MONTHLY INVESTMENT REVIEW

September 2024

Markets were mixed in the month of August, which saw a strong recovery from a bout of notable volatility at the start of the period in which technical factors were a consideration. There was mixed economic data from the US in particular if still a broadly positive outlook for the world as a whole while the expectation of cuts to interest rates remained a useful support.

Equity markets were weak in the early part of the period, when bond markets by contrast saw gains as yields fell. The Topix index in Japan was down by 20%, its largest decline since 1987, and the S&P 500 index lost some 6% in the first three days of August, while the Vix measure of volatility reached the highest level on record aside from the Covid-19 fears in 2020 and the collapse of Lehman Brothers in 2008. The market falls came from a combination of factors: concerns over the prospects for artificial intelligence (AI) as the large technology companies spent heavily and pressure on the semiconductor sector too, linked to the Chinese threat to Taiwan; the move by the Bank of Japan (BoJ) to raise interest rates at the end of July and a stronger Yen, which might impact the profitability of exporting companies; and data showing a rise in US unemployment which pointed to a risk of recession. The prospects of sharp cuts to US interest rates while they rose in Japan forced selling as traders unwound a carry trade, by which they borrowed Yen cheaply to buy higher-yielding assets. Computer-driven trading came into play, with a shift in momentum, at a time when market liquidity was low in the summer holiday period.

The volatility was brief if sharp and many might have missed it. Markets recovered promptly, helped by other economic data that showed a degree of resilience in the US economy and by the BoJ stating that it would be unlikely to raise Japanese interest rates materially. It is certainly important to be mindful of the continued risk that the dominant US economy will falter, as it has been softening, as well as the likely impact on corporate earnings, which have been robust so stimulating forecasts that might prove ambitious. It is also important to bear in mind that such or similar market set-backs are a typical feature for equities. The US S&P 500 stock index, for example, has in some 60% of the period from 1928 to 2023 ended the year with a double-digit gain but in almost half of those periods seen a double-digit correction in the course of the year. The initial August decline was also the 29th correction of more than 5% from a peak since the March 2009 low in the market: each time there has seemed to be a good reason to be concerned yet usually there has been a rapid recovery, which has favoured a policy of staying invested if being flexible in the positioning of portfolios.

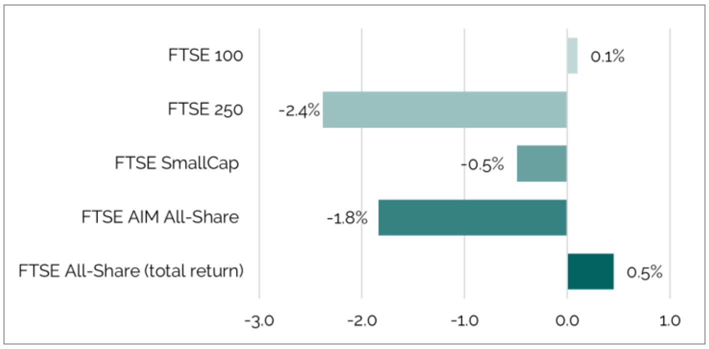
Much as before has hinged on estimations of how central banks will deal with interest rates. The Bank of England in its meeting on 1st August had opted to cut rates by 25 basis points to 5% on a split basis. The US Federal Reserve is widely expected to introduce a similar first cut from their level of 5.25-5.5% at its September meeting, having resisted any pressure to introduce a sort of emergency cut. The European Central Bank in turn is expected to make a further cut soon, although each decision is dependent on data that can be variable.

This has certainly been true of the rate of inflation, which has flirted with the 2% target rate of the main central banks. In the US consumer price index (CPI) slowed in July for the fourth consecutive month to 2.9%, the lowest since March 2021, compared with 3% in June and below forecasts of 3%; the core rate excluding more volatile fuel and food prices rose by 3.2% year-on-year. In the UK the CPI data showed a first rise for the year, if just to 2.2% in July compared to 2% in June, although prices in the services sector and average wage growth have made reaching the target level of 2% challenging. The inflation rate in the eurozone rose to 2.6% in the latest data in July, up from 2.5% the prior month and just above the recent low of 2.4% in March-April.

