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A look back at markets in June 2024.

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Ready, Steady, Cut (interest rates)

- **ECB interest rate decision in focus**
- **Bank of England next**
- **Federal Reserve stays cool but market bets on cuts in September**

The Balanced portfolio benchmark added 1.09% in June as Gilts joined the Equity rally on the prospect of ever-nearing interest rate cuts. Gilts themselves gained 1.91% for the month though further progress is needed to confirm a changing trend in the Fixed Income asset.

Inflation and Interest rates

Bank of England

The Bank of England proceeded with caution, holding the interest rate at 5.25% during its June meeting, despite two members advocating for a cut to 5.00%. Members of the Monetary Policy Committee acknowledged the “looser” labour market as the UK’s unemployment rate rose to 4.4% from February to April 2024, compared to market forecasts and the previous three-month period’s 4.3%. It was the highest reading since the three months to September 2021.

US Federal Reserve

As the US holds its interest rate at 5.50%, Federal Reserve Chair Jerome Powell said the U.S. central bank will make interest rate decisions "when and as" they are needed, pushing back on a suggestion that a September rate cut could be seen as a political act ahead of the fall presidential election.

"Our undertaking is to make decisions when and as they need to be made, based on the data” and “not in consideration of other factors, and that would include political factors," Powell said in a hearing before the House Financial Services Committee.

Inflation slowed to 3.00% in June, giving policymakers more reason to consider cutting the US interest rate.

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European Central Bank (ECB)

The European Central Bank hold their next interest rate decision meeting on 18th July, with markets hoping that slower manufacturing demand will give the ECB more reason to cut their interest rate.

Last month, the ECB lowered its deposit rate by 25 basis points to 3.75%, whilst the fell to from 2.60% to 2.50% in May, closer to the ECB's target of 2.00%.

Economic indicators

Country/ region	Manufacturing PMI	Services PMI
US	51.6	55.3
UK	50.9	52.1
Eurozone	45.8	52.8

Note: Less than 50 PMI = contraction and more than 50 PMI = growth.

Manufacturing

The US Manufacturing PMI was 51.6 in June 2024, the highest reading in three months, showing an improvement in the sector. New orders rose for a second month running and production continued to rise, albeit at a weaker rate. Employment also increased the most since September 2022.

The UK Manufacturing PMI was 50.9 in June 2024 and compared to a slightly higher reading of 51.2 in May. The Reading continued to point to an upturn in the manufacturing sector as output and new orders both expand for the second successive month, with rates of expansion remaining close to the highs reached in May.

The HCOB Eurozone Manufacturing PMI was revised higher to 45.8 in June 2024, lower than the reading of 47.3 in May.

Although one month does not define a trend, output contracted at the fastest rate so far this year whilst new orders, purchasing activity, and employment all declined more rapidly. This could be where ‘bad news’ becomes ‘good news’ as weakening manufacturing activity adds pressure to the European Central Bank’s (ECB) next interest rate decision, with the market and economy hoping that the ECB will cut rates once more, to stimulate growth.

Services

The US Services PMI rose to 55.3 in June of 2024 from 54.8 in the previous month, firmly above earlier market expectations. This reflected the sharpest expansion in services sector activity since April of 2022. Inflows of new work rose at the sharpest pace in a year during the period, resulting in an expansion in output.

The UK Services PMI fell to 52.1 in June of 2024 from 52.9 in May, and below the market expectations. It marked the eighth consecutive expansion in the British services sector, albeit at the slowest pace this year. Looking forward, UK service providers remained optimistic, as expectations of rate cuts by the BoE offset political uncertainty.

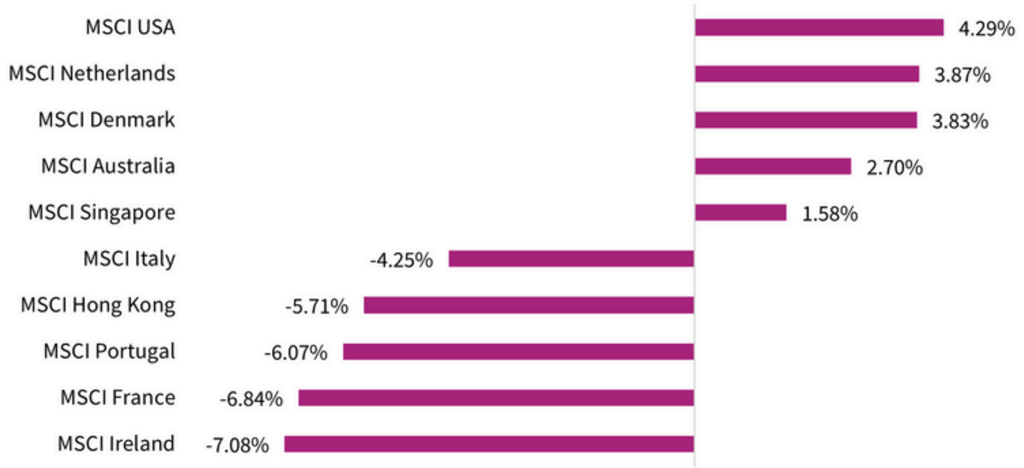
The HCOB Eurozone Services PMI fell to 52.8 in June of 2024 from 53.2 in the earlier month, below market expectations. It marked the fifth consecutive month of expansion in the currency bloc’s services activity, as lower demand from foreign clients drove new export orders, while domestic orders extended its robust growth.

Market performance

MSCI USA (+4.29%) led developed markets this month as Mega Caps like Apple (+10.44%) supported the broader market and continued to make strong gains.

The Irish market was the laggard this month, falling by 7.08% as the Industrials and Healthcare-heavy index lagged the global market.

Top and Bottom 5
Developed Markets



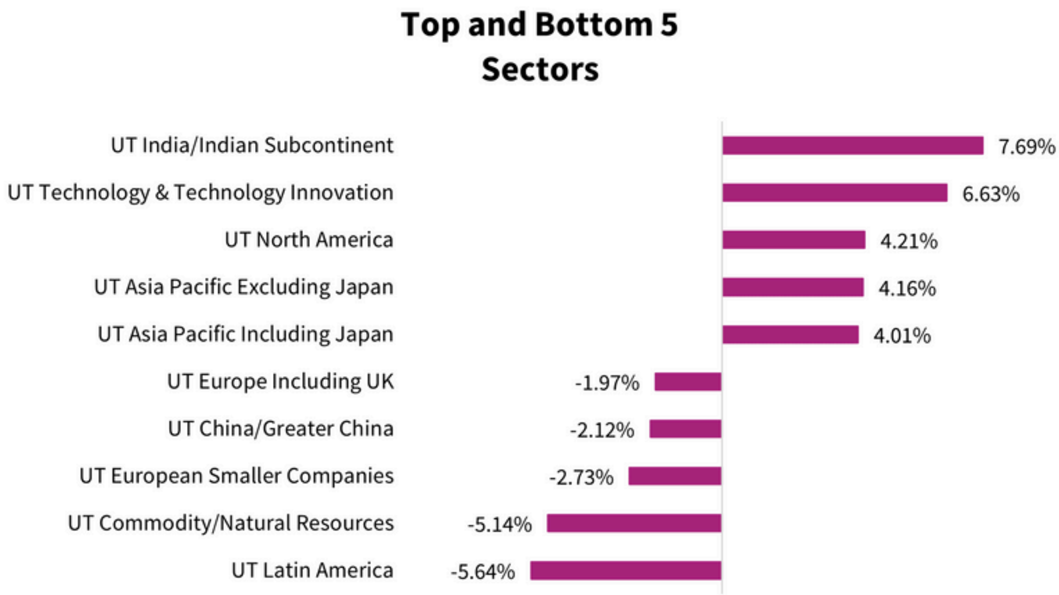
Taiwan (+12.68%) led Asian and Emerging Markets, powered by the likes of Taiwan Semiconductor (+10.39%) as the sector faces growing demand due to the tailwind of AI.

Mexico missed out, falling by 9.96%, as large weightings like multinational beverage company Fomento Economico Mexicano, lost ground.

Top and Bottom 5
Emerging Markets

Sector performance

India continued its strong run of performance, gaining 7.69% as strong economic data continues to emerge from the Asian powerhouse. Latin America (-5.64%) struggled as commodities fared less well on uncertain global demand.



Source: FE FundInfo, 15/07/24

Summary

Though it is a recurring theme, interest rate cuts are likely closer now than before as the ECB sits in pole position with the first cut of 2024.

The Bank of England can now formally lift its pre-election silence, providing further guidance to markets, with the next opportunity for a clear signal being its interest rate decision on 1st August. The US continues to deflect attention from the next scheduled interest rate cut, which 88% of market participants believe will take place in September. As a reminder, interest rate cuts can only be seen as good news as a lower cost of borrowing helps businesses and consumers alike, in expanding their expenditure. The true test will be just how much each party wants to expand the debt on its balance sheet.

The services sector remains strong whilst the weak link among the major manufacturing nations covered in this report is the EU, which is the only area reporting a decline in growth. Despite the obvious challenge, the UT Europe Excluding UK sector average has grown by 6.52% (year-to-date) showing that markets act as a forward-looking, discounting mechanism, which is guided more by the windscreen than the rear-view mirror.

There is room for healthy optimism, all round.

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Sources:

Economic indicators information from PMI by S&P Global, IHS Markit and Trading Economics
The ‘Balanced portfolio benchmark’ is the UT Mixed Investment 20-60% Shares Sector.
Market and Sector performance data sourced from FE FundInfo, 15/07/2024
Powell says Fed will cut rates when ready, regardless of political calendar, Reuters, 15/07/2024
June price drop may shorten the Fed's last mile on inflation, by Ann Saphir, Reuters, 11/07/2024

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