

Monthly markets review - October 2024

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The month in summary:

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Please note any past performance mentioned is not a guide to future performance and may not be repeated. The sectors, securities, regions, and countries shown are for illustrative purposes only and are not to be considered a recommendation to buy or sell.

US

US shares ended lower in October amid uncertainty ahead of the presidential election and ongoing doubts about the path of interest rates. Disappointing quarterly updates for some large companies also weighed on market returns.

At sector level, the healthcare, materials and real estate sectors experienced the steepest falls in the month. The financials sector was a standout positive performer with investors reacting positively to earnings updates from several banks. Communication services also performed well.

The advance reading from the Bureau of Economic Analysis showed US GDP grew by an annual rate of 2.8% quarter-on-quarter in Q3. This was a slight slowdown from the 3.0% growth rate in Q2. US annual inflation, as measured by the consumer price index (CPI), was 2.4%, compared to 2.5% registered in August. The Federal Reserve's preferred measure of inflation – the personal consumption expenditure index – came in at 2.1%. This is close to the Fed's 2% target but the "core" measure moved up to 2.7%.

Non-farm payrolls saw a surge in job growth in September, with 254k jobs added compared to a revised 159k in August. The reporting of higher frequency labour market data in October was affected by hurricanes across parts of the US, with a port strike also distorting some jobs figures.

Investors continued to expect the Fed to cut interest rates by 25 basis points (bps) at its October meeting, following a 50 bps cut in September. As the month drew to a close, all attention was on the 5 November presidential election with the polls still very tight.

Eurozone

Eurozone shares fell in October amid some concerns about growth and uncertainty around the US presidential election outcome. The weakest sectors included information technology, consumer staples and real estate. Industrials and communication services sectors were the only sectors to register a positive return for the month.

With the Q3 earnings season ongoing, there were some weaker corporate earnings from several large companies, including some in the information technology sector. In consumer discretionary, quarterly updates from several of the carmakers as well as some luxury goods companies disappointed the market.

Data from Eurostat showed eurozone economic growth was 0.4% quarter-on-quarter in Q3, accelerating from 0.2% growth in Q2. Spain and Portugal registered the fastest

growth rates. Eurozone annual inflation was estimated at 2.0%, up from 1.7% in September.

The European Central Bank (ECB) cuts interest rates by 25 basis points in October. However, the uptick in inflation and faster pace of economic growth may imply less likelihood of rapid rate cuts to come. That said, more recent data indicated that business activity contracted again in October, with the composite purchasing managers' index (PMI) coming in at 49.7, albeit a slight improvement from 49.6 in September.

UK

UK equities fell over the month and UK small and mid cap (SMID) equities underperformed. Both larger companies and SMIDs were negatively affected by the mixed near-term external macroeconomic outlook. This was reflected in the poor performance seen by many sectors exposed to global industrial end markets.

Meanwhile, a late in the month sell-off in UK assets piled further pressure on the more domestically focussed SMIDs. This sell-off followed concerns that the UK budget has worsened the longer-term UK economic and interest rate outlook. While the Chancellor's spending plans drove upgrades to near-term UK growth and inflation forecasts, they were judged to have limited long-term benefit to the economy's productive capacity or "supply side".

As a result of concerns about the nature of the new administration's fiscal, or spending policies – and the long lead times for any subsequent regulatory reforms to improve the supply side – there was a repricing in long-term government borrowing costs. This occurred in anticipation that UK interest rates will need to be higher for longer in order to offset more persistent inflationary pressures and maintain price stability as the economy grows.

This deterioration in the longer-term macro-economic outlook was also reflected in sterling weakness (albeit against a strong dollar) and made for a dismal end to a tough October. The sharp turn in sentiment occurred despite generally positive near-term UK economic data (including news inflation was back below the Bank of England 2.0% target).

Japan

The Japanese equity market continued to experience higher volatility but rebounded to generate a positive return of 1.9% for TOPIX Total Return index in yen terms. The Nikkei 225 rose more strongly, by 3.1%, indicating that the market's rise was primarily driven by large cap stocks. The weakness of the yen supported large cap exporters such as technology, autos, and machinery stocks. Financial stocks also rebounded after a setback in the summer.

