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Market Pulse

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MARKETS WEIGHED DOWN BY REDUCED RATE CUT EXPECTATIONS

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In October, global stock markets were weighed down by the potential for less monetary easing than previously expected, and by disappointing third quarter earnings from large tech companies. Concerns around the potential for higher inflation, amid strong growth, particularly in the US, pushed bond yields higher. US data continued to show economic strength, while there were some mixed signals in the Eurozone. Overall, markets were led to expect less monetary easing from the Federal Reserve (Fed), while the European Central Bank (ECB) guided for further rate cuts amid growth concerns.

Macro

US data showed that the consumer remains strong, supported by robust job growth. The potential for this to reignite inflationary pressures led to expectations of less monetary easing from the Fed. Meanwhile, Eurozone data was somewhat mixed. Slowing inflation and growth concerns meant the ECB eased further at its October meeting and guided for more rate cuts.

US

Economic data in October highlighted the robust economic backdrop. Q3 GDP rose by 2.8% quarter-on-quarter annualised, down from 3.0% in Q2, but a still strong turnout. This was driven by increases in consumption (3.7%) and investment (3.3%), while government spending (5.0%) was also supportive. Household consumption accelerated into the end of Q3, with September retail sales up by 0.7% month-on-month for the control group used to calculate GDP, which was more than double the pace in August (0.3%).

Meanwhile, labour-market data suggested tighter conditions. September job openings fell by 0.4 million to 7.4 million, the lowest level since January 2021. Non-farm payrolls for the same month were up by 254k, over 100k above consensus expectations, while the unemployment rate unexpectedly fell to 4.1%.

Underlying inflation moved up slightly in September. Core consumer prices rose by 3.3% year-on-year, from 3.2% in August, while headline inflation fell slightly from August, to 2.4%, but was above market expectations. This backdrop suggested that there may be upward pressure on inflation in the coming months that could lead the Fed to cut rates by less than previously expected.

Europe

Eurozone Q3 GDP rose by 0.4% quarter-on-quarter, double both consensus estimates and the Q2 outturn. This was driven by a rebound in Germany, from a 0.3% contraction in Q2 to 0.2% growth, and accelerating growth in France (0.4%), while activity in Ireland expanded by 2.0%. This suggested that the growth backdrop may be somewhat better in the second half of 2024. However, PMI data was mixed as both manufacturing and services remained in contractionary territory, with business confidence at the lowest level in almost a year.

Headline inflation was in line with the ECB's 2% target in October, with core prices up by 2.7% year-on-year. This backdrop of inflation at or around target and a mixed activity picture justified the ECB's third rate cut in the current easing cycle. The deposit rate was lowered by 25bps to 3.25% at the October meeting, and there was guidance for further easing amid growth concerns.

MARKET ROUND-UP

Equities

Global stock markets were lower over October as the potential for reduced monetary easing, as well as some disappointing results from large tech companies like Microsoft and Meta, dampened sentiment.

The MSCI All Country World index fell by 1.1% (+0.5% in euro terms) in October, with the MSCI USA down by 0.7% (+2.0% in euros). Returns in euros were supported by strength in the US dollar, which rose against the euro as fewer Fed rate cuts were priced in.

Emerging market (EM) stocks were weighed down by disappointment around China's stimulus measures. The MSCI EM index fell by 2.8% (-1.6% in euros), with the MSCI China index declining by 5.6% (-3.3% in euros).

Bonds

Eurozone government bond returns were negative as interest-rate carry failed to offset rising yields, with that of the 10-year German bund up by 27 basis points (bps) over the month at 2.39%. The ICE BofA 5+ Year Euro Government bond index returned -1.4% over October. US Treasury yields also rose, with that for the 10-year up by 50bps to 4.28%, amid expectations of a Trump victory in the US election and, as a result, potentially inflationary policies like tariffs and tax cuts.

Corporate bonds were dragged lower by rising yields. European investment grade (IG) corporate bonds returned -0.4% as yields rose by 14bps to 3.43%. Spreads narrowed by 12bps to 104bps. Global high yield bonds returned -0.4% as yields increased by 25bps to 6.48%, while spreads fell by 15bps to 231bps over the month.

EM local debt returned -2.2% in October, with yields up by 30bps to 6.42%. EM hard debt returned -2.3% as yields rose by 25bps to 6.86%, weighed down by a stronger US dollar too, which increases debt repayments in local currency terms.

CHARTS OF THE MONTH

Global Equities

Source: ILIM, Bloomberg. Data is accurate as at 31 October 2024.

Bonds – German 10-year yield

Source: ILIM, Bloomberg. Data is accurate as at 31 October 2024.

