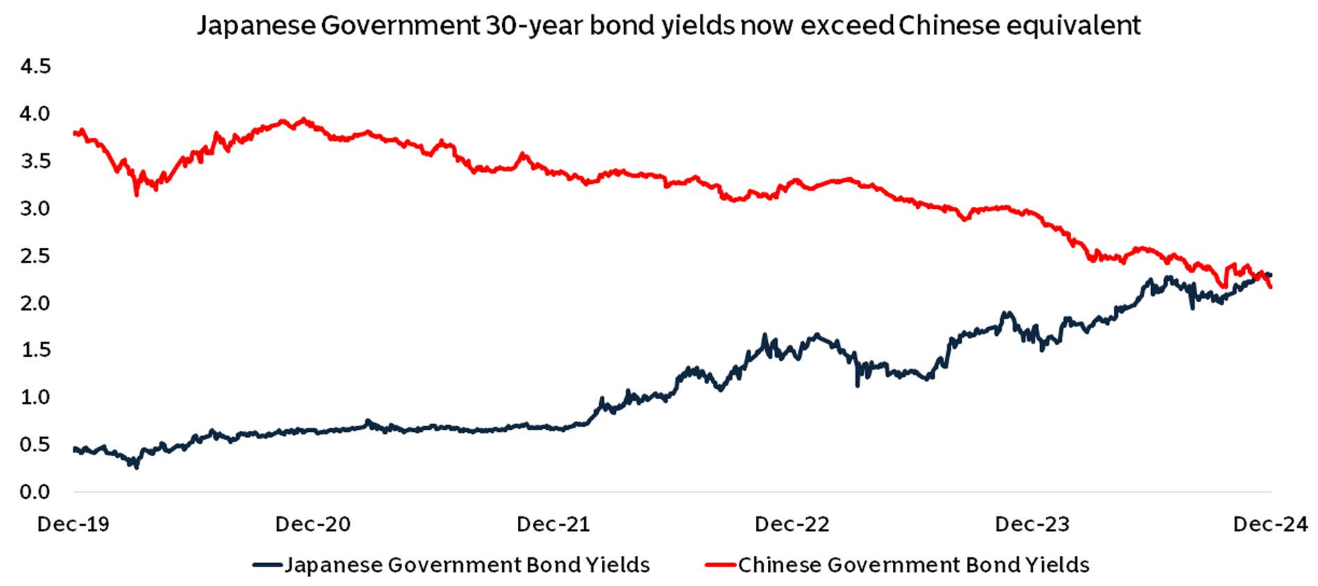
Chart of the Week

9 December 2024



Source: Bloomberg Finance L.P., December 2024.

Land of the rising bond yields

Charles Thomson
Portfolio Manager

What this chart shows?

This chart shows the evolution over the past five years of 30-year Japanese Government Bond yields and corresponding 30-year Chinese Government Bond yields. During 2020, Chinese 30-year government debt traded at a yield-to-maturity of nearly 4%, which means CNY 1,000 invested over thirty years would be worth CNY 3,243 after compounding returns. Alternatively, investing JPY 1,000 at a 30-year rate of 0.5% would result in a value of JPY 1,161 over the same period. In percentage terms this means that a CNY investor in long bonds would have locked in a 224% return versus a 16% for a corresponding JPY long bond investor. This situation has now dramatically reversed now that Japanese yields are higher than corresponding Chinese securities.

Why is this important?

After decades of zero interest rate policy by the Bank of Japan, we finally saw rate increases in 2024, taking the BoJ unsecured overnight call rate to 0.25%. Yield curve control, which effectively capped the upper bound of Japanese bond yields has also been amended to allow higher rates. Meanwhile, with ongoing macroeconomic challenges in China, interest rates have been lowered, and bond yields have also declined. This divergent policy may have far reaching implications for investors and valuation models for other asset classes. Over time, higher interest rates may provide support for the Japanese yen and reduce speculative funding strategies based on borrowing JPY. The implications for global markets are far reaching.

Weekly market update

week ending 6 December 2024

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The global financial landscape during this period was shaped by central bank policies and economic resilience in the US, contrasted with challenges in Europe, China, and Japan. Inflationary pressures and mixed growth signals continued to influence market behaviour globally.

US

- The S&P 500 hit record highs due to robust performance in tech stocks, with Apple and Tesla leading the charge. Investors focused on anticipated Fed decisions.
- Fed officials hinted at potential rate cuts in December, supported by a solid jobs report showing 227,000 new jobs added, and an unemployment rate of 4.2% in November.
- Inflation showed signs of persistence, particularly in housing services, challenging the Fed's 2% target.
- The US trade deficit widened in October, and weekly jobless claims were stable, reflecting a resilient labour markets.

UK

- Concerns arose over holiday spending trends, with muted forecasts for consumer spending growth in the run-up to Christmas.
- The Bank of England maintained its interest rates amidst signs of slowing inflation and mixed economic signals.
- The British pound fell against the dollar, reflecting concerns over sluggish economic recovery and global factors.
- A drop in gas prices offers some relief to households as energy inflation eased.

