



# Central bank rate cuts feed market optimism

2024 Q3 review by Jake Winterton, Assistant Fund Manager, and Jasper Jogi, Multi Asset Analyst

Equity markets continued to gain over the quarter, shrugging off US recession worries and soon recovering from an August sell-off which saw the Japanese Topix index record its worst daily performance since the Black Monday crash in October 1987. The S&P 500 index is up more than 20% so far this year in local currency terms, which marks the best year-to-date performance in 27 years.

In addition to stocks, last quarter also saw positive performance from government bonds, property and broad commodities (Table 1). This recent positivity around financial assets has been helped by central bank policy, with the Federal Reserve and Bank of England starting to ease their monetary policy stance (Chart 1). In addition to US, UK and Europe, we have seen supportive policy measures being taken in China, as the authorities have announced an enormous stimulus package, including rate cuts, support for the property sector and commitment towards fiscal stimulus. All this saw China's mainland CSI 300 index post its strongest week since 2008, rising by 25% in local currency terms from the first policy announcement on 24 September into quarter-end (Chart 2).

On a tactical level, we have added back to risk assets over recent weeks, having previously taken profits into the summer period. While the Investment Clock remains in Reflation, incoming interest rate cuts should boost activity globally, and seasonality is turning more positive for risk assets. We have increased our overweight in emerging markets and reduced underweights in Europe and Asia Pacific shares in the recent rebound. We expect cyclicals to outperform defensive sectors as equity markets grind higher from here.

Please see the [Investment Clock blog](#) for our latest views.

