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GMAPs

Quarterly Overview

30 September 2024

ROYAL LONDON
ASSET MANAGEMENT

Overview

Market overview

Markets continued to focus on central bank actions during the quarter, as both the Federal Reserve (Fed) and Bank of England (BoE) followed the European Central Bank in making the first rate cuts this cycle. This follows the significant rises through 2022 and 2023 as part of efforts to reduce inflation. Along with a significant stimulus package in China, this policy shift generally helped fixed income markets to perform positively over the quarter as yields fell to reflect lower central bank interest rates. After initial weakness, equity markets started to rise once more, reflecting the hope that the policy easing would result in a soft landing for the economy with the US S&P 500 index hitting an all-time high. Despite guidance from central banks that further cuts will be measured, markets are still pricing in material rate cuts over the next year or so.

After elections in the UK and France grabbed headlines in the second quarter, attention moved firmly to the forthcoming US elections. Markets believe that a Trump presidency would see looser fiscal policy and higher tariffs and protectionism. Sentiment has swung on the fortunes of the early days of the race, first following the Trump assassination attempt and debate against President Biden, which appeared to favour Trump, but then swung back as Kamela Harris emerged as a credible candidate and performed strongly in her debate with the former president. Somewhat remarkably, markets have remained sanguine about rising geopolitical tensions in the Middle East.

Global equities were volatile during the third quarter amid heightened geopolitical tensions in the Middle East and ongoing inflationary pressures on the global economy. However, global equities have still posted gains on a year-to-date basis.

During the third quarter, the MSCI All Country World Index posted gains of 4.89% in local currency terms.

The price of WTI crude oil lost 8.6% over the quarter to $68.2 a barrel, while copper futures meanwhile gained 3.2% in US dollar terms.

Performance and activity

Asset allocation overview

At the tactical asset allocation level, we took profits on our overweight position in equities which had benefitted us since the end of 2022. The Investment Clock moved into the Reflation quadrant, which historically has been the phase of the business cycle where bonds offer their best performance. As we transition out of the volatile summer period and with central bank rate cuts which expected to boost economic activity globally, we are starting to turn more positive on risk assets once again. At the sector level, we added value from our preference towards cyclical sectors like materials and industrials, funded from the energy sector which struggled amid falling oil prices. With much uncertainty around the macroeconomic environment, we continue to see great benefits in a well-diversified multi asset approach which aims to deliver positive risk-adjusted returns over the medium to long term.

Equities

Global stocks continued higher over the quarter, recovering swiftly from the declines made in early August when equity market volatility rose to the highest level since the Covid sell-off in March 2020. Having taken profits into the summer period where volatility tends to be higher and equity market performance relatively soft, we are now turning more positive again. The Investment Clock remains in Reflation for now, but we expect central bank rate cuts to have a positive impact on economic activity, which could see us move into the equity-friendly Recovery quadrant. Our equity positioning had a neutral impact on performance.

Bonds

Bond yields fell and US Treasuries recorded their fifth consecutive monthly gain – the longest streak since 2010, as both the Federal Reserve and Bank of England started their easing cycle. We entered the period underweight bonds but changed our positioning as focus shifted to firmer US employment data. This sharp reversal saw us lose a bit of performance.

Equity regions

Emerging market shares outperformed, driven by a sharp rally of Chinese equities into month-end. Japan struggled as the Bank of Japan hiked interest rates by 0.15% and signalled more to come.

Equity sectors

The Information Technology sector underperformed, as the market rally broadened to wider sectors. We benefitted from this through our preference to value cyclical sectors such as materials and industrials. We also gained from an underweight position in the energy sector which in relative terms as oil prices fell to year-to-date lows amid soft physical demand and expectations of large supply increases as we move into 2025.

Overview

Property

We remain positive on the long-term prospects for property within a diversified multi asset portfolio. We remained tactically underweight property over the period but have started to cover this position towards neutral. Commercial property rose slightly but underperformed equities over the quarter. With UK inflation rates returning back towards target levels and the outlook for GDP growth being for a steady recovery through the remainder of 2024 and into 2025, a stable and predictable political environment should give investors more confidence and serve as a tailwind.

Outlook

The pandemic ushered in a new era of ‘spikeflation’ characterised by periodic spikes in inflation and shorter boom-bust cycles. Stronger than expected US growth and trouble in the Middle East could challenge the consensus view that inflation will drop quickly to target levels, creating a two-way risk for bonds. We’ve been overweight equities most of the time since 2022. We neutralised ahead of the summer and added back amid recent market volatility with our Investment Clock moving into Reflation and the Fed starting to ease policy. We see a soft landing in the world economy, which should benefit stocks, but geopolitical risk could create volatility along the way, and we’ve moved commodities back to overweight as a hedge.

Further Information

Please click on the links below for further information:

Stewardship and responsible investment at RLAM

The investment clock

TCFD climate report

Find out more

In an uncertain geopolitical and economic environment, we recognise the importance of keeping our clients updated on our current investment thinking.

Articles, videos, podcasts and webinars giving the latest views of our investment experts can be found in the Our Views section of www.rlam.com, including regular updates from our Fixed Income, Global Equity, Sustainable and Multi Asset teams.

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