Recent political turmoil in Japan had both positive and negative impacts on financial markets. Initially, the market reacted negatively to the news that Mr Ishiba had unexpectedly won the leadership election of the Liberal Democratic Party (LDP), the ruling party. Ishiba immediately called a snap election upon his appointment as prime minister, raising concerns about further instability of the Japanese political situation. The LDP and its coalition lost their majority in the general election held on 27 October.

However, this news had already been priced in before the election. The market regained momentum toward the end of the month, anticipating an expansionary policy direction as a result of the general election while Ishiba's administration will remain in place.

Macroeconomic conditions in Japan remain solid, as confirmed at the Bank of Japan's (BOJ) meeting on 31 October, where no policy changes were made. The BOJ's statement hinted that they might take action at the December meeting, but this would still depend on market conditions and economic developments. The semi-annual corporate earnings results season began later in the month, and initial earnings figures remained solid, although the currency fluctuation will become a highly variable factor as we approach the end of Japan's fiscal year in March next year.

Asia (ex Japan)

Asia ex Japan equities declined in October. India, Malaysia, and South Korea were the worst-performing markets in the MSCI AC Asia ex Japan Index, while Taiwan was the only market in the index to end the month in positive territory.

Indian share prices experienced the biggest decline in the index amid fears of an escalation in the conflict in the Middle East which could lead to potential disruptions in the supply of oil, a key commodity imported by India.

Share prices in China and Hong Kong also experienced sharp declines in the month after stimulus measures by the Chinese government, in a bid to boost the country's flagging economy, failed to bolster investor sentiment. China, the world's second-largest economy, continues to face a number of challenges, including the collapse of the country's property sector and high levels of youth unemployment. China is also struggling with overproduction in some sectors such as steel and manufacturing, while in others such as technology, companies are moving their production to Southeast Asia due to cheaper costs and fewer geopolitical uncertainties.

South Korean stocks fell in the month, as foreign investors sold shares amid a weakening won and currency volatility. Share prices in Taiwan achieved modest gains in the month despite market volatility, with semiconductor and construction stocks among the main gainers.

Emerging markets

Emerging market (EM) equities fell over the month amid widespread risk-off sentiment ahead of the US presidential election on 5 November. Rising US bond yields and a stronger US dollar were notable headwinds for EM.

Turkey was the weakest market, followed by Greece and Poland. Emerging European markets, particularly Poland, declined as the market anticipated a Trump win in the US election and the consequences of this outcome on aid for neighbouring Ukraine, as well as tariffs.

India underperformed in the face of some weak earnings results and signs of growth easing. Weak results from a large technology company weighed on Korea. Profit-taking in China, together with a lack of further detail relating to stimulus measures, had a negative impact on the Chinese index market over the month.

Brazil lagged against a backdrop of de-anchoring inflation expectations while South Africa outperformed. The conflict in the Middle East remained heightened, with no further escalation, which was beneficial for some of the markets in the region including UAE, Kuwait, Saudi Arabia and Qatar.

Taiwan was the only EM to deliver a positive return in October, driven largely by ongoing positive sentiment around artificial intelligence demand.

Global bonds

October was a challenging period for fixed income as most of the major government bond markets sold off over the month. The tightness of the US election race has seen investors reduce risk as they await the outcome. Despite falling back towards the end of the month, Trump remained ahead in the polls. As a result, US Treasuries started to sell off as a Republican victory could mean the likely implementation of more inflationary policies.

Non-farm payrolls (the total number of paid workers in the US, excluding farm employees, government workers, private household employees and employees of non-profit organisations) came in stronger than expected in September, indicating a more robust labour market than anticipated, with the August figure also being revised upwards.

Meanwhile, the latest US inflation figure (for September) fell to 2.4%, slightly less than expected, but US bond yields rose further following the release, as investors scaled back predictions of the Federal Reserve (Fed) cutting by another 50 bps in November.

In the UK, the new Labour government's first budget took place at the end of October. The UK's new Chancellor of the Exchequer, Rachel Reeves, laid out the plan for a £40 billion tax increase. Following the announcement, 10-year gilts sold off over the concern of an additional £28 billion a year in borrowing. The pound fell to a two-month low against the US dollar. Markets have also priced in a slower rate of interest rate cuts over the next 12 months, expecting three 25bp cuts rather than the previous four to five. The UK inflation print in the middle of the month showed a bigger decline than expected, to 1.7%, driven by lower services inflation.

