



September 2024

Monthly Investment Views

Summary – September 2024

Macro Overview



Growth: The J.P. Morgan Global Composite Purchasing Managers Index (PMI) Output Index has remained above a “50” reading for ten consecutive months, indicating still positive global economic expansion. Weakness in the manufacturing sector persists in the August data, though this is somewhat offset by a still strong service sector. Economic data across most key regions are below expectations, reflecting general economic softness. In our view, global growth momentum is decelerating. A weaker US labour market will likely limit wage growth over the longer-term, a key source of US consumer spending. US demand, which has been a key driver of global growth, will thus slow down further.

Inflation: In August, the headline US Consumer Price Index (CPI) rose by 2.5% y/y compared to the same period last year, down from July’s 2.9% y/y. August’s inflation reading represented the lowest annual increase since February 2021. However, prices of shelter and other services remain sticky. We continue to track labour market conditions and wage trajectories for inflation risks. While supply-side inflation risks could arise due to geopolitical tensions (i.e., a deepening of the Middle East conflict), for example, we expect inflation to trend towards the Federal Reserve’s (Fed) 2% target, as a weakening US labour market dampens overall demand and the US economy.

Monetary Policy: Given softer headline US inflation readings in recent months, the Fed and the markets are likely to focus their attentions on the labour market. Given that maximum employment is the other component of the Fed’s dual mandate, the pace of rate cuts will likely depend on how quickly the US labour market weakens, among other factors. While the Fed has room to ease policy to potentially engineer a “soft landing”, a deeper slowdown may emerge if the Fed acts too late.

Key Risks



Global elections in 2024, especially the US presidential election will potentially introduce higher volatility over the next 3-to-12-months; we expect markets to continue experiencing volatility, especially in the months leading up to the US elections in November.

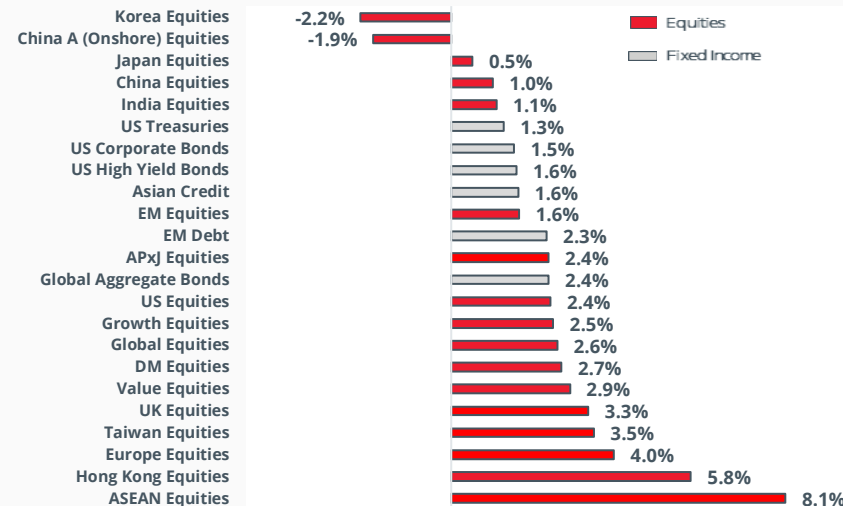
Geopolitical risks (e.g. the Russia-Ukraine and Middle East conflicts) can significantly impact investor sentiment but we believe that fundamentals will ultimately drive market returns. Increased Middle East tensions may cause further energy-driven inflation and potentially increase global trade costs in the event of supply disruptions.

Recession risk in major Developed Markets (DM) remains (e.g., US, Europe) because of the lagged effects of accumulated rate hikes. A US slowdown will deprive global growth of a key “engine”. That said, a severe contraction in the US is unlikely in our view, given that the US, relative to other major DM economies (e.g., Australia, Canada), has fewer structural imbalances and healthier household balance sheets. Nevertheless, the Fed needs to avoid being late in cutting rates.

Market Recap and Update



Global Financial Markets – Monthly Performance as of 30 August 2024 Monthly Gross Returns % (in USD)*



Equities: Global stock markets rose 2.6% in August despite a sharp correction early in the month which was triggered by a combination of factors, including the unwinding of Yen carry trades, poor US manufacturing data, US recession fears, and worldwide political unrest. The correction was short-lived, with markets eventually recovering on the back of easing US inflation, rate cut hopes, and renewed carry trade interest. Developed Market (DM) equities gained 2.7%, outperforming Emerging Market (EM) equities which rose 1.6%. Within DM, Europe led with a 4.0% gain while US equities rose 2.4%. ASEAN markets outperformed with a robust 8.1% increase, outpacing both the broader Asia Pacific ex Japan (2.4%) markets and EM. MSCI China gained marginally, up 1.0%.

Fixed Income: Global bond markets rallied in August, as easing inflation and a slowing US labour market supported the case for a potential rate cut by the Fed in September. Fed Chair Jerome Powell’s speech in Jackson Hole indicated a shift towards a more relaxed monetary policy from September. Global aggregate bonds returned 2.4% while US Treasuries gained 1.3%. The US 10-year Treasury yield fell 18 bps to 3.91%. US investment grade bonds and US high yield bonds produced positive returns of 1.5% and 1.6%, respectively. EM debt fared well, up 2.3%, supported by falling US Treasury yields and a weaker USD.

Data source: Eastspring Investments, LSEG Datastream. *Monthly total returns are provided as of 30 August 2024. Equity returns are referenced by the respective MSCI market indices quoted in USD, in gross return terms. “Global Equities” is represented by the MSCI ACWI; “DM Equities” is represented by the MSCI World Index. “Value Equities” and “Growth Equities” are represented by the MSCI World Value Index and MSCI World Growth Index, respectively. The fixed income markets are represented as follows: “US Corporate Bonds”: ICE BofA US Corporate Index (USD) TR Index gross; “EM Debt”: J.P. Morgan EMBI Global Diversified (USD) TR Index gross; “US Treasuries”: Bloomberg Barclays US Treasury Index (USD) TR Index gross; “Asian Credit”: J.P. Morgan Asia Credit Index; “Global Aggregate Bonds”: Bloomberg Barclays Global Aggregate (USD) TR Index gross; “US High Yield Bonds”: ICE BofA US High Yield Index (USD) TR Index gross.



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