The variability has also been seen in economic data. In the US retail sales grew by 1% in July, above expectations, although the labour market was softer. The little-known Sahm Rule identifies a recession risk when the three-month moving average of the national unemployment rate rises by at least half a percent from its lowest level in the previous twelve months, as with 4.3% compared to a February reading of 3.7%. There has been a similar rise in levels in other countries, such as from 3.6% to 4.4% in the UK if since April 2023, which has been attributed to an end to exceptional levels during the pandemic and also a shift in participation rates. The data is also indicative and subject to revision, such as an adjustment down in non-farm payrolls by 818,000 for the year ending March 2024. For Europe the outlook has brightened: GDP in the eurozone rose by 0.3% in the second quarter of 2024 compared with the first, which was ahead of forecasts of 0.2%, and the annual growth was 0.6%. In China the property sector has remained challenging: new house prices in seventy cities fell by 4.9% year-on-year in July, which was the thirteenth consecutive month of decline and the fastest pace since June 2015; factory activity also declined, for the third month in a row.

Central banks around the world added a record 483 tonnes of gold to reserves in the first half of 2024, if with the second quarter less robust at 183 tonnes in part as China suspended its purchases in May and June after eighteen consecutive months of accumulation; Turkey was the biggest buyer at 45 tonnes, followed by India on 37 tonnes. Central bank buying has reflected concerns about the stability of the global economy and US$-denominated assets, while gold has also prospered in times of political or geopolitical uncertainty. In the month the UK faced riots, France struggled with the formation of a new government now the main Paris Olympics were over, Sheikh Hasina's autocratic regime ended in Bangladesh, the Japanese prime minister Fumio Kishida said he would not stand for a second term as leader of the Liberal Democratic Party in September and Donald Trump struggled to dampen support for Kamala Harris, who has drawn level in polls. Risks of escalation in the Middle East increased and Ukraine traded territorial gains with Russia.

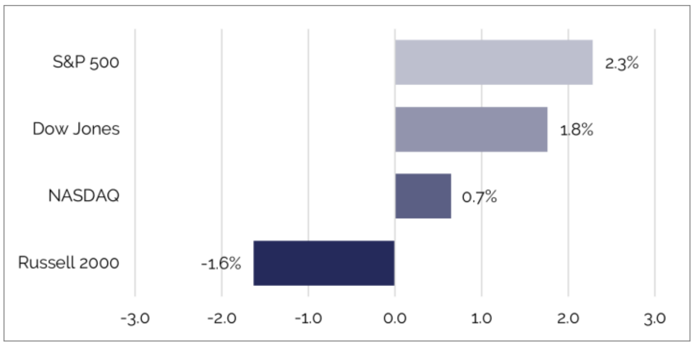
United Kingdom



In the UK the FTSE 100 index rose by a modest 0.1% in the month to 8377, while the FTSE 250 index of mid-sized companies and the FTSE SmallCap index saw declines of 2.4% and 0.5% respectively. The FTSE AIM All-Share index was down by 1.8%.

The total return for the FTSE All-Share index including income was 0.5% in the period.

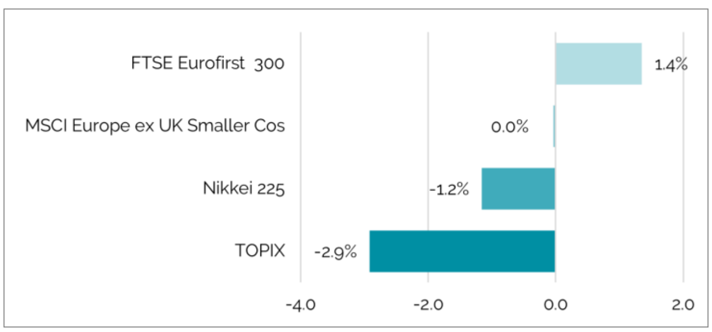
United States



In the US the S&P 500 index rose by 2.3% in the month and the value-oriented Dow Jones Industrials index by 1.8%, while the technology-oriented NASDAQ index lagged these with a rise of 0.7%.

The Russell 2000 index of smaller companies fell by 1.6%, after a strong gain in July.

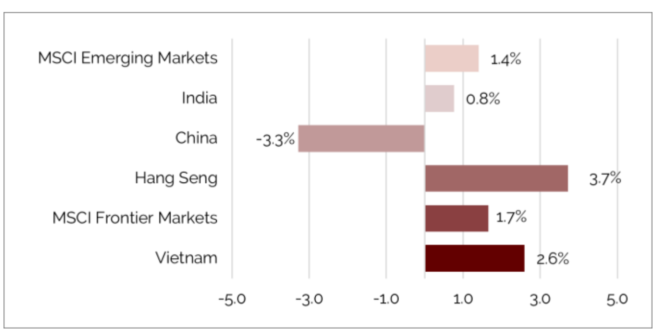
Europe & Japan



In Europe the FTSE Eurofirst 300 index was 1.4% higher over the period, when the Spanish and German markets were ahead of those in Italy and France; the MSCI Europe ex UK Smaller Companies Index was little changed if down by 0.04%.

In Japan the Nikkei 225 index was 1.2% lower and the TOPIX index down by 2.9%, with both recovering sharply from their lows while the stronger Yen helped returns.

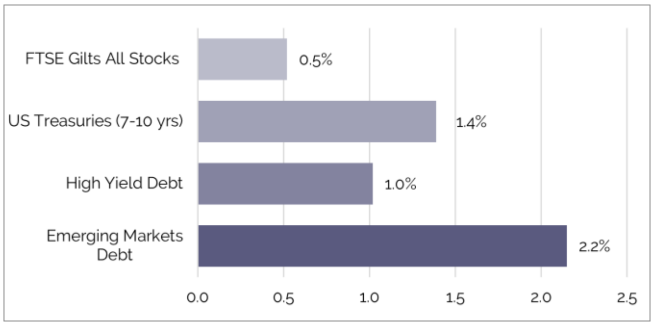
Emerging Markets



The MSCI Emerging Markets index in US$ was up by 1.4% in the month, when the Indian and Brazilian markets saw further gains of 0.8% and 6.5% respectively although the Korean market was off by 3.5%. In China the Shanghai index was down by 3.3% and the Hang Seng index in Hong Kong gained 3.7%.

The MSCI Frontier Markets index was 1.7% higher and the Vietnamese market rose by 2.6%.

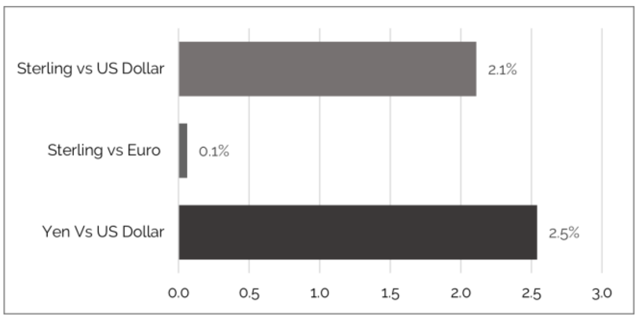
Bond markets



In bond markets the UK 10-year gilt yield ended the month up slightly at 4.02% as against 3.97% and the total return for the FTSE Gilts All Stocks index in the month was 0.5%. In Germany the 10-year bund yield was unchanged at 2.30% while the US ten-year yield moved from 4.03% to 3.90%.

There were positive returns in most of the major bond markets, notably in emerging market debt.

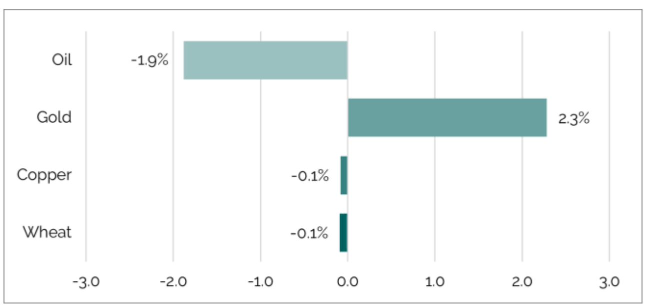
Currencies



Sterling was up by a further 2.1% against the US$ to close at a rate of $1.31:£ while against the euro Sterling was up marginally by 0.06% in the month to close at a rate of €1.19:£.

The Japanese yen ended the month up by 2.5% against the US$ having been much stronger at the start of the period.

Commodities



The price of Brent crude oil was 1.9% lower over the month at $80 per barrel. Gold gained a further 2.3% to end the period at $2503 per troy ounce.

The prices of major metals were mixed in the month, with the bellwether copper down by just 0.08%, while the main agricultural commodities were also mixed, with the price of wheat down a similar 0.09%.

VINTAGE
ASSET MANAGEMENT

Call: 020 7989 3110
Visit: vintageassetmanagement.co.uk

Find us at:
7a Wyndham Place,
London W1H 1PN

Follow us:
LinkedIn: vintage-asset-management-limited