Whitechurch Securities Ltd
WEALTH MANAGERS

Market Commentary

October 2024

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Executive Summary

October saw a continuation of the volatility witnessed in Q3, as uncertainty surrounding the trajectory of inflation and interest rate policy in the US ramped up. There were low single-digit losses for many major asset classes, with risk assets chief among those giving up some of their year-to-date gains. That said, sterling returns of overseas markets fared better as a result of currency movements throughout the month. Despite seemingly perpetual resilience from the US economy, concerns of an imminent shift in central bank policy and signs of a partial slowdown in economic growth weighed on returns. Inflation control remains a major concern and will likely continue to be the case comfortably into 2025 and potentially beyond. In the wake of September's 0.50% interest rate cut from the US Federal Reserve (the Fed), investors are focused on the upcoming presidential election, which, even at time of writing (1st November) shows no clear front runner. We recently published a podcast which explored some of the potential impacts on markets for either candidate, which is available on our website.

US

GDP figures from the end of October estimate that the US economy expanded by 2.8% year-on-year in Q3. Whilst this was 0.3% below consensus, 0.2% below Q2's figure and the lowest quarterly reading since early 2023, it was viewed by many as the US once again delivering another period of resilient economic growth. In addition to increased federal government spend, consumer consumption was the major contributor, registering its strongest set of figures since Q1 2023. The concern for investors, of course, is how the Fed will react, particularly in light of core inflation ticking back up to June's level of 3.3%. Whilst US equities registered a -0.8% loss in local terms, a meaningful weakening of sterling versus the dollar skewed returns in favour of GBP investors, resulting in a return of +3.5% for GBP – the best performing major asset class of the month and indeed the year so far. Large cap stocks were the biggest contributor to overall returns, having now achieved gains of more than twice those of their small cap counterparts year-to-date.

Other Developed Markets

In contrast to the US, all other major developed markets registered GBP losses. The biggest detractor was Europe, which returned -2.6% following a slight uptick in headline inflation (albeit at least in part due to energy base effects). October also saw the European Central Bank announce a third 0.25% interest rate cut, as well as an acknowledgement of a slowdown in economic activity. Whilst Japanese equities posted a positive return in local terms, currency movements saw this translate to a -1.6% loss in GBP. Despite it being a relatively tepid period just two months on from August's extreme market volatility, concerns remain around both the recent election upheaval and the looseness of monetary policy. In the UK, there were aggregate losses of -2.1%, with mid cap stocks being the main detractor. The delivery of the highly anticipated first Labour budget at month end brought mixed news for businesses from tax changes to innovation initiatives and infrastructure spend. Whilst it will take some time to digest, rumour and conjecture have been replaced by facts providing more certainty moving forward.

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Asian & Emerging Markets

Asian and emerging markets returned -1.3% and -0.5% respectively, driven lower in part by the returns of Chinese equities. Whilst the latter registered a loss of -1.6%, September's extreme rally means that they are still one of the biggest risers year-to-date, with a GBP return of +13.1%. October's losses can broadly be attributed to some investors taking profits, as well as question marks surrounding just how effective the recently announced package of measures will in supporting the Chinese domestic economy. Emerging markets' second largest constituent, India, also experienced a challenging month, as disappointing corporate earnings contributed to notable market volatility. The most significant positive contribution for the asset class during the month came from Taiwan – the best performing Asian market of H1. The performance was largely fuelled by the continued growth of Information Technology business, Taiwan Semiconductor Manufacturing Company, which now accounts for 9% of the index alone. Elsewhere, there were low single digit aggregate gains for Gulf Cooperation Council countries, and low single digit aggregate losses for Latin America.

Bond Markets

Aggregate fixed income returns for GBP investors were +0.8% with decidedly mixed fortunes for underlying constituents. Despite the concerns that resilient economic data and sticky inflation in the US may reconfigure the Fed's plans lower interest rates, there were notable gains within areas of global high yield, US, Euro and emerging market debt. Whilst uncertainty remains, the base case for many still sees the US avoiding a hard recession, as well as factoring in a broadly lower inflationary and interest rate environment in the medium term. To this end, the month ended with the 10-year US Treasury yield slightly above that of the 2-year, following its inversion reversal last month. This means that October was the first whole month since June 2022 where investors would theoretically be rewarded for having their money invested for longer. The month's main GBP detractors were Japanese government bonds and UK gilts, with the latter experiencing further weakness at the end of the month after higher than anticipated government spend was outlined at the UK budget.

Other Asset Classes

As political escalation and conflict in the Middle East persisted, so did volatility in oil markets. Despite uncertainty over future demand from manufacturing, prices edged higher, finishing the month just shy of $74 per barrel. Elsewhere, and again despite manufacturing demand risk, there were gains for both industrial and precious metal components, with the latter returning +8.4% during the month and +31.3% year-to-date. These gains were enough to offset the sharp decline in natural gas, which has experienced significant losses throughout 2024. Both real estate and infrastructure sectors experienced marginal losses during the month, as hopes of a clearer inflation and interest rate cutting path in the US diminished. That said, both are year-to-date winners for GBP investors, in what has now been a sustained period of relative stability.

Whitechurch Investment Team
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