In Europe, inflation increased by more than expected in October and could potentially climb higher in the months to come. This reaffirmed the case for caution from the European Central Bank (ECB), which cut rates by a further 25bps mid-month.

On the credit front, high yield (HY) outperformed with Euro HY giving the best total returns over the month.

Amid stuttering equity market returns, convertible bonds not only protected investors very efficiently in the setback but delivered a positive performance. The FTSE Global Focus index, hedged in US dollars, ended the month with a gain of 0.3%.

Commodities

The S&P GSCI Index achieved a modest gain in October. Livestock, precious metals, and energy were the best performing components of the index, while agriculture and industrial metals were weaker in the month.

In precious metals, both gold and silver achieved price gains in October. Within livestock, the price of lean hogs achieved strong gains while the price gain for feeder cattle and live cattle was more muted. Within energy, all sub-components ended the month in positive territory apart from natural gas which experienced a sharp price fall.

Industrial metals prices were lower in October, with nickel experiencing the sharpest decline. Within agriculture, all sub-components fell in the month, apart from sugar which achieved a modest price gain.

Digital assets

In October, Bitcoin and Solana rose by 11% and 10% respectively, while Ethereum returned -3% during the month. The total crypto market capitalisation increased by about 6%. Factors driving this growth included lower interest rates in the US, stimulus measures in China, and polls suggesting a possible Trump victory in the US presidential elections.

Bitcoin reached 73,620, a new all-time high during the month, and US spot ETFs (exchange-traded funds) saw their second highest monthly inflows.

Much focus has been on the US election outcome and the impact that any new administration would have on the direction of digital asset regulation. Regardless of who wins, any signs of regulatory clarity for the industry will likely be taken positively.

Overview

Total returns (net) % – to end October 2024

Equities	1 month			12 months		
	USD	EUR	GBP	USD	EUR	GBP
MSCI World	-2.0	0.8	2.3	33.7	30.1	26.2
MSCI World Value	-2.2	0.6	2.1	28.8	25.4	21.6
MSCI World Growth	-1.8	0.9	2.4	38.3	34.7	30.6
MSCI World Smaller Companies	-2.7	0.0	1.5	29.5	26.0	22.2
MSCI Emerging Markets	-4.4	-1.8	-0.3	25.3	22.0	18.3
MSCI AC Asia ex Japan	-4.6	-1.9	-0.5	28.0	24.6	20.8
S&P500	-0.9	1.9	3.4	38.0	34.4	30.3
MSCI EMU	-6.0	-3.3	-1.9	23.5	20.2	16.6
FTSE Europe ex UK	-6.0	-3.4	-1.9	23.5	20.2	16.6
FTSE All-Share	-5.7	-3.1	-1.6	23.2	20.0	16.3
TOPIX*	-4.3	-1.7	-0.2	21.7	18.5	14.9

	1 month			12 months		
	USD	EUR	GBP	USD	EUR	GBP
Government bonds						
JPM GBI US All Mats	-2.3	0.4	1.9	8.4	5.6	2.4
JPM GBI UK All Mats	-6.6	-4.0	-2.6	11.9	9.0	5.6
JPM GBI Japan All Mats**	-6.6	-4.0	-2.5	-0.4	-3.0	-6.0
JPM GBI Germany All Traded	-4.0	-1.3	0.2	8.6	5.7	2.5
Corporate bonds						
BofA ML Global Broad Market Corporate	-2.7	0.1	1.6	13.0	10.0	6.6
BofA ML US Corporate Master	-2.2	0.5	2.0	13.6	10.6	7.2
BofA ML EMU Corporate ex T1 (5-10Y)	-3.5	-0.8	0.7	13.6	10.6	7.2
BofA ML £ Non-Gilts	-5.5	-2.9	-1.4	14.7	11.7	8.3
Non-investment grade bonds						
BofA ML Global High Yield	-0.9	1.9	3.4	17.2	14.1	10.6
BofA ML Euro High Yield	-2.3	0.5	2.0	17.5	14.4	10.9

Source: LSEG DataStream. Local currency returns in October 2024: *1.9%, **-0.5%.

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