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"Geopolitical factors will likely take center stage again, particularly with upcoming US elections and ongoing fiscal challenge"

History doesn't repeat but it often rhymes

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Last week, the Federal Reserve delivered a highly anticipated decision, lowering interest rates and marking the beginning of a new monetary policy cycle. This shift provides an excellent opportunity to assess the current investment landscape and consider market expectations.

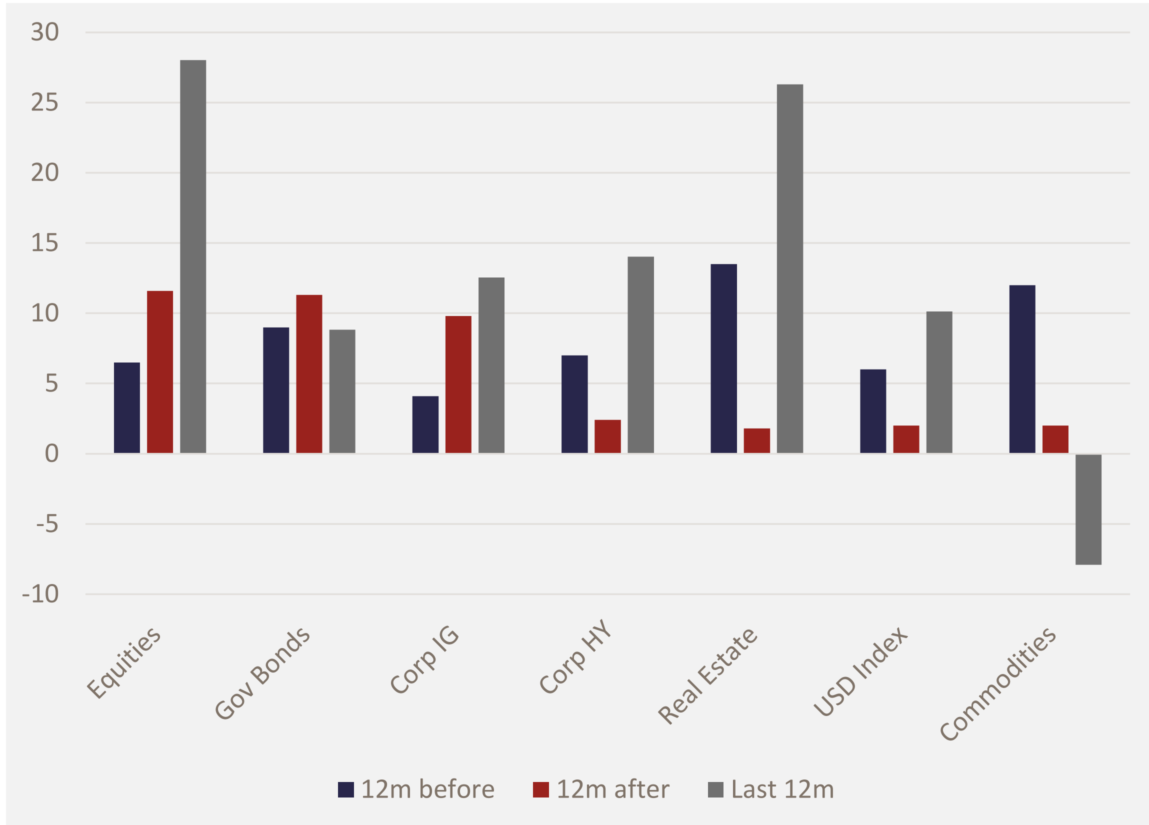
Historically, periods of changing monetary regimes have been associated with heightened price volatility across various US dollar-denominated asset classes. Transitions to a lower interest rate environment have often coincided with strong positive returns for traditional asset classes. The blue bars on the chart on the next page represent the average returns of these asset classes over the past four decades. Notably, the grey bars, which depict returns from the past 12 months, show that many asset classes have exceeded expectations.

