Cantab
ASSET MANAGEMENT

Investment Comment

2 October 2024

In Q3 2024, inflation took a back seat as markets focused on elections, central bank cuts, and worsening economic data. On July 4, Sir Keir Starmer declared an historic Labour victory with 411 seats – a gain of 209 from 2019. The Conservatives had their worst result, losing 244 seats and ending with 121. The Liberal Democrats gained 61 seats, reaching 72. Market attention now shifts across the pond to the US, where the Harris-Trump presidential race remains too close to call.

Global markets struggled in early August. During July, the Bank of Japan ('BoJ') turned more hawkish, whilst central banks including the Federal Reserve ('the Fed') became dovish, signalling September rate cuts. The BoJ raised rates from 0.1% to 0.25%, triggering an unwind of the popular 'carry trade', where investors borrowed in Yen to invest in higher interest rate economies. As the Yen strengthened, the cost of the carry trade rose, leading to a sell-off as positions were unwound. The MSCI World dropped approximately 5.8% in Sterling terms in the first week of August but recovered by the end of the month.

In the US, September's Non-Farm Payrolls came in at 142,000, below the expected 160,000. This followed August's 89,000 vs. 175,000 expected. Despite this, the unemployment rate remains at 4.2%. In its September meeting, the Fed cut interest rates by 50bps to 4.75%–5.00% and signalled more cuts ahead. This double cut was likely a move to pre-empt a weakening economy and labour market. Inflation, measured by PCE, printed at 2.3% y/y, above the 2.2% forecast, leaving the Fed balancing inflation risk against a slowing labour market. Q2 GDP showed 3.0% y/y growth.

The European Central Bank ('ECB') voted unanimously in September to cut its benchmark deposit rate by 25bps for the second time this year, to 3.5%. This followed inflation in the Eurozone falling to a three-year low of 2.2% in August, down from 2.6% in July. Progress on inflation has been met by falling industrial output in Germany and Italy, raising concerns over future Eurozone growth. ECB President Christine Lagarde has signalled more cuts to come but downplayed the likelihood of another cut in the next October meeting. The unemployment rate briefly ticked up to 6.5% in August before coming back down to 6.4% in September.

The Bank of England ('BoE') cut rates by 25bps in August after CPI hit the 2% target in May and June. Cautious about cutting too quickly, the BoE was proven correct as CPI recently printed at 2.2% y/y and 0.3% m/m, though services inflation remains high at 5.6%. In September, the BoE held rates steady, but Governor Andrew Bailey hinted at a possible cut in November if inflation stays low. Unemployment fell to 4.1% and retail sales rose 2.5% against a 1.4% forecast. Despite Q2 GDP narrowly missing expectations, the figures came in at 0.5% q/q and 0.7% y/y. Markets now await the October budget from the new Chancellor, Rachel Reeves, following the Prime Minister's warning of "painful" measures and "big asks" of the public.

Japan experienced a volatile August after the BoJ's rate hike triggered a sell-off, with the Nikkei 225 dropping around 15% in Sterling terms before recovering through the month. Unemployment briefly rose to 2.7% in August but returned to 2.5% in September. Q2 GDP was revised to 0.7% q/q. Inflation stands at 2.8%, slightly up from 2.7% and in line with expectations. Former defence minister Shigeru Ishiba was narrowly selected as Prime Minister after a close race with Sanae Takaichi. Ishiba may call a snap election in November to solidify his mandate. Broadly, the BoJ seems to prefer to make policy adjustments at

its quarterly meetings, though it is unlikely that it will adjust policy in October given the leadership results and potential November election.

After months of woes, the Chinese Communist Party ('CCP') announced a set of stimulus measures to get the economy back on track. This saw gains in the equity market, and further easing of restrictions with respect to policy purchases were well received. However, the reality is that China remains in a bear market; whilst these measures have lifted the mood, China's economy may still be viewed with some scepticism on a medium-term basis.

Sterling-denominated returns of major indices	10Yr (p.a.)	5Yr (p.a.)	1Yr	Q3 2024
	%	%	%	%
Fixed Interest				
Overseas Bonds (unhedged)	2.4	-2.8	1.9	0.8
Index-Linked Gilts	0.8	-7.6	6.3	1.5
Corporate Bonds	2.3	-1.0	9.7	2.3
Equities				
UK	6.0	5.5	13.2	2.3
World (ex-UK)	12.6	11.4	20.9	0.2
Emerging Markets	5.1	1.5	12.3	4.3
Property	2.1	-0.5	15.2	4.1
Commodities	1.9	6.0	-8.1	-5.1
Infrastructure	4.8	0.1	14.5	5.3
ARC Sterling Balanced Asset	3.9	3.0	10.9	1.8
ARC Sterling Steady Growth	5.1	4.0	12.8	1.8
ARC Sterling Equity Risk	6.1	5.0	14.6	1.7
MSCI PIMFA Income	5.8	4.1	13.4	1.6
MSCI PIMFA Balanced	6.6	5.0	14.3	1.5
Cash	1.3	2.1	5.2	1.3

Source: MSCI UK IMI, World Ex-UK, Emerging Markets; ICE BofA Global Broad Market+, Bloomberg UK Government Inflation-Linked Bond, ICE BofA Sterling Non-Gilts; UK IMI Liquid Real Estate; Bloomberg Commodity Index (GBP Hedged); IT Infrastructure; Asset Risk Consultants (preliminary data); MSCI PIMFA; Cash Equivalent (Bank of England Base Rate). Total Return, Sterling adjusted.

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