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A look back at markets in September 2024.

By Anthony Walters

Head of ESG - Clever

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www.clevermps.com

Central Banks Slash Rates as Global Inflation Cools

- **US cuts interest rate for first time since March 2020**
- **China stimulus boosts Asian markets**
- **UK Inflation Falls to Lowest Level Since April 2021**

Mirroring the previous month, the Balanced portfolio benchmark gained 0.62% against a backdrop of the first interest rate cut by the US, this cycle.

Inflation and Interest rates

Bank of England

The Bank of England left interest rates at 5% in September and voted to run down its stock of British government bonds by another 100 billion pounds ($132.86 billion) over the coming 12 months, weighing on the government's finances.

The Monetary Policy Committee voted 8-1 to keep rates on hold, with only external member Swati Dhingra voting for a further quarter-point rate cut after the BoE last month delivered its first reduction to borrowing costs since 2020.

Annual inflation rate in the UK fell to 1.70% in September 2024, the lowest since April 2021, compared to 2.20% in each of the previous two months and forecasts of 1.90%. The largest downward contribution came from transport (-2.20% vs 1.30%), namely air fares and motor fuels.

Lower inflation gives cause for optimism around further interest rate cuts by the Bank of England in the coming months.

US Federal Reserve

The Federal Reserve opted for a 0.50% interest rate cut in September, the first cut since March 2020.

Slowly cooling inflation and a U.S. job market that remains strong, but at risk of deteriorating, gives a green light for more interest-rate cuts in coming months, Federal Reserve policymakers have indicated. At an event at Binghamton University, New York Fed President John Williams said the timing and pace of rate cuts will depend on the data, but "based on my current forecast for the economy, I expect that it will be appropriate to continue the process of moving the stance of monetary policy to a more neutral setting over time."

Inflation rose slightly in September with the consumer price index at 2.40% over the previous 12 months. The annual inflation rate was the lowest since February 2021.

European Central Bank (ECB)

The European Central Bank will probably cut interest rates on 17th October due to weaker economic growth and the risk that inflation will undershoot its 2.00% target, French Central Bank Chief Francois Villeroy de Galhau recently told an Italian newspaper.

The ECB has cut rates from record highs twice already this year and markets now expect even quicker policy easing with moves in October and December fully priced in as inflationary pressures are easing faster than policymakers had expected.

Annual inflation rate in the Eurozone fell from 2.20% to 1.80% in September 2024, the lowest since April 2021. Prices fell most for energy (-6.00% vs -3.00% prior).

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Economic indicators

Country/ region	Manufacturing PMI	Services PMI
US	47.3	55.2
UK	51.5	52.4
Eurozone	45.0	51.4

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

Manufacturing

The US Manufacturing PMI was revised higher to 47.3 in September 2024 from a preliminary of 47 but remained the lowest since June 2023. It marked the third consecutive month of contraction, with both output and new orders falling sharply due to weakened demand and political uncertainty. The prospect of further interest rate cuts over the next 12 months will surely bolster demand.

The UK Manufacturing PMI fell to 51.5 in September 2024 from 52.5 in August, as expected. It remained above the neutral 50.0 mark for the fifth consecutive month, supported by strong domestic demand, with output and new orders rising. However, anticipation of the Autumn Statement led to slower growth in production and a nine-month low in future expectations.

The Eurozone Manufacturing PMI was revised slightly higher to 45 in September 2024 from a preliminary of 44.8 and compared to 45.8 in the previous two months. However, it remains the lowest reading so far this year, as the manufacturing sector slid deeper into contraction. There were big divergences across countries, with Spain having the strongest-performing manufacturing in September while Germany recorded its most pronounced worsening of factory conditions for 12 months.

Services

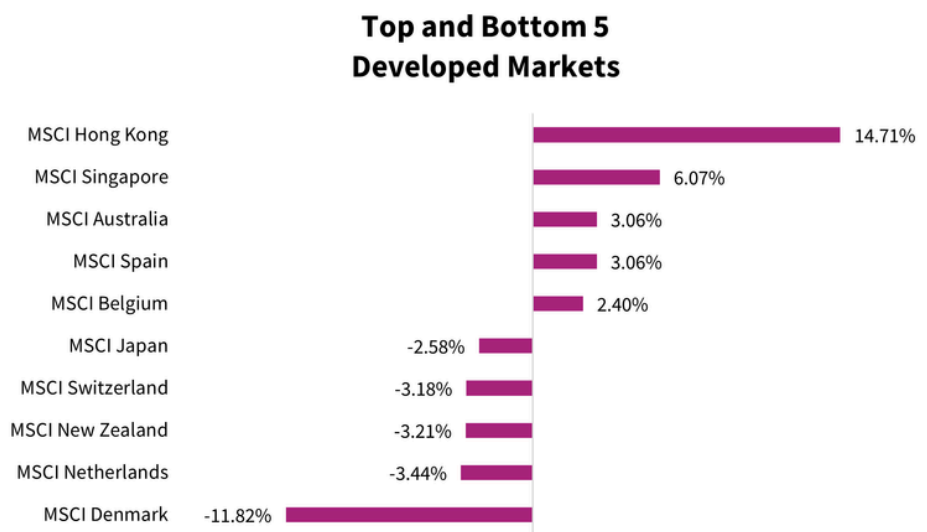
The US Services PMI was revised lower to 55.2 in September 2024, slightly down from 55.7 in August but still indicating robust growth. New business rose solidly, although companies hesitated to hire due to rising input costs, which increased at the joint-fastest rate in a year. Selling price inflation also accelerated.

The UK Services PMI fell to 52.4 in September 2024, down from 53.7 in August. Although the growth pace moderated, overall business activity stayed robust, driven by rising domestic demand, especially in sectors like technology, real estate, and leisure services. New business volumes continued to expand near the 14-month peak observed in July.

