Market brief

October 2024

- Bets that strong US economic data and a potential Trump victory would keep interest rates higher for longer pushed up US and global sovereign bond yields in October.
- UK gilt yields also rose throughout October, jumping at the end of the month as the government's autumn budget delivered a larger-than-expected increase in net spending and borrowing.
- Global equities fell 1.1% as optimism around rate cuts unwound and the extent to which earnings outperformed expectations fell to its lowest level in recent quarters.

OCTOBER HIGHLIGHTS

- Japan outperformed as renewed yen weakness supported exporters. Europe ex-UK and emerging markets underperformed, weighed on by manufacturing weakness and a stronger US dollar, respectively.
- Despite equity market weakness, global credit spreads tightened as fundamentals remained intact.
- The trade-weighted dollar rose 3.2% in October, reflecting US economic strength and the potential for more protectionist trade policy, should Trump win the presidency. The equivalent sterling and Japanese measures fell 2.1% and 4.8%, respectively, as some prior gains against the dollar unwound.
- Despite escalating tensions in the Middle East, oil prices rose a modest 1.7% in October as demand forecasts remained weak. Gold prices continued their ascent, rising a further 4.1%, as geopolitical tensions boosted investor demand.

Market performance to end October 2024*

UK	Q4 24*	Q3 24	2024
EQUITIES	-1.6	2.3	8.1
BONDS			
Conventional gilts	-2.5	2.3	-2.7
Index-linked gilts	-2.0	1.4	-4.5
Credit	-1.2	2.3	1.0
PROPERTY**	N/A	1.8	4.2
STERLING			
v US dollar	-4.2	6.1	0.9
v euro	-1.5	1.9	2.6
v Japanese yen	2.1	-5.6	9.0

GLOBAL	Q4 24*	Q3 24	2024
EQUITIES	-1.1	5.1	17.7
North America	-0.7	6.2	20.7
Europe ex UK	-3.2	1.7	8.4
Japan	2.0	-5.0	16.7
Dev. Asia ex Japan	-2.4	3.5	4.9
Emerging Markets	-2.9	9.7	18.5
GOVERNMENT BONDS	-1.7	3.8	0.3
High Yield	-0.3	4.9	8.2
Gold	4.4	13.2	32.7
Oil	1.7	-16.8	-5.8

Percentage returns in local currency ($ for gold and oil). *All returns to 31/10/2024, **apart from property 30/09/2024
Source: DataStream and Bloomberg. FTSE Indices shown: All Share, All World, North America, AW Developed Europe ex-UK, Japan, Developed Asia Pacific ex-Japan, Emerging, Fixed Gilts All Stocks, Index-Linked Gilts All Maturities, iBoxx Non-Gilts, S&P GSCI Light Energy, Crude Oil BFO, ICE BofA Global High Yield, Gold Bullion LBM, MSCI UK Monthly Property and BBG Aggregate Government Total Return.

Fixed income markets

Sovereign bond yields rose alongside interest rate expectations

US 10-year Treasury yields rose significantly – by 0.5% pa, to 4.3% pa – as strong US economic data and improving odds of a Trump presidency fuelled expectations that interest rates would stay higher for longer. There's a growing market consensus that Trump's agenda, which includes across-the-board tariffs on imports and a crackdown on immigration, could be a more inflationary policy mix than Harris's.

UK 10-year gilts also rose throughout October and jumped following the autumn budget, ending the month 0.5% pa higher, at 4.5% pa. The government unveiled larger borrowing and near-term spending than expected, with markets anticipating a slower pace of Bank of England (BoE) rate cuts as a result. Despite a far more benign inflationary outlook, equivalent German yields also rose, by 0.3% pa, to 2.4% pa.

UK 10-year implied inflation, as measured by the difference between conventional and inflation-linked bonds of the same maturity, increased by 0.2% pa, to 3.6% pa, as markets digested higher near-term government spending. The equivalent US and eurozone measures both rose 0.1% pa, to 2.3% pa and 1.8% pa, respectively.

Credit spreads tightened

Credit spreads tightened over October, continuing the year-to-date trend. Global investment-grade credit spreads fell 0.1% pa, to 0.9% pa, and speculative-grade spreads fell 0.3% pa, to 3.0% pa. Tighter credit spreads most likely reflect both strong yield-driven demand and benign default forecasts (consistent with a soft economic landing) made by the major credit rating agencies.

Rising yields and a stronger dollar hampered returns from emerging market debt

Hard-currency debt, as measured by the J.P. Morgan EMBI Global Diversified Index, returned -1.7% in dollar terms, as a rise in US Treasury yields more than offset a 0.2% pa decline in hard-currency spreads. Local-currency emerging market debt, as measured by the J.P. Morgan GBI-EM Global Diversified Traded Index, returned -4.6% in dollar terms, as yields rose 0.3% pa and index currencies, in aggregate, weakened against the US dollar.

Global equities

Growth underperformed value, while financials was the top-performing sector

The FTSE All World Total Return Index fell 1.1% in local-currency terms in October, as optimism around rate cuts unwound and the extent to which earnings outperformed expectations reduced. US equities gave up their gains for October on the final trading day, dragging global indices lower, as some notable tech stocks disappointed increasingly high expectations. Option-implied volatility, as measured by the VIX index, also rose as investors braced for uncertainty ahead of the US presidential election.

