MONTHLY UPDATE

Latest views from the investment team

The First Cut Is The Deepest

In a clear move away from their focus on inflation and towards a focus on the economy, the U.S. central bank cut interest rates by 0.50% in September – with more cuts to be expected. China tries to battle its economic and financial market malaise by launching a stimulus package, although it may not be enough. In reaction, financial markets outside of Japan broadly performed well over the month. Yet, interest rates remain high and balancing the forces of inflation and growth is a difficult act.

One of the biggest economic news stories in September came mid-month, with interest rates in the U.S being reduced by 0.50%. The scale of this reduction did surprise some, who were expecting a more modest 0.25% cut. Yet it displayed a clear intention that the country's central bank, the Federal Reserve, is shifting its focus away from the battle against inflation and towards providing support for the economy. On inflation it is easy to see why they believe they have a point, as the annual inflation rate eased for a fifth consecutive month in August and is at the lowest level since February 2021. Although the core inflation figure, which excludes more volatile yet post-apocalyptic necessities like food and energy, was unchanged. On the economic front U.S. GDP growth remains fairly robust, although some cracks have been appearing in the labour market, with the unemployment rate drifting up this year. Many point to this being caused by an increase in new entrants, notably due to immigration, but there are also signs that the overall demand for labour is falling. As such, this large reduction in interest rates was aimed at getting ahead of any perceived economic weakness and there was a clear indication that more cuts are on the way.

Towards the end of the month, it was the world's second largest economy that moved onto the centre stage, as China unveiled a stimulus package aimed at reviving its flagging economy and beleaguered financial markets. The news has thus far been taken well by investors, with the Chinese stock market posting its best day since 2008 on the last day of the month. Nevertheless, there remain questions as to whether this is enough to stimulate growth and wider investor interest, so more intervention may yet be needed in time.

China's upbeat end to the month was not mirrored in Japan, where markets fell on the news that Shigeru Ishiba had won a surprise victory in the ruling party’s leadership race. This was not cheered by investors as Ishiba has expressed support for higher taxes on companies and investment income.

Financial markets were mostly higher or flat in September, with the U.S. interest rate cuts and Chinese stimulus measures lifting the former's stock market to new highs and the latter from the doldrums. Fixed Income markets generally behaved well over the month, as may be expected following an interest rate cut by the world's most influential central bank.

Bottom Line

Interest rate cuts and stimulus packages are often taken well by markets, especially initially, and do provide some support for the view that a global recession may be staved off. However, we would cautiously note that interest rates still remain more restrictive than they have for years, and history suggests that the timing of these decisions is very difficult; meaning we sincerely hope this is not too little too late.

Month by numbers

Change in various markets over the month:

Asset		Change	Value
Equities			
UK	↓	-1.77%	
Europe	↓	-0.40%	
US	↑	2.12%	
Emerging Markets	↑	5.56%	
Japan	↓	-2.33%	
Bonds / Rates ** Absolute change (%)*			
UK Base Rates	–	0.00%	5
Fed Funds Rate	↓	-0.50%	5
UK 10-Year Yield	↓	-0.01%	4.01
US 10-Year Yield	↓	-0.13%	3.79
Currencies			
GBP / USD	↑	2.05%	$1.34
GBP / EUR	↑	1.00%	€1.2
DXY (USD Index)	↓	-0.90%	100.78
Commodities			
Gold	↑	5.25%	$2634.86
Oil (Brent)	↓	-8.92%	$71.77
Noteworthy			
Alibaba	↑	31.16%	

October 2024

All data as of 30th September 2024

Q&A

What's on your mind?

If you take care of the pennies will the £22bn fiscal blackholes take care of themselves?

Rachel Reeves, the Chancellor of the Exchequer, is set to present her Budget this October, with the Government looking to plug their alleged £22 billion fiscal blackhole. To help illustrate the scale of this, it roughly equates to 1.5% of the Government's yearly total tax receipts of c.£1.1 trillion, or slightly more than the Capital Gains Tax (CGT) take from last year (c.£15.4 billion). Having been elected on a platform of boosting economic stability and growth, Labour have pledged not to increase "working taxes," with Rachel Reeves confirming that they would not raise National Insurance, Income Tax, Corporation Tax, or VAT. As the Government seeks alternative revenue sources, speculative bets around potential hikes in Inheritance Tax, Capital Gains Tax, or pension taxation have begun. It is always important to wait and see exactly what decisions are made, but please consult your financial adviser should you have any questions.

Revving the engine, or stalling at the start? Reviewing China's recent stimulus package

In September, China announced two major support programs to boost its economy. One to be enacted by the government (fiscal), and the other by China's central bank (monetary). The series of measures aim to counter China's slowing economy, focusing on boosting consumption, stabilizing the housing market, and alleviating financial pressures. Previously, China's growth rates were too low to meet the government's promises, and the country could not rely on exports alone for growth. The new policies are designed to increase domestic demand and move the economy from stagnation to growth. Questions still remain as to how robust China's long-term outlook will be, as the country is also ailing from aging demographics, and the ongoing effects of COVID-19 lockdowns. These factors highlight the difficulties Beijing faces in stimulating growth, and as such we may yet see more measures to come.

Who's been spending? A late summer flurry of mergers & acquisitions (M&A)

In the UK, Rightmove recently received a series of takeover bids from Rupert Murdoch's REA Group. The latest bid of £6.2 billion, was rejected, citing undervaluation. This marks the fourth time a REA bid has been rejected, with Rightmove remaining firm in its stance. In Europe, UniCredit made a significant move by increasing its stake in Commerzbank to 21%, making it the largest shareholder in the German bank. This increase, which included an additional 11.5%, follows an earlier acquisition of around 9%, part of which came from the German government, who still holds a 12% stake in the bank. Finally, in the US Semiconductor sector - recent reports surfaced that Qualcomm is exploring a potential takeover of Intel, generating significant buzz. Qualcomm could benefit from Intel's foundry business, which manufactures chips for other companies.

For more information, please contact your adviser.