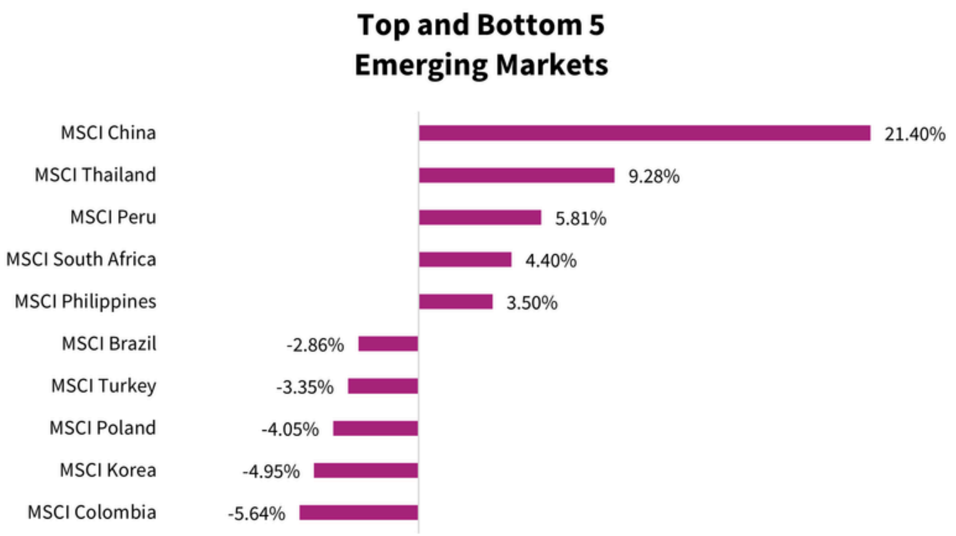
The EU Services PMI was 51.4 in September 2024, down from 52.9 in August. This suggests only modest growth, marking the weakest expansion in seven months. Despite a drop in new incoming work, the first since February, backlogs helped sustain business activity. Employment in the service sector rose slightly faster than in August but was still below historical averages. Inflation eased, with input and output prices rising at their slowest pace in over three years.

Market performance

MSCI Hong Kong (+14.71%), along with Singapore (+6.07%) were the clear leaders this month, supported by a large fiscal stimulus package from China, who plan to issue special sovereign bonds worth about 2 trillion yuan ($284.43 billion) this year to stimulate the economy.

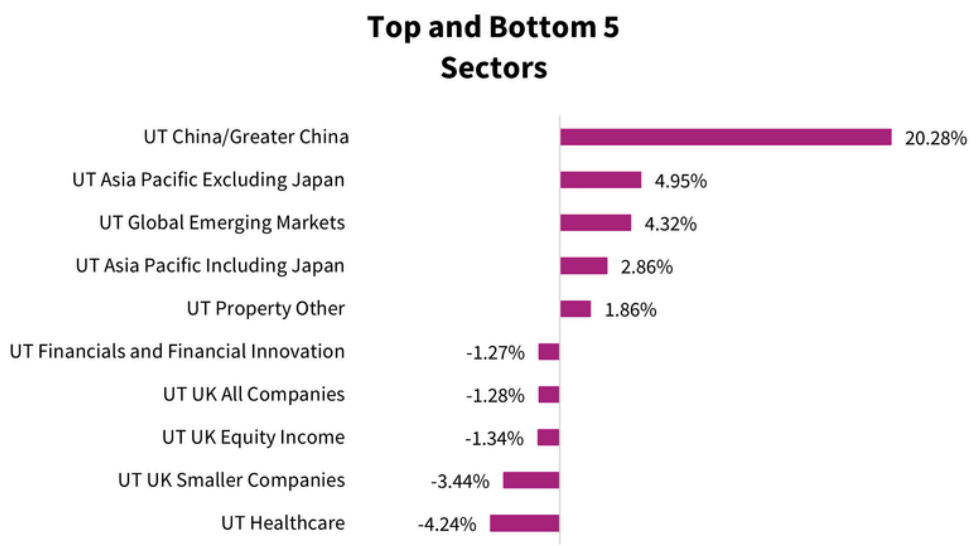


In Emerging Markets, MSCI China (+21.40%) was an obvious beneficiary of the stimulus announced by the country, whilst MSCI Thailand (+9.28%) although benefitted from the Asian stimulus tailwind.



Sector performance

At the risk of repeating myself, the UT China/Greater China sector (+20.28%) was the clear outlier, for reasons outlined above. The broader Asian market (UT Asia Pacific Excluding Japan) also made good gains, adding almost 5%.



Source: FE FundInfo, 02/10/24

Summary

As the US finally cut interest rates for the first time in over four years, markets paid close attention to the news that China will deploy huge fiscal stimulus to drive its economy higher. Part of the new debt issue is intended to subsidise consumer goods purchases and child support, effectively transferring funds to households. Whilst the large moves in MSCI Hong Kong, MSCI China and UT China/ Greater China persisted in September, all three indices have posted negative returns so far in October. Markets are watching closely to measure the efficacy of the latest stimulus.

With inflation falling below the standardised 2.00% target in the UK and EU, further interest rate cuts must surely be coming soon, providing a further boost to Equity and Bond values, particularly benefitting the balanced investor.

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.
Bank of England leaves rates at 5%, pound hits highest since March 2022, by Reuters, 19th September 2024
Annual inflation rate drops to 2.4 percent, lowest since February 2021, By Sylvan Lane, Yahoo Finance/The Hill, 10/10/2024
ECB will probably cut rates in Oct on risk of too low inflation: Villeroy, by Reuters, 7th October 2024

Important Information: