MONTHLY INVESTMENT REVIEW

October 2024

VINTAGE
ASSET MANAGEMENT

Markets were decidedly mixed over the month of September, which saw an initial bout of volatility as in August as well as further cuts to interest rates while China-related shares responded well to a renewed government economic stimulus. The political issues have remained heated and the economic data has been variable.

The US Federal Reserve as expected announced a first cut to interest rates since the Covid pandemic in 2020 at its meeting mid-month and opted to reduce them by half a percentage point rather than a quarter, from a level of 5.25-5.5% to a new range of 4.75-5%. While the size of the move might have raised concerns that it was to deal with a drastic weakening in the US economy the central bank managed to reassure markets that it reflected little more than a more benign outlook for the rate of inflation and a welcome softening in the labour market. The Federal Reserve issued fresh guidance on the future trajectory of rates which pointed to a further reduction of half a percentage point in 2024 – the next meeting will, however, come after the presidential election in November – and an additional percentage point in 2025 to take the rate to 3.25-3.5% by the end of that year; this compares to an average 5.42% since 1971. The European Central Bank also cut its interest rate, for the second time this year, again by a quarter of a percentage point to a new level of 3.5%; its president Christine Lagarde pointed to a further cut in October given the subdued level of inflation and economic growth in the eurozone. The Bank of England by contrast decided to maintain its interest rate at 5% for now.

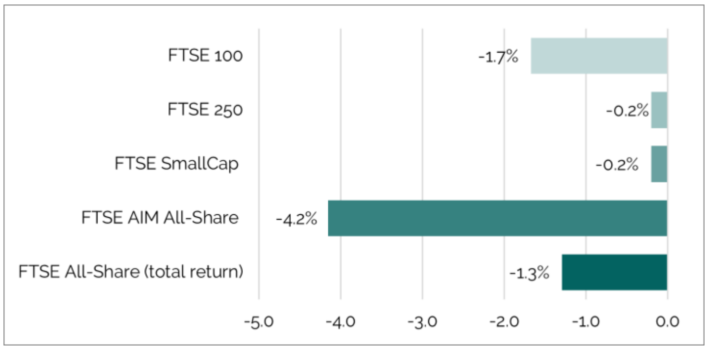
The trend to lower interest rates has reflected a similar one towards the 2% target rate of inflation for the main central banks. In the US the Personal Consumption Expenditures price index, which is the preferred measure for the Federal Reserve, showed a 2.2% increase for goods and services in the year ended in August, compared to 2.5% in July and expectations of 2.3%; this was the lowest reading since February 2021. The consumer price index (CPI) was down to 2.5% in August from 2.9%; the core rate excluding more volatile fuel and food prices was flat at 3.2% year-on-year. In the UK the CPI was unchanged at 2.2% in August; the CPIH which includes housing costs was also unchanged in the month, if at a higher level of 3.1%. The inflation rate in member countries in the eurozone showed a drop in September based on the data released in the month, to 1.8% in Germany and notably from 2.2% to 1.5% in France and from 2.4% to 1.7% in Italy.

The economic data for the world has been variable if still indicating a degree of reasonable growth overall. The US labour market has slowed, with the number of new jobs at 142,000 in August, which was fewer than expected while the numbers for June and July were revised down by a combined 86,000, yet the average hourly wages were stronger than forecast and the unemployment figure was little changed, showing even a slight decline to 4.2% from 4.3%. Initial data suggested that retail sales grew again in August, above expectations if modestly, and the savings rate has appeared to improve to 5%, nearer the 7% level that prevailed pre-pandemic. Business activity in Europe has contracted by more than was expected, in Germany at its fastest rate in seven months and in France after the boost from the Olympics in August. In the UK the focus is on the new government's first Budget at the end of October, when the Office for Budget Responsibility will provide fresh forecasts on economic growth, which was revised down marginally for the second quarter of the year to 0.5%.

The main challenge to global growth has come from China, where the property sector has remained in a rut with ailing household demand and weak job creation, while the success in Chinese exports of electric cars has had an impact on major manufacturers elsewhere. The Chinese authorities had appeared willing to see an end to the wasteful allocation of capital to property but seemed to be no longer willing to risk seeing an overall level of growth much lower than their 5% target. So they introduced a number of measures including cuts in the medium-term lending facility rate and the rates for refinancing existing mortgages as well as increased firepower for local authorities to buy up unsold property. A meeting of the Politburo, chaired by President Xi, promised fiscal transfers of RMB 1 trillion in various subsidies for consumer goods and for business equipment. The Chinese markets and China-related shares such as luxury goods companies rose sharply in response.

The political or geopolitical pressure persisted. The main focus was on events in the Middle East, with an escalation in the conflict and some decisive moves, if with no particular impact on the oil price: the prospect of lower demand and the move by the OPEC+ exporters group to delay planned production increases offset the pressure. In Japan the leadership contest for the ruling LDP Party saw Shigeru Ishiba, who had been running third in the polls, secure victory; concerns that he might support the Bank of Japan in tightening monetary policy prompted some weakness in the local market and strength in the currency. In the US Donald Trump faced a further attempt at his assassination and a challenging TV debate with Kamala Harris, who has done well in the polls but cannot be sure of victory in the seven key swing states. The war in Ukraine has dragged on while Europe also saw continued electoral gains for far-right parties, particularly in Austria.

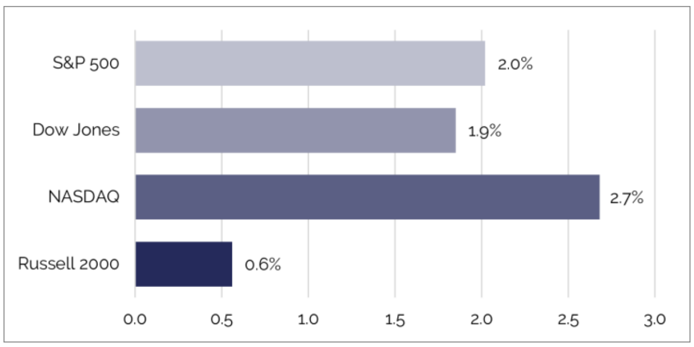
United Kingdom



In the UK the FTSE 100 index was down by 1.7% in the month to 8237, while the FTSE 250 index of mid-sized companies and the FTSE SmallCap index both saw declines of 0.2%. The FTSE AIM All-Share index fell by 4.2%.

The total return for the FTSE All-Share index including income was -1.3% in the period.

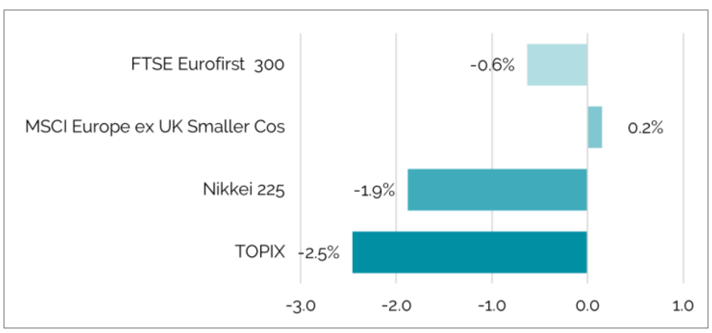
United States



In the US the S&P 500 index rose by 2% in the month and the value-oriented Dow Jones Industrials index by 1.9%, while the technology-oriented NASDAQ index did better with a rise of 2.7%.

The Russell 2000 index of smaller companies lagged with a gain of 0.6%.

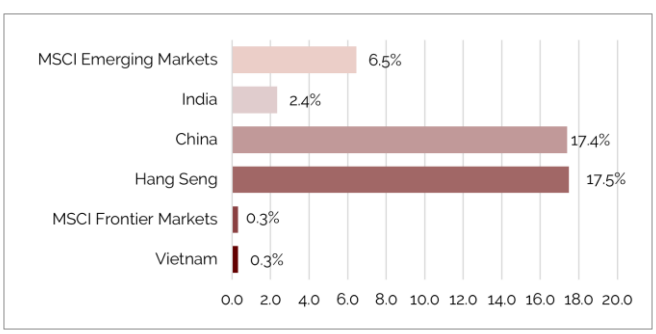
Europe & Japan



In Europe the FTSE Eurofirst 300 index was 0.6% lower over the period, when the Spanish and German markets again did better than those in Italy and France. The MSCI Europe ex UK Smaller Companies Index rose a modest 0.2%.

In Japan the Nikkei 225 index was 1.9% lower and the TOPIX index down by 2.5%.

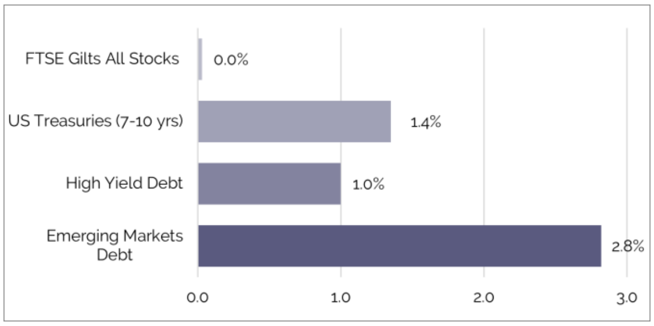
Emerging Markets



The MSCI Emerging Markets index in US$ was up by 6.5% in the month, driven by the striking rise of 17.4% in the Shanghai index while the Hang Seng index in Hong Kong was up by a similar 17.5%. The Indian market saw a further gain of 2.4% although the Korean market was off by 3% and the Brazilian market by 3.1%.

The MSCI Frontier Markets index rose 0.3%, the same as for the Vietnamese market.

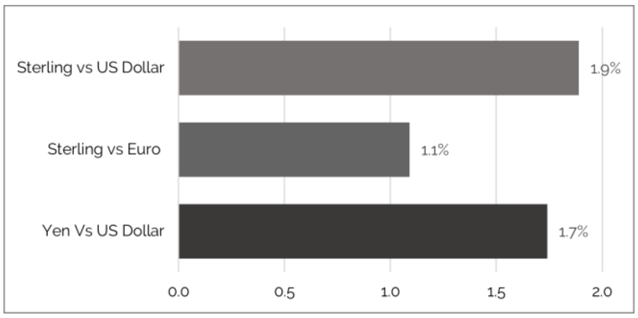
Bond markets



In bond markets the UK 10-year gilt yield ended the month modestly lower at 4.00% as against 4.02% and the total return for the FTSE Gilts All Stocks index in the month was 0.03%. In Germany the 10-year bund yield was down to 2.12% from 2.30% while the US ten-year yield moved from 3.90% to 3.78%.

There were positive returns in most of the major bond markets, notably in emerging market debt, if declines in index-linked gilts.

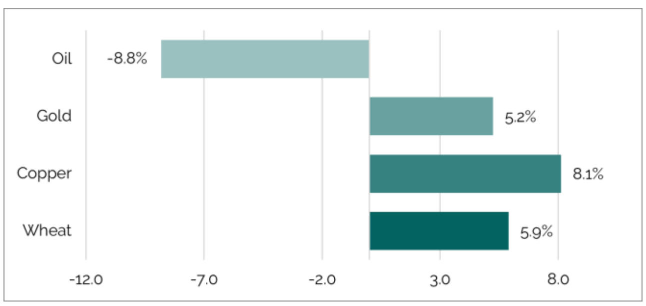
Currencies



Sterling was up by a further 1.9% against the US$ to close at a rate of $1.34:£, the highest level for thirty months, while against the euro Sterling was up by 1.1% in the month to close at a rate of €1.20:£.

The Japanese yen ended the month up by a further 1.7% against the US$.

Commodities



The price of Brent crude oil was sharply lower over the month, closing down 8.8% at $73 per barrel. Gold gained a further 5.2% to end the period at $2635 per troy ounce, helped by increased purchases in India.

The prices of major metals were all higher in the month, with the bellwether copper up by 8.1%, as were the main agricultural commodities with the price of wheat up by 5.9%.

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

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

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