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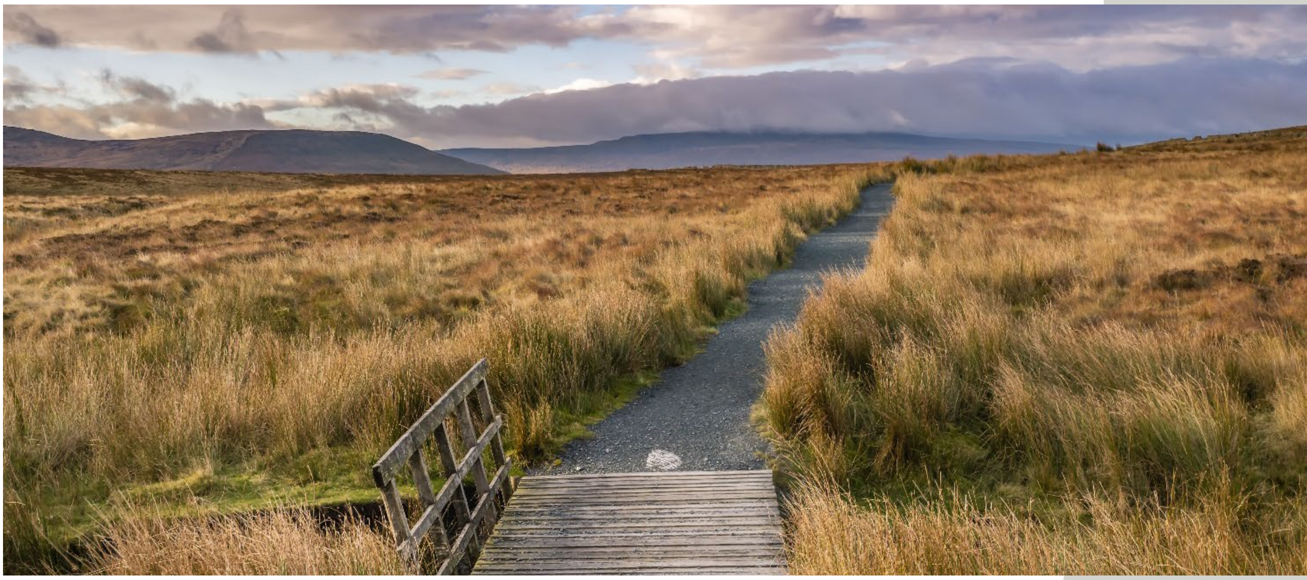
Market reflection



John Wyn-Evans
Head of Investment Strategy

Overview

After a shaky start, equity markets made further positive progress during September, making light of the fact that, statistically speaking, it tends to be the worst month of the year for shares. There were two major developments. First, the US Federal Reserve cut interest rates for the first time in this cycle, reducing the Federal Funds rate by 0.5% to a range of 4.75% to 5%. Ahead of the meeting, investors had been undecided as to whether the cut would be 0.25% or 0.5%.

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The smaller option would have left the Fed open to accusations of being “behind the curve”, but the larger one equally raised the risk that it was concerned that the economy was in trouble. In the end, Chairman Jerome Powell was able to convey a reassuring message that inflation is on a sustainable downward trend and that the Fed can now turn its focus to supporting the labour market and the wider economy. Fed cuts also make it easier for other countries to reduce rates without the threat of their currencies being undermined, and so investors are reacting positively to the prospect of cheaper money and the promise of a modicum of economic growth. The other big news came from China, where the government unleashed several new monetary policies as well as, finally, some fiscal stimulus. It was the latter that was seen as a game-changer. While cheaper (and increased supply of) money tends to be of little benefit if nobody is in the mood to borrow more, fiscal transfers can encourage spending. Even so, we are not inclined to get carried away, as the fiscal stimulus directed at consumers amounts to just 0.8% of GDP vs the whopping 12.5% of GDP that was announced during the Global Financial Crisis in 2008. That spending played a big part in reigniting not just Chinese but also global activity. It’s hard to see the same effects being replicated today.

- The Bloomberg consensus for World GDP growth in 2024 has risen to 3.1%, up from 2.6% in January. The forecast for 2025 is also 3.1%. There is growing confidence that the US will not enter a recession, but with the Bloomberg poll of economists (and our own analysis) suggesting a 30% probability, neither is there a reason to be complacent.

- Government bonds continue to benefit from the expectation of lower interest rates, with the Bloomberg Global Aggregate index gaining almost 2% in September, taking its year-to-date gains to almost 4%.

- With the budget scheduled for October 30th, the new Labour government is struggling to refine its message, being accused of too much gloom and doom, which has helped to lower consumer confidence. The threat of higher taxes looms over investors.

- The pound is taking all the uncertainty in its stride, with its trade-weighted index up more than 4% so far this year, taking it back to levels last seen in 2016, although still well below pre-Brexit values. Support comes from the fact that the Bank of England is expected to cut interest rates somewhat slower than peers owing to the elevated levels of service sector inflation and high wage settlements.

- The outcome of the US election remains on a knife-edge. A handful of crucial swing states will define the result. We continue to be of the opinion that this uncertainty makes it difficult to make strong directional investments in the US market at this moment given that the views of the Presidential candidates are so opposed on most issues.

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