Global growth stocks slightly outperformed value stocks but still fell 0.9% during the month. Health care, basic materials and consumer staples were the largest underperformers from a sectoral perspective, while consumer discretionary and utilities also underperformed. Buoyed by strong earnings results, which surpassed prior expectations by a wide margin, and rising interest rate expectations, financials was the best-performing sector. Telecoms and energy were the only other two sectors to deliver positive returns.

Europe ex-UK, Asia Pacific ex-Japan and emerging markets all notably underperformed

Europe ex-UK was the worst-performing region, with the trade-sensitive market affected by rising odds of a Trump win, subdued activity in China and ongoing weakness in the manufacturing sector. Despite Chinese policymakers unveiling further measures to support the ailing property market and boost domestic consumption, emerging and Asian markets underperformed, as a stronger dollar weighed on market sentiment.

Japanese and North American stocks outperform

Having been the worst-performing region in Q3, Japan was the only region to produce positive returns in October. The exporter-heavy market benefited from a depreciating yen, as dovish comments from Japan's new prime minister further led investors to bet on a slower pace of interest rate rises from the Bank of Japan (BoJ). Sentiment also improved following reassurances from the BoJ that it would closely consider market stability in future policy decisions, given the sharp sell-off in Q3.

North American equities fell 0.7% but still outperformed global equity markets. While some disappointing tech earnings and uncertainty associated with the US election have dampened sentiment more recently, relative economic strength, as evidenced by September's blockbuster jobs report released in October, continues to underpin the market versus peers.

Currencies, commodities and property

The trade-weighted dollar rose 3.2% in October, its largest monthly gain in two years, driven by expectations that strong economic data and a Trump victory will keep interest rates higher for longer. The equivalent sterling and Japanese measures fell 2.1% and 4.8%, respectively, as some prior gains against the dollar unwound. The UK budget perhaps weighed on the former, while a re-widening of interest-rate differentials between the US and Japan negatively impacted the latter.

Despite ongoing concerns around escalating tensions in the Middle East, oil prices rose by only 1.7%, as subdued Chinese activity and global manufacturing weakness weighed on demand. Gold prices continued to rise, increasing 4.1% to reach new highs, as geopolitical tensions supported investor demand.

The global economy

Initial estimates suggest the US economy expanded at an annualised quarterly pace of 2.8% in Q3. Though this was below expectations, and the 3% pace set in Q2, the data suggest the US economy has continued to grow at a robust pace. Furthermore, the September jobs report released in October showed the economy added far more jobs than expected at the end of Q3. Forecasts suggest UK growth has slowed from the above-trend pace in H1 2024, with estimates that the UK economy grew 0.3% in Q3. In contrast, initial releases suggest eurozone GDP growth accelerated to 0.4% quarter-on-quarter in Q3, from the subdued pace in H1 2024. Meanwhile, the Chinese economy grew 0.9% in Q3. While the figures confirm the economy continues to grow, the pace is relatively subdued, below the official 5% annual growth target. Looser monetary and fiscal policy could pave the way for stronger growth in 2025, but property market weakness remains a major drag on domestic consumption.

Flash US PMI data released in October indicated another solid rise in business activity, with robust growth in output and sales . Growth was, however, driven solely by the service sector, as manufacturing output contracted for a third month running. Notably, confidence in the longer, year-ahead outlook improved, as companies hope a more stable post-election environment will be supportive for growth, particularly in the manufacturing sector. While still consistent with modest growth, UK surveys suggest business activity expanded at the slowest pace for nearly a year, as uncertainty ahead of the budget weighed on business confidence and spending decisions. Provisional eurozone data showed that business activity marginally declined for the second month in a row, amid weakening demand, with business confidence hitting an 11-month low. Globally, strong service sector activity continues to contrast with much weaker conditions in the manufacturing sector.

US headline CPI inflation slowed to 2.4% year-on-year in September. Meanwhile, the measure fell below target in the UK and eurozone for the first time in 3 years, to 1.7% and 1.8%, respectively. Core inflation is still higher, at 3.3%, 3.2% and 2.7% in the US, UK and eurozone. The subsequent eurozone flash release showed headline eurozone inflation rose to 2.0% year-on-year in October, but this was largely expected due to base effects, as last year's sharp declines in energy prices are no longer factored into annual rates.

Amid ongoing disinflation, the European Central Bank delivered its third cut of this cycle, reducing the deposit rate by 0.25% pa to 3.25% pa, in line with market expectations. The impact of greater near-term spending announced in the UK budget led markets to price in a slower pace of rate cuts from the BoE. Before the budget, markets were fully pricing five 0.25% pa cuts over the following 12 months; at the end of October, that had fallen to three. Amid strong US economic data and rising odds of a Trump victory, markets dramatically scaled back the number of cuts expected over the next year or so. At the end of September, US interest rate futures markets were expecting the federal funds rate to be cut to 3.0% pa by the end of December 2025, from its current midpoint of 4.8% pa. By the end of October, markets were expecting rates to be cut to 3.6% pa.

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