Chart 1: Central banks have started to ease policy

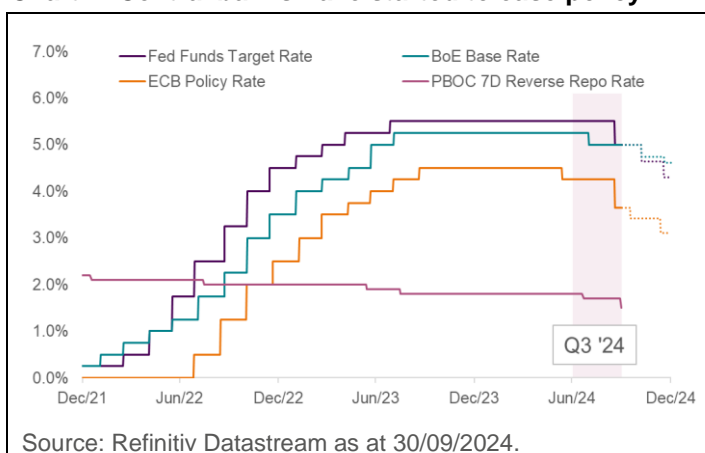


Chart 2: China outperformed sharply at the end of Q3

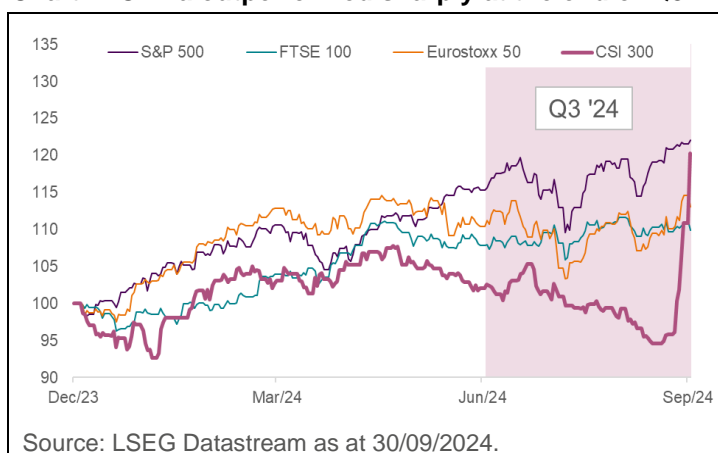


Table 1: Sterling-based annual returns from major asset classes 2017 – Q3 2024

Year	2017	2018	2019	2020	2021	2022	2023	YTD
1	EM Stocks +21.1%	Property +7.5%	Global Stocks +22.6%	Global Stocks +14.3%	Commodities +28.3%	Commodities +30.7%	Global Stocks +16.0%	EM Stocks +14.6%
2	Global Stocks +14.0%	Cash +0.6%	UK Stocks +19.2%	EM Stocks +11.9%	Global Stocks +20.0%	Cash +1.0%	UK Stocks +7.9%	Global Stocks +13.2%
3	UK Stocks +13.1%	Gilts +0.6%	EM Stocks +15.9%	Gilts +8.3%	Property +19.9%	UK Stocks +0.3%	Multi Asset +7.0%	UK Stocks +9.9%
4	Property +11.2%	Multi Asset -1.5%	Multi Asset +10.0%	Multi Asset +5.2%	UK Stocks +18.3%	EM Stocks -6.4%	Cash +4.4%	Multi Asset +6.0%
5	Multi Asset +6.3%	Global Stocks -3.1%	Gilts +6.9%	Cash +0.3%	Multi Asset +8.4%	Multi Asset -7.4%	Gilts +3.7%	Cash +4.0%
6	Gilts +1.8%	Commodities -5.7%	Commodities +3.5%	Property -1.0%	EM Stocks +1.0%	Global Stocks -7.8%	EM Stocks +2.9%	Property +3.4%
7	Cash +0.3%	EM Stocks -7.6%	Property +2.1%	Commodities -6.1%	Cash +0.0%	Property -10.1%	Property -0.1%	Commodities +0.6%
8	Commodities -7.1%	UK Stocks -9.5%	Cash +0.7%	UK Stocks -9.8%	Gilts -5.2%	Gilts -23.8%	Commodities -13.1%	Gilts -0.2%

Past performance is not a reliable indicator of future results. Source: RLAM, Refinitiv Datastream as at September 2024; property as at August 2024. 'Multi Asset' returns are based on the benchmark weights of Royal London GMAP Balanced Fund. Indices used are FTSE All Share, FTSE World, MSCI Emerging Markets ESG Leaders, MSCI/AREF UK All Balanced Quarterly Property Fund, Bloomberg Commodity Index, BoAML BB-B Global Non-Financial High Yield Constrained Index, iBoxx Sterling Non-Gilt Index, Bloomberg Barclays Global Aggregate Corporate Index, FTSE Actuaries UK Index Linked Gilts, Bloomberg Barclays UK Government Inflation Linked Bond 1-10 year Index, Bloomberg Barclays World Government Inflation Linked Bond (ex UK) 1-10 year, FTSE Actuaries UK Conventional Gilts Index, JPM Global ex-UK Traded Index, FTSE Actuaries UK Conventional Gilts up to 5 Years Index, SONIA. Total returns in sterling terms.

## Markets: Global financial markets see broad-based gains

- Global stocks continued higher over the quarter, recovering swiftly from the declines made in early August when volatility in equity markets rose to the highest level since the Covid sell-off in March 2020.
- Emerging market shares outperformed, driven by a sharp rally of Chinese equities into month-end. Japan struggled as BoJ hiked interest rates by 0.15% and signalled more to come. The Technology sector underperformed, as the market rally broadened to wider sectors.
- Bond yields fell and US Treasuries recorded their fifth consecutive monthly gain – the longest streak since 2010, as both the Fed and BoE started their easing cycle.
- Commodities were mixed. Precious metals rose as gold made new all-time highs above \$2650/oz. Industrial metals rallied on China stimulus while the energy complex fell on demand concerns.
- In FX, yen strengthened broadly as Japan's Ministry of Finance intervened in markets and BoJ continued to hike rates. Sterling made two-year highs against US dollar, benefitting from post-elections political stability.

FX	1 GBP buys	%chg Q3 (vs GBP)	%chg 2024
USD	1.34	-5.6	-5.0
EUR	1.20	-1.8	-4.0
CHF	1.13	0.4	-5.3
JPY	191.8	6.0	-6.4
AUD	1.93	-1.8	-3.3
CAD	1.81	-4.5	-6.8

CB rates	Rate (%)	chg in Q3 (%)	chg 2024 (%)
Fed	5.00	-0.50	-0.50
BoE	5.00	-0.25	-0.25
ECB	3.50	-0.25	-0.50
BoJ	0.23	0.15	0.26

Bond Yield	Yield (%)	chg in Q3 (bps)	chg 2024 (bps)
US 10 Year	3.78	-62	-10
UK 10 Year	4.00	-17	47
EU 10 Year	2.12	-38	10
JP 10 Year	0.87	-18	25

### Multi Asset

	Local Currency		GBP	
	Q3	2024	Q3	2024
UK Stocks	2.3	9.9	2.3	9.9
Global ex UK Stocks	5.2	19.4	0.7	13.2
Gilts	2.3	-0.2	2.3	-0.2
UK Cash	1.3	4.0	1.3	4.0
UK Property	1.0	3.4	1.0	3.4
Commodities	0.7	5.9	-5.1	0.6

