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A look back at markets in July 2024.

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Japan's 'Bear' Hug and the Fed's Rate Riddle

- **Global Market Selloff and Interest Rate Dynamics**
- **Divergent Economic Performance Across Regions**
- **Sector and Regional Market Leaders and Laggards**

The Balanced portfolio benchmark added 0.86% although the more prominent story is what has happened since the start of August, with global markets selling off, moving back to levels seen a few months prior.

US non-farm payrolls data being worse than the market expected appeared to be the final catalyst for global markets to selloff. Japanese shares saw their worst one-day drop since the "Black Monday" of 1987, entering bear market territory, returning to levels last seen in December 2023. At the end of July, the Bank of Japan raised its policy rate to 0.25% and signalled willingness to hike rates further, with markets betting on two more increases this fiscal year than ends March 2025. Whilst this moved to strengthen then Yen, it causes Japanese corporations and consumers challenges as far as the 'cost of capital' is concerned. Although the interest rate move in Japan seems very much out of step with Western economies, the Japanese economy has moved to a very different beat, for decades, particularly since the advent of quantitative easing in the country back in the early 1990s.

Despite the short-term challenges of suggestions that the US Federal Reserve are late to the 'interest rate cutting party', the Fed's meeting next month offers the greatest hope, where the market calculates the probability of a US interest rate cut to be over 93%.

Inflation and Interest rates

Bank of England

The Bank of England cut interest rates from a 16-year high on Thursday after a tight vote by its policymakers who were split over whether inflation pressures had eased sufficiently.

Governor Andrew Bailey led the 5-4 decision to reduce rates by a quarter-point to 5% and he said the BoE would move cautiously going forward.

It was the central bank's first cut since March 2020, at the start of the COVID-19 pandemic, giving Britain's new government a boost as it seeks to speed up the pace of economic growth.

Inflation remains at 2.00%, the Bank’s target, the same as in May and holding at 2021-lows.

US Federal Reserve

The ‘Fed’ held interest rates at 5.50%, a stance which the market did not like amid weaker jobs data. Futures on the Secured Overnight Financing Rate (SOFR) and the Federal funds rate, which measure expectations of Federal Reserve monetary policy moves, priced in an inter-meeting interest rate cut.

The August 2024 SOFR futures have factored in the likelihood that the Fed will cut interest rates by at least 25 basis points (bps) this month. The September futures , on the other hand, have priced in a 100% chance of at least a 50 bps rate reduction.

The annual inflation rate in the US fell for a third straight month to 3.00% in June 2024, the lowest since June 2023, compared to 3.30% in May and below forecasts of 3.10%.

European Central Bank (ECB)

Annual inflation rate in the Euro Area unexpectedly edged up to 2.6% in July 2024 from 2.5% in June, compared to forecasts it would slow to 2.4%. Despite this, the European Central Bank kept interest rates unchanged at 3.75% as expected. It also said September's meeting was "wide open" as it downgraded its view of the euro zone's economic prospects and predicted that inflation would keep on falling.

There were a few hints to support investor bets on another reduction in September, however, including ECB President Christine Lagarde's comment that risks to growth were "tilted to the downside" - a change to her previous formulation that they were balanced, at least in the near-term.

Economic indicators

Country/ region	Manufacturing PMI	Services PMI
US	49.6	56.0
UK	52.1	52.5
Eurozone	45.8	51.9

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

Manufacturing

The US Manufacturing PMI at 49.6, is the lowest reading this year, pointing to a deterioration in business conditions at US manufacturers. New orders declined for the first time in three months while work on outstanding business and a near-record replenishment of stocks of finished goods helped to keep output rising, although the pace of expansion was only marginal.

The UK Manufacturing PMI was revised higher to 52.1 in July 2024, compared to 50.9 in June. This marked the sharpest expansion in the manufacturing sector since July 2022, as production growth accelerated to an over two-year high. There were also signs of possible stabilisation in new export order intakes. Consequently, there was a broad-based recovery in output, with production volumes increasing across consumer, intermediate, and investment goods industries.

The Eurozone Manufacturing PMI was at 45.8 in July of 2024, unchanged from the year-to-date-low in the prior month, and revised slightly higher from the preliminary estimate of 45.6. Despite the upward revision, the result consolidated the poor momentum for manufacturing in the European currency bloc, with major economies in the Eurozone that recorded a faster downturn in activity offsetting the slower contractions for others.