Europe

- The European Central Bank signalled no immediate changes to interest rates, citing stabilising inflation.
- Data showed continued contraction in manufacturing, raising fears of an EU-wide recession.
- Concerns over fiscal policies in France and Italy dampen investor sentiment.
- Germany faces ongoing struggles with declining industrial output and stagnant growth.

Rest of the World/Asia

- China's declining exports highlighted weaker global demand and trade tensions. New measures to bolster economic growth, focusing on the property and manufacturing sectors are being introduced.
- Japan continues grappling with low inflation and stagnant wage growth despite government stimulus efforts.
- Countries in Latin America and Africa faced renewed inflationary pressures and rising debt concerns.
- India remained a bright spot, with strong GDP growth and robust domestic demand.

Weekly market data

week ending 6 December 2024

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Asset Class / Region	Currency	Cumulative returns: Week ending 6 December	Month to date	YTD 2024	12 months
Developed Markets Equities					
United States	USD	1.0%	1.0%	28.8%	35.2%
United Kingdom	GBP	0.2%	0.2%	11.1%	14.5%
Continental Europe	EUR	2.5%	2.5%	9.9%	12.0%
Japan	JPY	1.7%	1.7%	17.8%	16.9%
Asia Pacific (ex Japan)	USD	1.7%	1.7%	13.4%	20.0%
Australia	AUD	-0.2%	-0.2%	14.9%	21.6%
Global	USD	1.2%	1.2%	23.3%	29.5%
Emerging Markets Equities					
Emerging Europe	USD	5.6%	5.6%	9.9%	11.4%
Emerging Asia	USD	2.6%	2.6%	14.6%	20.1%
Emerging Latin America	USD	0.0%	0.0%	-21.6%	-14.8%
BRICs	USD	2.2%	2.2%	13.0%	16.5%
China	USD	2.6%	2.6%	19.4%	21.1%
MENA countries	USD	1.5%	1.5%	0.7%	6.4%
South Africa	USD	3.5%	3.5%	17.0%	25.1%
India	USD	2.1%	2.1%	12.9%	17.3%
Global emerging markets	USD	2.5%	2.5%	10.3%	16.0%
Bonds					
US Treasuries	USD	0.4%	0.4%	2.7%	4.5%
US Treasuries (inflation protected)	USD	0.2%	0.2%	3.7%	5.5%
US Corporate (investment grade)	USD	0.5%	0.5%	5.2%	7.6%
US High Yield	USD	0.5%	0.5%	9.2%	12.3%
UK Gilts	GBP	-0.3%	-0.3%	-1.5%	2.0%
UK Corporate (investment grade)	GBP	0.1%	0.1%	2.9%	6.4%
Euro Government Bonds	EUR	0.2%	0.2%	3.5%	5.1%
Euro Corporate (investment grade)	EUR	0.3%	0.3%	5.4%	7.0%
Euro High Yield	EUR	0.6%	0.6%	8.5%	10.8%
Global Government Bonds	USD	0.2%	0.2%	-0.3%	2.7%
Global Bonds	USD	0.3%	0.3%	1.0%	4.1%
Global Convertible Bonds	USD	0.3%	0.3%	8.9%	13.9%
Emerging Market Bonds	USD	0.8%	0.8%	7.9%	11.4%

Asset Class / Region	Currency	Cumulative returns: Week ending 6 December	Month to date	YTD 2024	12 months
Property					
US Property Securities	USD	-2.5%	-2.5%	13.4%	21.4%
Australian Property Securities	AUD	-2.7%	-2.7%	19.6%	27.4%
Asia Property Securities	USD	0.9%	0.9%	-5.5%	-0.5%
Global Property Securities	USD	-1.4%	-1.4%	8.5%	15.8%
Currencies					
Euro	USD	-0.2%	-0.2%	-4.6%	-2.1%
UK Pound Sterling	USD	0.0%	0.0%	-0.3%	1.2%
Japanese Yen	USD	-0.2%	-0.2%	-6.1%	-1.8%
Australian Dollar	USD	-2.2%	-2.2%	-6.7%	-2.8%
South African Rand	USD	0.0%	0.0%	1.3%	5.1%
Swiss Franc	USD	0.3%	0.3%	-4.5%	-0.5%
Chinese Yuan	USD	-0.3%	-0.3%	-2.3%	-1.5%
Commodities & Alternatives					
Commodities	USD	-0.7%	-0.7%	3.9%	6.3%
Agricultural Commodities	USD	0.5%	0.5%	4.1%	4.5%
Oil	USD	-2.5%	-2.5%	-7.7%	-4.3%
Gold	USD	-0.4%	-0.4%	27.6%	29.7%

Source: Bloomberg Finance L.P. Past performance is not indicative of future returns.

For more information, please contact:
Distribution Services

E: distributionservices@momentum.co.uk

T: +44 (0)207 618 1806

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