Portfolio & Market Update

September 2024

Introduction

Equity markets experienced a notable recovery in September, driven by strong performances in Asia and the US. There were two big surprises on the policy front. The first of these was the US Central Bank cutting interest rates more aggressively than expected, and the second was the Chinese Government launching a large stimulus plan.

Within the equity markets, technological companies and consumer discretionary (companies that provide goods and services that are not essential for everyday living) were the best performers. This is likely to be due to lower inflation and more accommodative monetary policy, which favours consumers and investment.

Tumbling oil prices pushed Energy stocks lower, reflecting stronger supply from the producing countries and a structurally reduced demand from China.

In the UK, equity markets had challenging month returning a loss of 1.56%.

In terms of currency, the British Pound (GBP) appreciated during the month, as finanancial markets expected the US interest rate to drop faster than in the UK.

Markets

September was a recovery month driven by policy. Nonetheless, it benefited multi-asset portfolios as both equities and fixed income saw positive returns. In GBP terms, Asian equities & Emerging Markets performed well, though Europe, UK and Japan experienced declines.

Fixed income markets gained strength due to global interest rate cuts and decreasing inflation.

US

This September was one of the strongest in the last two decades, supported by solid earning results, indicating that US companies were more resilient than expected. The Federal Reserve cut interest rates as the market expected. However, the size of the reduction was larger than the market expected - with a reduction of 0.5% versus an expected 0.25%. This was enough to bring a renewed sense of optimism in the market and the S&P finished the month positively in USD terms, but negatively in GBP terms.

Over the last month, we have experienced a continued widening of market performance: while at the beginning of the year most of the market performance came from a few stocks, in the last month we have seen more stocks starting to outperform.

UK

In September, the FTSE 100 faced challenges, primarily due from weak Chinese trade data and a faltering global economy.

Despite UK Gross Domestic Product (GDP) being revised down to 0.5%, mainly due to lower exports, UK business conditions remained positive. The UK Purchasing Managers' Index (PMI) dropped to 52.6 from 53.8 in August (a score above 50 indicates an expanding market), but was still in expansion territory, indicating a continued private sector momentum.

Despite signs of a cooling labour market, as we saw with a slowdown in pay growth, the unemployment rate stayed robust at 4.1%.

On the inflation front, it remained steady at 2.2% year-on-year in the previous month, with core inflation rising to 3.6%. Those disappointing numbers may explain why the Bank of England kept interest rates at 5%, although it is hinting at future cuts, albeit with Governor Andrew Bailey cautioning against cutting rates too quickly.

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Meanwhile, a closely watched measure of consumer confidence saw a sharp decline this month, with consumers reportedly worried about policy changes in the upcoming budget.

Europe

European equity markets showed gains in local currency but losses in GBP terms. Eurozone economic data was bleak, with PMI figures revealing a contraction in September against predicted growth.

The services sector slowed, and manufacturing saw a sharp drop in new orders. Inflation rates in France and Spain decelerated more than expected. Against that background, the European Central Bank (ECB) cut interest rates by 0.25%, reflecting the better inflation outlook in the Eurozone.

Japan

In September, the Japanese market maintained its negative trend from the start of the quarter and ended the month down. Despite annual inflation increasing to 3.0% from 2.8%, the highest since October 2023, the Bank of Japan kept its key short-term interest rate at around 0.25%, the highest since 2008.

This decision indicated no rush to raise rates further after two hikes in March and July, amid strong GDP growth signaling a robust economic recovery.

Shigeru Ishiba won the leadership contest for Japan's Liberal Democratic Party and scheduled a general election for late October.

Asia & Emerging Markets

Asian markets performed strongly in September due to Chinese stimulus measures.

Facing a struggling economy after the property burst, Chinese authorities introduced a substantial stimulus package, focusing on reducing property oversupply and promoting new technologies and businesses.

This stimulus is different from the previous one as it aims to address the situation, rather than promote new construction, hence limiting the impact on commodities. The size and commitment of the stimulus boosted positive sentiment across Asian and emerging markets.

Fixed Income

In September, fixed income overall witnessed gains; however, this masked the varied performance within the asset classes.

US bonds performed strongly, buoyed by the anticipation of additional rate cuts, whereas UK bonds lagged behind, due to the Bank of England's more cautious stance. As the likelihood of a recession diminished, lower quality bonds continued to produce positive returns.

Outlook

The forecast for the upcoming months indicates ongoing market volatility. The US election could be a disruptive factor for the market in the near term. On a positive note, we recognise that inflation is currently on a downward trend.

Our perspective suggests that while there is a possibility of a global economic slowdown, a recession is unlikely in the near future. Central banks will continue to face the challenge of balancing inflation and economic growth.

At Flying Colours, we are committed to continuously monitoring the economic outlook and market signals to ensure our portfolios remain aligned with the best interests of our clients. Our investment strategies are long-term focused, managing risks over the extended horizon rather than reacting to short-term trends that could be detrimental to our investors. Our goal is to achieve well-managed risk-adjusted returns, consistent with our investment philosophy.