Allianz
Global Investors

09/2024

Market Snapshot

Equity Snapshot

United States

US stocks started the month on a weak footing as recessionary fears resurfaced but closed the month higher as the Federal Reserve (Fed) started its rate-cutting cycle. The S&P 500 Index closed the month at a fresh record high, while the Nasdaq Composite Index remained below its July peak. With only five weeks to go until the presidential election, Vice President Kamala Harris remains ahead of Donald Trump at a national level, but the race is neck-and-neck in the seven swing states that will decide who wins the most electoral college votes.

US non-farm payrolls rose by a weaker-than-forecast 142,000 in August, while July's gain was revised down to just 89,000, the weakest monthly increase since December 2020. However, other economic metrics supported a soft landing as the most likely outcome. The flash S&P Global US composite purchasing managers' index edged lower to 54.4 in September as services activity remained robust although manufacturing activity contracted for a third consecutive month. The University of Michigan index of consumer confidence rose to 70.1 in September, the highest level since April.

Headline inflation eased to 2.5% in August, from 2.9% the previous month. At its September meeting, the US central bank cut rates for the first time in more than four years, implementing a bigger-than-usual 50-basis-point (bps) reduction, the first cut of this size since the early pandemic days of March 2020. Policymakers indicated rates were likely to be reduced by another 50 bps in total before year end, with further cuts likely in 2025.

Europe

Euro-zone equities closed the month little changed. To an extent, the US stock market influenced movements in Europe. Shares sold off in the first half of the month as continued weak US job growth raised recessionary fears once more, before rallying in the second half as central banks loosened monetary policy and the Chinese authorities announced additional stimulus measures. Sectoral returns were mixed: materials, real estate and utilities were the strongest sectors, while the largest losses came from energy, health care and information technology.

Euro-zone economic activity weakened in September following the short-term boost from the Paris Olympics during the previous month. The flash HCOB euro-zone composite purchasing managers' index (PMI) fell to 48.9, the lowest level since January and moving back below the 50 level that separates expansion from contraction for the first time in seven months. Euro-zone inflation slowed, easing to 2.2% in August, its slowest pace in three years. With growth subdued and inflation nearing its official target, the European Central Bank (ECB) cut rates for the second time this cycle. ECB President Christine Lagarde signaled more rate cuts were expected but downplayed the likelihood of one at the next rate-setting meeting in October.

Asia

Asia ex Japan equities rallied over September, but market returns were mixed. Regional markets enjoyed a particularly strong end to the month following the Chinese authorities' announcement of the biggest stimulus package since the pandemic as they attempted to kick the economy out of its doldrums and boost equity valuations. Additionally, sentiment was lifted by the US Federal Reserve's first cut in interest rates in more than four years and a weaker tone to the US dollar. China A markets rallied by around 15% in the final week of September and are now in positive territory year-to-date. It was a broad-based advance with all sectors in positive territory and on high volumes. Taiwanese shares were broadly flat, but South Korean shares lost ground as corporate reforms appeared to stall and bellweather stock Samsung Electronics delivered results below expectations. Meanwhile, ASEAN markets advanced, benefitting from both Chinese stimulus measures and currency appreciation versus the US dollar. Australian stocks rose modestly, with the ASX 200 Index reaching fresh highs mid- month, buoyed by gains from its heavyweight banks.

Bond

Global bonds rallied as the US Federal Reserve joined an increasing number of developed market central banks in starting to ease monetary policy. The Fed's larger-than-usual 50-basis-point cut was accompanied by forecasts of further cuts this year and in 2025. The European Central Bank also reduced borrowing costs, marking its second cut this year, while the Bank of England kept rates on hold but indicated that borrowing costs were likely to be reduced later this year. While the Bank of Japan also kept rates on hold, the People's Bank of China announced a package of measures aimed at supporting the economy and the property sector, including lowering the reserve requirement ratio for banks and cutting some loan rates.

Outlook

September may have provided a pivot point for global equity markets, with investors welcoming the first interest rate cut by the Federal Reserve (Fed) since 2020. The Chinese government also announced a stronger than expected stimulus package with the aim of improving consumer confidence and returning the country to their 'around 5%' growth target. Both these events had a significant effect on markets towards the end of the quarter.

Whilst the September rate cut was widely expected, the magnitude of a 50bps cut was a signal that the focus of the Fed is now on ensuring a soft landing of the economy (where inflation moderates and growth slows but a recession is avoided). This continues to remain the most likely outcome but there are questions regarding the speed of cuts and the new neutral rate. The market expects significant cuts by the end of 2025 but the difficult balance act between controlling inflation, finding the correct level for growth and maintaining confidence remains. Markets will continue to closely monitor economic data and any divergence could lead to increased volatility. From our perspective, lower rates should be positive for equities and an environment of slower growth could lead to a broader market than we have seen recently enabling the higher quality companies to shine.

The scope and wide range of stimulus announced by the Chinese government in mid-September led to a surge in both the mainland and Hong Kong stock exchange towards the end of the month. Swap facilities for qualified financial firms to buy stocks and cheap lending facilities for listed companies to buy back shares buoyed the stock markets, while there were also cuts to a range of credit rates to encourage borrowing. Stabilising the property sector is however key in resuming to a healthy growth dynamic in China and a number of measures were announced to try and address this. As 90% of the Chinese population own property (much higher than other parts of the world) the right solution must be found for fragile consumer confidence to return.

Geopolitics will continue to be a source of volatility as conflicts in the Middle East and the Ukraine show little sign of abating. Further escalation could lead to potential surges in commodity prices. The US election also looms large and the policies of the winner will have a lasting market impact, while there are also risks in Europe where France and Germany are absorbed by domestic issues and growth and financial stability are vulnerable.

Over the next month or so, fresh Q3 earnings results will take centre stage. Market expectations are lower than they have been, with full year growth projections downgraded for a number of companies. We are hopeful that a number of our holdings that have pointed to a stronger second half can positively surprise. We see a strong story into 2025, where the impact of a lower interest rate will begin to be felt and the market may look beyond the dominant 2024 themes of artificial intelligence and higher for longer rates. Our companies have historically performed well when growth becomes more scarce and we remain convinced of our strategy that returns above-market earnings growth, compounding meaningfully over time. Ultimately this drives stock prices over the longer term.

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