MARKET SNAPSHOT

Market returns (EUR)

Equity Markets (EUR)	MTD Return (%)	YTD Return (%)	2023 Return (%)
MSCI Ireland	-5.3	23.2	20.6
MSCI United Kingdom	-2.8	11.0	10.3
MSCI Europe ex UK	-3.4	7.9	18.5
MSCI North America	2.0	22.5	22.3
MSCI Japan	-1.2	10.2	16.7
MSCI EM (Emerging Markets)	-1.6	14.1	6.5
MSCI AC World	0.5	18.5	18.6

10-Year Yields	Yield last month (%)	2023 Yield (%)	2022 Yield (%)
US	4.28	3.88	3.87
Germany	2.39	2.02	2.57
UK	4.45	3.54	3.67
Japan	0.95	0.61	0.42
Ireland	2.71	2.38	3.13
Italy	3.65	3.69	4.70
Greece	3.30	3.06	4.62
Portugal	2.80	2.66	3.59
Spain	3.10	2.99	3.66

FX Rates	End last month	2023 Rates	2022 Rates
U.S. Dollar per Euro	1.09	1.10	1.07
British Pounds per Euro	0.84	0.87	0.89
U.S. Dollar per British Pounds	1.29	1.27	1.21

Commodities (USD)	MTD Return (%)	YTD Return (%)	2023 Return (%)
Oil (Brent)	1.9	-5.0	-10.3
Gold (Oz)	3.8	32.8	13.1
S&P Goldman Sachs Commodity Index	0.5	5.7	4.3

Source: ILIM, Bloomberg. Data is accurate as at 1 November 2024.

THE ILIM VIEW – LOOKING AHEAD

Sovereign bond yields have fallen overall since the peak in October 2023 as concerns around inflation have abated. Although yields have been volatile in 2024 amid sticky inflation earlier in the year, both German and US 10-year yields are below their 2023 highs. With inflation having fallen significantly and central banks now suggesting rates will be cut further in 2024, bond yields are expected to decline over the next 12 months. On a 12-month view, our base case is that German and US 10-year government bond yields fall from current levels of 2.39% and 4.28% to 1.50% and 3.50%, respectively. We believe fixed income offers a strong risk-reward profile at this stage in the cycle, with the potential to offer protection if the economy slows, and is attractive from an income perspective while also providing potential for capital gains via falling yields. We believe that the risks of materially higher bond yields have reduced, and, if the economy falters, major central banks will be able to cut rates to support growth. In that scenario we would expect bonds to outperform to a greater extent.

Global equities have performed well as recession fears have receded and a peak in central bank policy rates was anticipated. While global earnings rose by only 0.1% in 2023, they are expected to grow by 9.8% in 2024 before accelerating to 13.1% in 2025 as growth remains firm and margins improve. Global equities valuations are above long-term averages, trading on a 12-month forward price-to-earnings (P/E) multiple of 18.0x against a long-term average of 16.1x. Equities remain expensive against both bonds and cash given the high yields currently available on these assets. Despite this, the outlook on a 12-month view is positive. Central banks have pivoted to looser policy in 2024 as inflation has declined. With growth expected to remain firm, with a recession being avoided, earnings are forecast to rebound through 2024/25/26, which should be supportive. Over the medium term, the rollout of AI should boost efficiencies and earnings across the whole market and allow equities to trade at higher valuation levels. The ongoing green-related capex cycle could also boost earnings over the medium term. Any short-term volatility in markets is likely to be offset by the above factors, resulting in positive returns on a 12-month time frame.

THE MONTH AHEAD

NOVEMBER

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
			07 US Fed Interest Rate decision GB BoE Interest Rate Decision	08 US Michigan Consumer Sentiment Prel (Nov)
	12 GB Unemployment Rate (Sep) DE ZEW Economic Sentiment Index	13 US Inflation Rate YoY (Oct)	14 GB GDP Growth Rate YoY Prel (Q3) US PPI MoM (Oct)	15 JP GDP Growth Rate QoQ Prel (Q3) US Retail Sales MoM (Oct)
18 GB Retail Sales MoM (Oct)		20 GB Inflation Rate YoY (Oct)		22 JP Inflation Rate YoY (Oct) DE HCOB Manufacturing PMI Flash (Nov)
25 DE Ifo Business Climate (Nov)	26 US FOMC Minutes	27 DE GfK Consumer Confidence (Dec) US Core PCE Price Index MoM (Oct) US Durable Goods Orders MoM (Oct) US GDP Growth Rate QoQ 2nd Est (Q3) US Personal Income MoM (Oct)	28 DE Inflation Rate YoY Prel (Nov)	29 EA Inflation Rate YoY Flash (Nov)
30 CN NBS Manufacturing PMI (Nov)				

Source: tradingeconomics.com

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Figures referenced herein have been sourced from ILIM and Bloomberg. Forecast figures have been prepared by ILIM based on reasonable assumptions, internal data and data sourced from Bloomberg.

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