### Equity Regions

	Local Currency		GBP	
	Q3	2024	Q3	2024
UK	2.3	9.9	2.3	9.9
North America	6.2	21.6	0.1	15.5
Europe ex UK	2.0	11.6	0.0	7.2
Japan	-5.0	14.4	0.7	7.1
Pacific ex Japan	2.2	14.6	0.3	8.9
Emerging Markets	9.7	22.1	4.8	14.6

### Global

#### Equity Sectors

	Local Currency		GBP	
	Q3	2024	Q3	2024
Consumer Discretionary	7.4	14.4	3.1	8.7
Industrials	7.4	18.5	3.9	12.5
Financials	8.6	21.6	4.4	15.7
Consumer Staples	7.4	12.5	3.2	7.1
Utilities	14.9	23.2	10.1	17.2
Healthcare	4.5	14.2	0.2	8.8
Energy	-3.3	7.0	-7.6	1.6
Materials	7.0	8.7	3.5	3.2
Communication Services	9.4	20.0	6.7	13.8
Technology	0.3	26.8	-4.7	20.1

### Bonds

	Local Currency		GBP	
	Q3	2024	Q3	2024
Conventional Gilts	2.3	-0.2	2.3	-0.2
Index Linked Gilts	1.4	-2.5	1.4	-2.5
GBP Credit	2.3	2.2	2.3	2.2
Global High Yield	4.3	7.5	4.2	7.5

### Commodities

	Local Currency		GBP	
	Q3	2024	Q3	2024
Energy	-11.2	-4.1	-16.3	-8.9
Agriculture	3.7	-2.8	-2.2	-7.6
Industrial Metals	3.0	12.2	-3.0	6.6
Precious Metals	11.3	28.0	4.9	21.6

Note: Standard indices sourced from DataStream and Bloomberg as at 30 September 2024; Property data as at 31 August 2024.

Jake Winterton is the assistant fund manager and Jasper Jogi is the analyst within Royal London Asset Management's multi asset team. The team manages portfolios including the Governed Range pension portfolios, the Global Multi Asset Portfolios (GMAPs), Multi Asset Strategies Fund (MAST) which is available on third party platforms and the euro based multi asset funds that form the core of the Royal London Irish pensions offering.

### Investment risks – RL GMAP fund range

**Investment risk:** The value of investments and any income from them may go down as well as up and is not guaranteed. Investors may not get back the amount invested.

**Credit risk:** Should the issuer of a fixed income security become unable to make income or capital payments, or their rating is downgraded, the value of that investment will fall. Fixed income securities that have a lower credit rating can pay a higher level of income and have an increased risk of default.

**Derivative risk:** Derivatives are highly sensitive to changes in the value of the underlying asset which can increase both fund losses and gains. The impact to the fund can be greater where they are used in an extensive or complex manner, where the fund could lose significantly more than the amount invested in derivatives.

**EPM Techniques:** The fund may engage in EPM techniques including holdings of derivative instruments. Whilst intended to reduce risk, the use of these instruments may expose the fund to increased price volatility.

**Exchange Rate risk:** Changes in currency exchange rates may affect the value of your investment.

**Interest Rate risk:** Fixed interest securities are particularly affected by trends in interest rates and inflation. If interest rates go up, the value of capital may fall, and vice versa. Inflation will also decrease the real value of capital.

**Emerging Markets risk:** Investing in emerging markets may provide the potential for greater rewards but carries greater risk due to the possibility of high volatility, low liquidity, currency fluctuations, the adverse effect of social, political and economic instability, weak supervisory structures and accounting standards.

**Counterparty risk:** The insolvency of any institutions providing services such as safekeeping of assets or acting as counterparty to derivatives or other instruments, may expose the fund to financial loss.

**Fund investing in Funds risk:** The fund is valued using the latest available price for each underlying investment, however it may not fully reflect changing stock market conditions and the fund may apply a 'fair value price' to all or part of its portfolio to mitigate this risk. In extreme liquidity conditions, redemptions in the underlying investments, and/or the fund itself, may be deferred or suspended.

**Liquidity and Dealing risk:** The fund invests indirectly in assets that may at times be difficult to value, harder to sell, or sell at a fair price. This means that there may be occasions when you experience a delay in being able to deal in the fund, or receive less than may otherwise be expected when selling your investment.

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