Below, we explore the main factors driving these surprises.

In the US equity market, the performance of the "Magnificent 7" companies has likely been a key contributor to the robust overall outperformance. Meanwhile, in corporate investment-grade and high-yield categories, strong returns have come amid a neutral to positive economic growth outlook, further bolstered by abundant liquidity in the system. In the real estate sector, the primary driver appears to be an upward correction from previously oversold conditions.

In the foreign exchange market, the US Dollar Index (DXY) outperformed, supported by the relative strength of the US economy and heightened geopolitical uncertainty.

Historical returns 12 months before and after the change in US monetary regime, and latest 12 months, %



Source: S&P Global, ICE, CAIM, January/September 2024.

Government bond returns were in line with historical data, while commodities underperformed. This underperformance can be attributed to growing concerns about the Chinese economy, which, as a global manufacturing powerhouse, is closely linked to demand for commodities.

Regarding the Fed's decision, most analysts were surprised by the 50 basis point rate cut, as a 25 basis point cut was expected. However, the bond market's reaction suggested otherwise, with yields remaining stable at the short end of the curve and selling pressure at the long end. This was partly explained by the Fed's updated projections, which indicated a slower pace of rate cuts going forward and slightly upward-adjusted terminal rate projections.

What should we expect for the returns of major asset classes in the coming months, and how will they compare to their four-decade averages? The year began with high market expectations, reflected through high valuations of many assets. Market observers will recall that asset returns over the past 12 months were far from evenly distributed.

Looking ahead, we expect similar volatility over the next 12 months, as the fundamental outlook raises more questions than answers. Economic growth may once again surprise to the upside, as could inflation.

From a technical perspective, many indicators are signaling overbought conditions, with positioning showing increased accumulation of high-risk assets.

In the government bond market, traditionally a safe-haven asset class, the market is still ahead of the Fed, pricing in a more aggressive rate path. Geopolitical factors will likely take center stage again, particularly with upcoming US elections and ongoing fiscal challenges.

Many investors will look to history for guidance on the future. The red bars in the chart show the historical performance of asset classes 12 months after the first interest rate cut. While history may not repeat itself exactly, it often rhymes, presenting plenty of investment opportunities.

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Market Review - week ending 20 September 2024

- Global equities rose 1.2%
- The Federal Reserve (Fed) cut rates by 50bps as widely anticipated
- Brent crude rose 4% to $74.5 a barrel, its biggest weekly gain since February
- Gold rose 1.7% to $2621.9 per ounce

US

- US equities rose 1.4%
- The Fed cut rates by 50bps starting their easing cycle
- Initial jobless claims were 219k (vs 230k expected)
- Existing home sales for August were 3.8m (vs 3.92m expected)

UK

- UK equities fell 0.6%
- The monthly CPI rate in August was 0.3%, the same as in August 2023
- UK Core retail sales for August were 1.1% (vs 0.3% expected)
- The Bank of England interest rate decision for September was unchanged at 5% (as expected)

Europe

- European equities fell 0.5%
- The EU and Beijing will intensify talks to avert tariffs on China-made EVs before a deadline. The bloc clarified that it would continue a formal probe into unfair subsidies
- The Financial Times (FT) reported that the EU is preparing loans of up to €40 billion for Ukraine by the end of the year, regardless of US participation

Rest of the World/Asia

- Global emerging market equities rose 2.3%
- Japanese equities rose 2.8% despite being closed Monday for Respect for the Aged Day
- Kazuo Ueda, Governor of the Bank of Japan said that Japan will continue to raise its rate if economic and inflation trends align with outlook. The yen pared gains after he said upside risk to prices is receding. As expected, the central bank kept borrowing costs unchanged at 0.25%
- Chinese equities rose 4.6% despite being shut on Monday and Tuesday for the Mid-Autumn Festival
- Property shares climbed after it was revealed that China may remove some of the largest remaining restrictions on home purchases. Plans include allowing megacities such as Shanghai and Beijing to relax curbs for non-local buyers