Services

The US Services PMI rose to 56 in July 2024, the highest in 28 months, from 55.3 in June and above market expectations of 55. New business inflows accelerated sharply, reaching their quickest pace in over a year. Prices charged for services increased at the slowest rate in nearly four years, while input costs rose at a faster pace. However, payroll growth was slower compared to June.

The UK Services PMI edged higher to 52.5 in July of 2024 from 52.1 in the previous month, aligning with the initial market estimates to reflect the ninth consecutive period of expansion in the services sector activity. The faster growth rate contrasted with moderating increases noted in Britain's Eurozone members, with new business rising the most since May 2023 as firms cited a solid backdrop of demand and new client wins, both domestically and abroad.

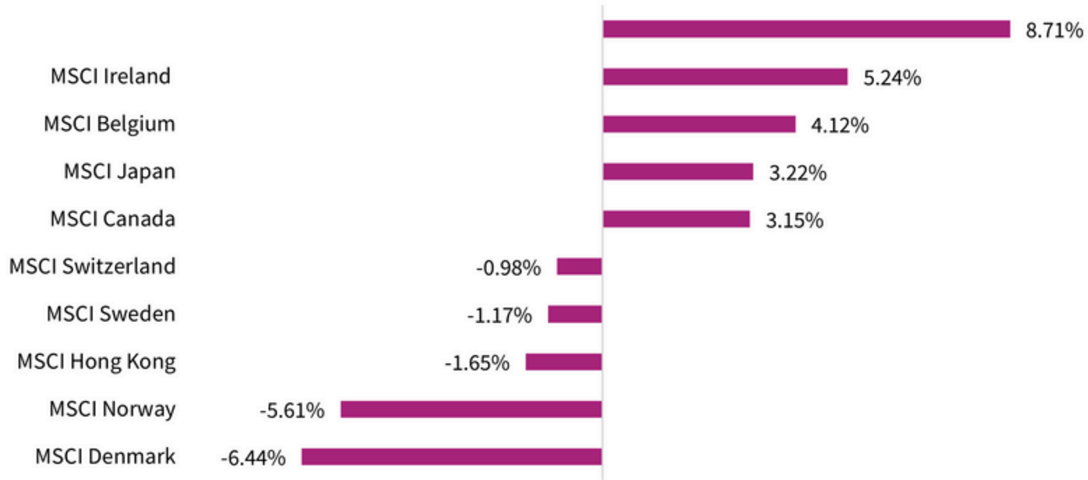
The HCOB Eurozone Services PMI fell to 51.9 in July of 2024 from 52.8 in June, aligned with the preliminary estimate and firmly below the earlier market expectations of 53 to mark the slowest pace of expansion in the Eurozone services activity since March. It was the coolest pace of growth in the Eurozone's services activity in four months amid a slower rise in new business, largely due to softer demand in domestic markets, which offset robust demand from foreign clients.

Market performance

MSCI Ireland (+8.71%) led developed markets this month, in stark contrast to the fall of 7.08% for the prior month. Performance swings of this size are not uncommon as the index is highly concentrated, with just two holdings (Icon and Kingspan Group) accounting for over 41% of the entire index.

