

Quarterly investment commentary

October 2024

The big three western central banks trimmed their interest rates in the third quarter. The European Central Bank (ECB) cut its rate for the second time this year in September, having made its first move in June. The Bank of England (BoE) opted for its first cut in August, while September saw the US Federal Reserve also cutting rates for the first time since 2020.

Inflation across Europe is forecast to have ended the quarter just below the EU's 2% target. Continuing the trend from the second quarter, inflation in the UK was still hovering just above target towards the end of Q3. Meanwhile, inflation finally fell below 3% in the US, a level not seen since Q1 2021.

Early August saw stock markets around the world experience sharp drops. There were many catalysts including the unwind of a carry trade. This is where market participants borrow in a currency with low interest rates and invest in other markets with higher rates or attractive equity returns. In this case it was the Yen that traders were borrowing to invest in, amongst other assets, US tech stocks. The Yen started strengthening and the Bank of Japan moved to increase rates, making this particular carry trade less attractive. At the same time, employment data was released suggesting that the US was heading into a recession. This coincided with several large US technology companies reporting lower than expected profit. Economists have downplayed the likelihood of a US recession in 2024 but have not ruled out one in 2025.

£ UK economic update

The third quarter saw yet another new prime minister enter 10 Downing Street, with Sir Keir Starmer the sixth person to hold the office since 2010 when the Labour Party was last in power. History was made when Rachel Reeves was named chancellor of the exchequer, becoming the first woman to hold the role. The former BoE economist will deliver her first budget on 30 October.

At its meeting on 31 July, the BoE cut its interest rate to 5%. It was not a unanimous decision, however, with four people on the nine-person Monetary Policy Committee (MPC) voting in favour of holding the rate at 5.25%. Although inflation has remained at, or close to, its 2% target since April, some committee members were still cautious about the outlook for inflation in the second half of 2024.

The strong and steady growth recorded in the second quarter by the domestically focused FTSE 250 Index and the more international FTSE 100 Index continued in Q3. This was despite sharp drops experienced in UK and global equity markets at the beginning of August.

🌐 What's happened around the world?

United States

With the US presidential elections looming, the biggest political news story of the third quarter was the decision by President Joe Biden, in July, to step aside in favour of his Vice President, Kamala Harris. The race for the White House now sees Harris and her Vice President pick Tim Walz, governor of Minnesota, up against former president Donald Trump and his running mate JD Vance, the junior senator from Ohio.

While it took a lot longer than had been expected at the start of 2024, the Fed finally initiated a rate cut in September. The rate, which sits in a range, dropped to 4.75%-5% having been at 5.25%-5.5% since July 2023. The drivers behind the cut were progress on inflation and strong indicators that economic activity was continuing to grow at a solid pace. Having stubbornly sat at just over 3% since June 2023, US inflation dipped to 2.9% in July and then 2.5% in August.

The release of employment data impacted global stock markets when it was revealed that the US created far fewer jobs in July than had been predicted. Concerns increased with the news that the unemployment rate rose to 4.3%, the highest level for three years.

The market dip in August proved to be a blip on the radar of the S&P 500 and Dow Jones Industrial Average, with both indexes quickly rebounding.

Europe

The Euro Stoxx 50 ended the third quarter in positive territory, with key German indexes also in good shape. In France, however, the snap election called by President Emmanuel Macron in June and his re-election in July weighed on markets.

The political mood has also been shifting to the right in other parts of Europe. September saw the far-right Freedom Party sweep to victory in the Austrian parliamentary election, while right-wing populist party Alternative for Germany gained a foothold in an eastern German state election.

At its meeting in September, the ECB cut interest rates for the second time in four months. The latest figures show inflation was 2.4% in August across the 27 countries of the EU, down from 2.8% in July.

Economic growth across the bloc slowed, however, dipping from 0.3% in Q1 2024 to 0.2% in the second quarter.

Asia Pacific

A stimulus package unveiled by the People's Bank of China in late September saw domestic indexes shoot up at the end of the third quarter. It produced a strong and sharp reversal of the persistent slide the CSI 300 Index has experienced since the record high it reached in early 2021. The measures included in the package are the biggest since the COVID-19 pandemic, among them are a reduction in how much banks must hold as reserves and a lowering of the cost of existing mortgages.

Concerns about the outlook of the US economy, and the unwind of the aforementioned carry trade, saw an extremely sharp one-day sell off in Japanese markets on 5 August. Despite a quick rebound, it took the benchmark Nikkei 225 until early September to recover those losses. The Bank of Japan (BOJ) raised its key interest rate in July for the second time in 17 years. The rate is now 'around 0.25%', up from its previous range of 0-0.1%. The interest rate had been below zero between 2016 and March 2024, when the first increase was made.

Emerging Markets

Nearly a year after the conflict between Israel and Hamas started, the political situation in the Middle East escalated in Q3. The Israeli Defence Forces (IDF) launched a ground invasion into southern Lebanon as part of its ongoing fight with militant group Hezbollah. In retaliation, rockets were launched against Israel by Iran, a key ally of Hezbollah. As the region is a key producer of oil, the downward trend in the price per barrel since March showed signs of reversing towards the end of the third quarter.



Outlook

The news cycle in Q4 will likely be dominated by the US presidential election and tensions in the Middle East. The former will have limited international impact, while the latter has more wide-reaching implications. Further escalations of the ongoing conflicts in the region or any spillover into neighbouring countries will have negative consequences for global oil prices, trade and geopolitics.

With the US and UK central banks lowering interest rates for the first time in Q3, expectations will be high that another cut will be announced before the end of the year. The path is far from smooth, however. Rising oil and energy prices are not good news for inflation, a key metric used by the Fed, BoE and ECB when making their respective decisions.

Further information about the economic outlook, including views and opinions on the financial markets, can be found at zurich.com/economics-and-markets/overview.

A long-term commitment

We believe it's important, where possible, to take a long-term view when investing. Looking back over the years, volatility has always been a feature of world stock markets, with each setback followed by a recovery – some taking longer than others.

The usual way to deal with volatility is to invest for the medium to long-term – a period of at least five to ten years. It's important to find the right product and invest in the right funds, and this depends on your investment objectives and attitude to risk. If either has changed, your adviser will help you review your investment to make sure it continues to meet your needs.

Although we don't give investment advice, we do offer a wide range of funds suitable for almost all investment objectives and attitudes to risk. We strongly recommend you speak to your adviser before making any changes to your plan.