Market Performance - week ending 20 September 2024

		Cumulative returns			
Asset Class / Region	Currency	Week ending 20 September	Month to date	YTD 2024	12 months
Developed Markets Equities					
United States	USD	1.4%	1.0%	20.4%	30.9%
United Kingdom	GBP	-0.6%	-2.0%	9.5%	10.5%
Continental Europe	EUR	-0.5%	-2.4%	8.7%	14.2%
Japan	JPY	2.8%	-2.6%	13.0%	12.3%
Asia Pacific (ex Japan)	USD	2.7%	1.5%	12.8%	19.7%
Australia	AUD	1.4%	2.2%	11.5%	18.9%
Global	USD	1.2%	0.5%	17.3%	27.1%
Emerging Markets Equities					
Emerging Europe	USD	0.9%	-1.0%	11.7%	26.3%
Emerging Asia	USD	2.6%	0.9%	13.5%	19.2%
Emerging Latin America	USD	-1.0%	-0.5%	-13.1%	-2.5%
BRICs	USD	2.7%	1.6%	10.7%	13.1%
China	USD	4.6%	1.7%	6.2%	1.5%
MENA countries	USD	1.8%	0.7%	1.2%	6.7%
South Africa	USD	4.1%	2.4%	16.7%	25.6%
India	USD	2.3%	2.8%	19.6%	30.3%
Global emerging markets	USD	2.3%	0.8%	10.4%	16.9%
Bonds					
US Treasuries	USD	-0.4%	1.5%	4.3%	9.1%
US Treasuries (inflation protected)	USD	0.1%	1.6%	4.9%	8.7%
US Corporate (investment grade)	USD	0.1%	1.9%	5.9%	12.8%
US High Yield	USD	0.8%	1.5%	7.9%	14.4%
UK Gilts	GBP	-1.0%	0.8%	0.4%	6.9%
UK Corporate (investment grade)	GBP	-0.6%	0.7%	2.9%	10.5%
Euro Government Bonds	EUR	-0.5%	0.6%	1.3%	7.4%
Euro Corporate (investment grade)	EUR	0.1%	0.7%	3.3%	8.6%
Euro High Yield	EUR	0.5%	0.7%	6.4%	11.7%
Global Government Bonds	USD	-0.4%	1.4%	2.5%	8.8%
Global Bonds	USD	-0.2%	1.4%	3.4%	10.3%
Global Convertible Bonds	USD	0.9%	1.2%	3.5%	9.4%
Emerging Market Bonds	USD	0.6%	1.9%	8.0%	16.0%

		Cumulative returns			
Asset Class / Region	Currency	Week ending 20 September	Month to date	YTD 2024	12 months
Property					
US Property Securities	USD	-1.1%	2.0%	14.3%	24.8%
Australian Property Securities	AUD	1.7%	7.2%	23.8%	37.2%
Asia Property Securities	USD	0.8%	0.1%	-0.3%	4.2%
Global Property Securities	USD	-0.5%	2.2%	11.7%	22.6%
Currencies					
Euro	USD	0.8%	1.1%	1.0%	4.1%
UK Pound Sterling	USD	1.5%	1.6%	4.4%	7.3%
Japanese Yen	USD	-2.0%	1.7%	-2.0%	2.6%
Australian Dollar	USD	1.6%	0.9%	-0.3%	4.7%
South African Rand	USD	1.5%	2.0%	4.5%	7.0%
Swiss Franc	USD	-0.1%	0.2%	-1.2%	5.2%
Chinese Yuan	USD	0.7%	0.7%	0.8%	3.4%
Commodities & Alternatives					
Commodities	USD	2.2%	1.4%	4.4%	-3.1%
Agricultural Commodities	USD	0.7%	2.6%	2.2%	-1.0%
Oil	USD	4.0%	-5.5%	-3.3%	-20.4%
Gold	USD	1.7%	4.7%	27.1%	34.7%

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

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