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

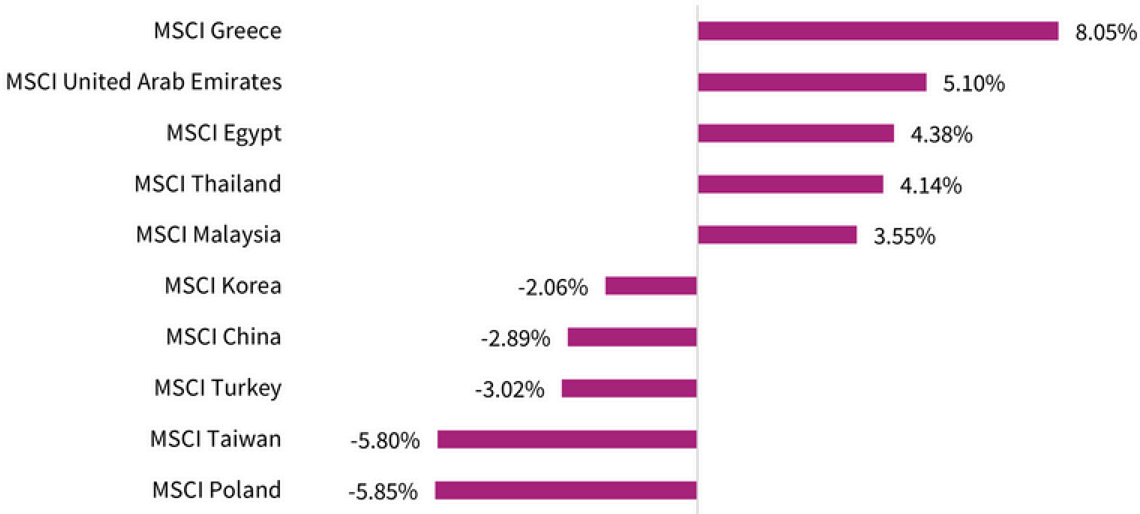
Top and Bottom 5
Developed Markets



Greece (+8.05%) led Emerging Markets for this month, as companies like Greek gambling firm, OPAP, gained over 6%.

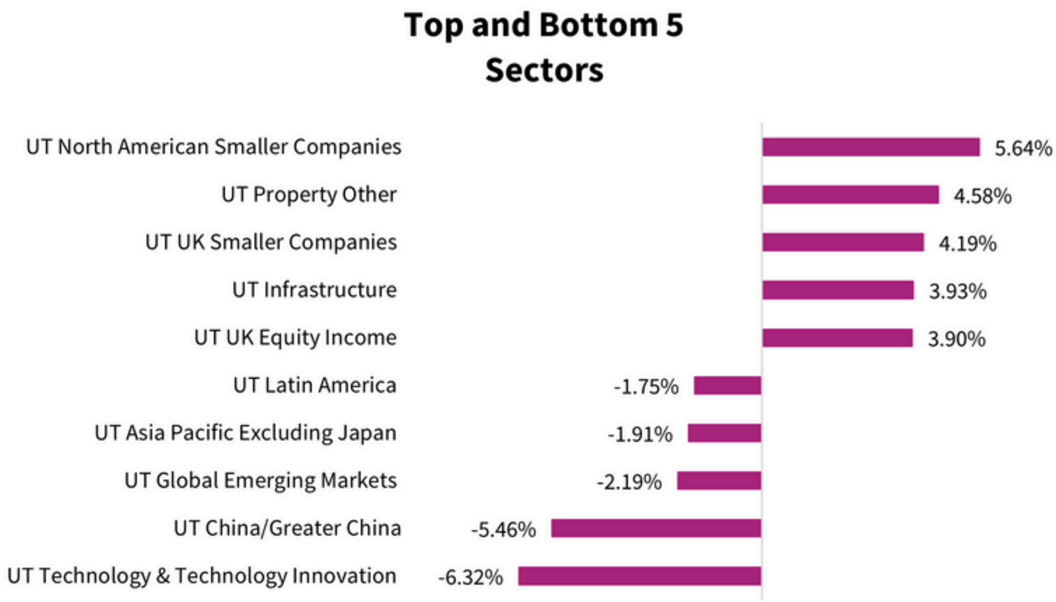
Meanwhile Poland fell by 5.85%, driven by the fall in the Financial sector with companies like PKO Bank falling by almost 17% for the month.

Top and Bottom 5
Emerging Markets



Sector performance

In July, the ‘Small Cap’ rally was most evident in North American Smaller Companies, which gained 5.64%. Tech struggled as the US opted to hold interest rates, with the sector down by over 6%.



Source: FE FundInfo, 06/08/24

Summary

In recent weeks, global markets experienced a significant selloff, with notable declines since August, driven partly by disappointing US non-farm payroll data. Japanese shares faced their steepest drop since 1987, entering bear market territory as the Bank of Japan raised interest rates to 0.25%, signalling more hikes despite economic challenges. The US Federal Reserve maintained its interest rate at 5.50%, though markets anticipate cuts amid declining inflation and weaker job data. The Bank of England, in a close vote, cut rates to 5% following signs of easing inflation, while the European Central Bank held rates steady at 3.75% amid mixed economic signals.

Whilst the Services PMIs of all three major regions gained, only the UK showed Manufacturing growth, with the US now showing a contraction in the sector.

September cannot come soon enough for investors, with all hopes pinned on the US cutting interest rates to levels that further support economic growth. If this happens, it can only be good news for Equities and Bonds, with the capital growth of both asset classes helped by lower rates.

Sources:

Economic indicators information from PMI by S&P Global, IHS Markit and Trading Economics
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