerging markets which tend to borrow heavily in US dollar. The fall in the US dollar and the prospect of lower US interest rates have led to a rally in emerging market equities. Emerging market equities were further boosted by the major stimulus measures announced by the Chinese government at the end of the quarter.

At the beginning of the year, the US stock market performance was primarily led by Artificial Intelligence (AI) and large technology companies. In the past few months, we have seen a rotation away from the highly valued technology sector to value and smaller companies' stocks which are more attractively valued. The S&P500 value index was up 9% in the last quarter compared to the S&P growth index, up 3.7%. This rotation has also benefited international equity markets.

A shift in policy by the Bank of Japan has led to increased volatility in the Japanese stock markets and substantial moves in the Yen. After years of following a negative interest rate policy, the Bank of Japan surprised markets by raising interest rates in July. The move in interest rates follows a period of rising inflation in Japan. The combination of higher interest rates in Japan and lower rates in the US has led to the yen rising by more than 10% against the US dollar in the last quarter. The rising yen has impacted the Japanese equity market with larger companies which tend to be more reliant on exports underperforming whereas smaller companies which are more domestically focused have outperformed. There has been further stock market and currency volatility following the appointment of a new Prime Minister, Shigeru Ishiba who has unexpectedly called an early general election on 27th October and has sent mixed messages about Japan's monetary policy.

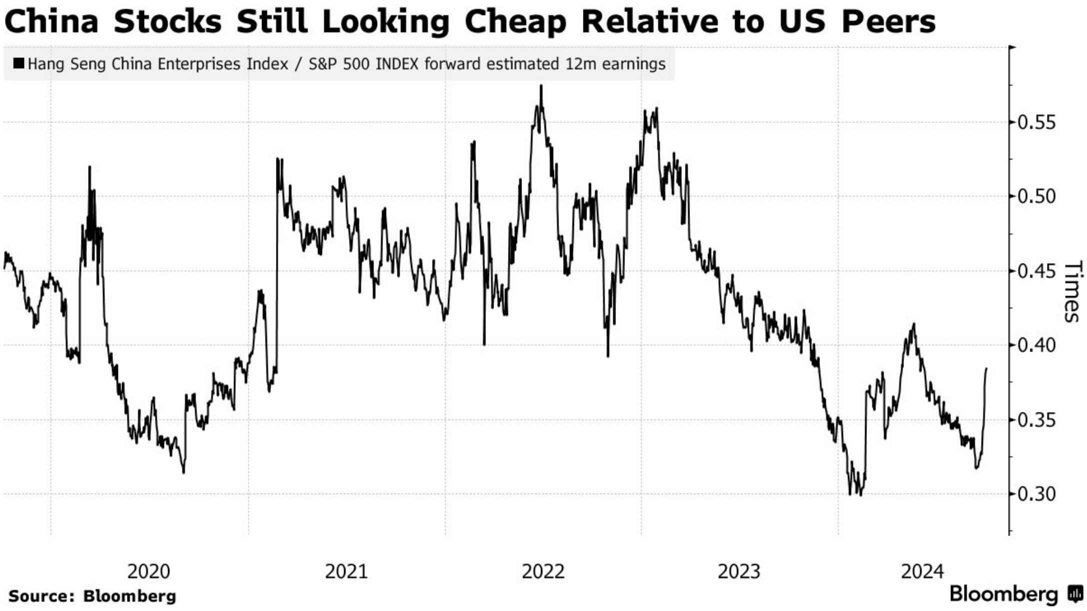
In China, the government surprised markets in September with major stimulus measures designed to support the real estate and stock markets, improve consumer sentiment and ultimately boost economic growth which has been flagging in recent months. As the charts below show, Chinese consumer confidence has not recovered since the Covid lockdowns. This is in large part due to the real estate crisis and the fact that Chinese households have a high share of their wealth invested in property.



Source: JP Morgan Asset Management – Guide to the Market UK Q4 2024 – 30 September 2024

The measures announced by the government in September are directly aimed at boosting the property market and improving household confidence. The breadth and scale of the measures surprised investors and demonstrate the government's commitment to dealing with the property crisis and the downturn in the economy. The measures include interest rate cuts including mortgage rate cuts for outstanding mortgages, freeing up capital for banks and liquidity support for stocks.

The main Chinese equity index, the CSI 300 rose by 24% in the week following the announcement of the stimulus measures. As the chart below shows, the Chinese equity market still remains cheaply valued compared to the US market after its more than 20% rise.



The next months will show whether the measures taken by the government in the past few days will help to reverse the downward trends and help sustainably boost the Chinese economy.

We expect financial markets to continue to be supported by lower inflation, the prospect of further interest rate cuts and the major stimulus measures taken by the Chinese government. Against this positive backdrop, we also expect increased volatility given the risk of an escalation in the Middle East conflict, elevated US stock market valuations and uncertainty around the outcome of the US Presidential election.

Indices

Sector	Q3 2024 Performance (GBP)	1 Year Performance (GBP)
MSCI UK	2.30%	15.10%
MSCI UK Small-Cap	2.90%	22.03%
S&P 500	0.22%	24.18%
Nasdaq 100	-5.82%	24.31%
Russell 2000	4.06%	17.08%
MSCI Europe ex UK	-0.92%	16.47%
MSCI Japan	-0.26%	13.00%
MSCI Asia ex Japan	7.53%	21.12%
MSCI China	23.79%	22.44%
MSCI India	1.10%	26.92%
Alternatives		
S&P GS Commodity Index	-5.57%	-8.37%
Bloomberg Gold	6.42%	28.94%
Bloomberg Silver	0.19%	26.78%
Bloomberg Copper	-1.92%	13.33%
Bloomberg WTI Crude Oil	-16.89%	-21.16%
Bloomberg Natural Gas	-15.37%	-49.98%
Fixed Income Indices		
Bloomberg Barclays Sterling Gilts	2.45%	8.02%
Markit iBoxx GBP Corporate Bond	2.49%	10.43%
Bloomberg Barclays US Treasury 7-10 Year	-0.35%	0.99%
Bloomberg Barclays Global Agg	0.82%	1.90%
FTSE World Government Bond Index GBP	0.80%	1.02%
Cash		
SONIA Lending Rate	1.29%	5.38%

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