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Investment Management

Weekly Investment Update

20th September 2024

News Headlines

Central Bank Rate Decisions – This week, the US Federal Reserve made a significant shift in its monetary policy by cutting its benchmark interest rate by 50 basis points, bringing it down to a range of 4.75% to 5.0%. This marks the first rate cut since the pandemic and is aimed at supporting economic growth and stabilising the labour market. The Federal Reserve's decision comes amid cooling inflation, signalling confidence in its ability to control price pressures. However, the bank's Chair Jerome Powell described the decision as a "recalibration" rather than the start of a rapid easing cycle, although markets continue to expect additional cuts, totalling up to 50 basis points by the end of the year.

Also this week, the Bank of England (BoE) decided to hold its base interest rate at 5%, following a rate cut in August, the first in over four years. The BoE's Monetary Policy Committee (MPC) voted 8-1 in favour of this decision. While inflation in the UK has begun to stabilise, it remains above the central bank's 2% target, which influenced the cautious decision to hold rates steady instead of proceeding with further cuts. Another factor behind the decision was the UK economy, with the BoE forecasting GDP growth of just 1.1% for 2024. While cutting rates could help stimulate growth, it might also introduce certain risks, which the central bank has taken into account.

The Bank of Japan (BoJ) also kept its short-term interest rate unchanged at 0.25%, citing global economic uncertainties, particularly risks tied to the U.S. economy. Governor Kazuo Ueda highlighted Japan's steady economic progress, driven by rising wages and increased consumption. However, Ueda emphasised the need for caution due to unstable financial markets and uncertainty surrounding a U.S. economic slowdown. He also suggested that the central bank is prepared to raise interest rates should their economic and inflation targets be met. Nonetheless, market volatility remains a concern, especially after the yen spiked and equity markets dropped following the rate hike in July.

Market Summary

Global Equities – This week, global equity markets saw strong gains, with optimism surrounding the Fed's 50 basis points rate cut fuelling a rally. In the US, the S&P 500 surged to a new record high on Thursday, its 39th in 2024, finishing the week with a gain of +1.59% as of Thursday's close. Technology stocks rose strongly, with the technology heavy US NASDAQ 100 also posting a sizeable gain for the week. European equities followed suit, with the STOXX 600, the UK's FTSE 100, and Germany's DAX posting significant gains, with the latter also reaching a new record high. Meanwhile in Asia, both Japan's Nikkei 225 and Hong Kong's Hang Seng indices rallied on the back of the Federal Reserve's rate decision, with the latter posting a significant weekly gain of 3.72% as of Thursday's close.

Commodities – Commodity prices generally provided positive returns for the week as of Thursday's close, with the Bloomberg Commodity Index posting a gain of 1.74%. Gold hit a new all-time high of $2,587 per ounce versus the US dollar during the week, but prices eased back slightly as the US dollar strengthened following the Federal Reserve's announcement. Oil prices also saw volatility throughout the week, with Brent crude dropping below $70 per barrel early on, before recovering to $73.70 per barrel by midweek. This recovery was driven by rising risk appetite after the interest rate cut in the US and renewed concerns over geopolitical tensions.

Fixed Income – Treasury yields experienced notable fluctuations this week, primarily driven by anticipation around the Federal Reserve's rate decision. Early in the week, short-term yields, especially the 2-year, dropped (meaning prices rose) as expectations for a larger 50 basis point Federal Reserve rate cut grew. The 10-year Treasury yield also declined, reaching a 15 month low midweek. However, after the rate cut, yields rebounded, with the 10-year yield rising by the end of the week, reflecting market uncertainty about future rate cuts. Meanwhile, UK gilts underperformed, with the 10-year yield climbing after the Bank of England held its base interest rate at 5%.

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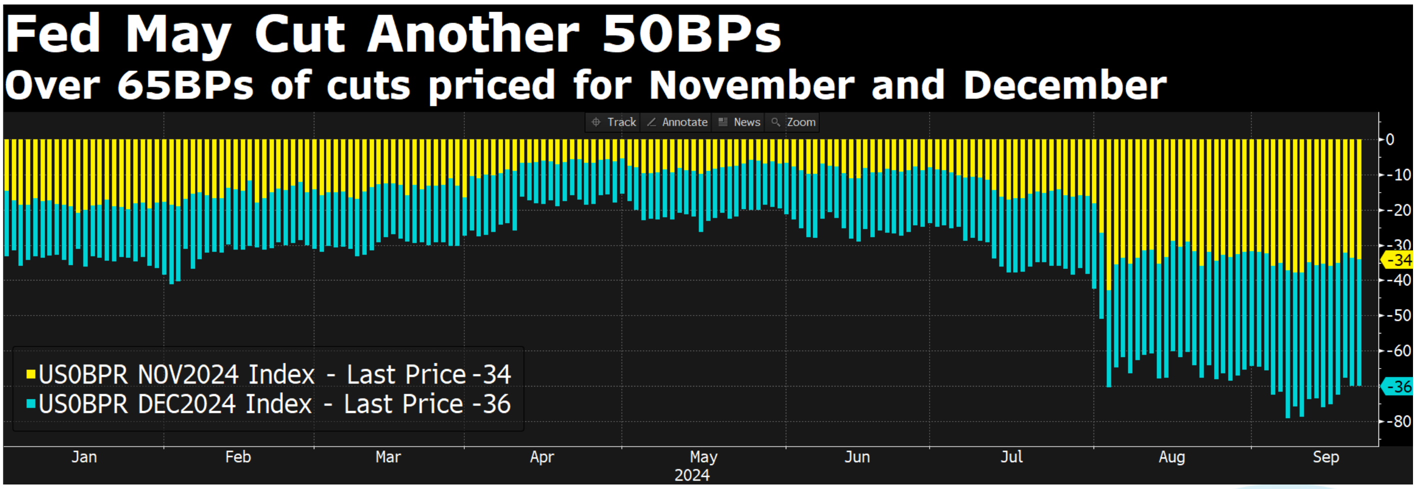
Chart of the Week



Source: Bloomberg – Federal Reserve may cut interest rate by another 0.50% in 2024

Key Economic Releases Next Week

Monday	Tuesday	Wednesday	Thursday	Friday
- US Manufacturing and Services PMI	- RBA Interest Rate Decision		- US Jobless Claims - Federal Reserve Chair Jerome Powell Speech	

Market Performance – 20/09/2024

Global Market Indices	2024 YTD %*	2023 %*	2022 %*	2021 %*	2020 %*	2019 %*
FTSE 100	10.94%	7.93%	4.70%	18.44%	-11.55%	17.32%
S&P 500	21.02%	25.67%	-18.51%	28.16%	17.75%	30.70%
STOXX 600	12.15%	19.46%	-11.67%	23.37%	0.82%	27.13%
Nikkei 225	12.07%	28.24%	-9.37%	4.91%	16.01%	18.20%
Hang Seng	10.10%	-8.38%	-14.52%	-11.83%	-0.29%	13.04%
Fixed Income	**Yield %**					
UK 10 Yr Gilt	3.89%					
US 10 Yr Treasury	3.71%					
Commodities	**2024 YTD %****	**2023 %****	**2022 %****	**2021 %****	**2020 %****	**2019 %****
Gold	26.33%	13.10%	-0.28%	-3.64%	25.12%	18.31%
Currency						
GBP/USD	1.33 (20/09/2024)					
GBP/EUR	1.19 (20/09/2024)					

Source: FE Analytics/ Bloomberg **Total Return/Local currency **Spot Return USD*

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