Investments Matter

Quarter 3 - 2024

Welcome to Investments Matter, our quarterly review of the investment markets, covering the three months to the end of September 2024.

All information correct at time of publication. This update refers to the past. Past performance is not a guide to future performance. The value of an investment can fall as well as rise, you could get back less than invested.

Key themes:

- **Stock markets and bonds achieved positive returns, supported by cuts in interest rates in the US and Europe. Markets were also helped by the expectation that interest rates are likely to be cut again.**
- **The period was not without its challenges though. Stock markets fell heavily in late July following release of weaker data from the US economy.**
- **Returns from overseas company shares and bonds to sterling-based investors were impacted by the strength of sterling versus the US dollar.**

Company shares and bonds delivered gains in the three months to the end of September 2024. They were helped by cuts in interest rates and therefore lower borrowing costs for households and businesses.

However, the period was not all plain-sailing. Company shares fell heavily in late July because of weaker US jobs data. The Bank of Japan increased interest rates around the same time in order to reduce inflation, and therefore rises in the cost of goods and services in Japan.

Things then improved in the second half of September. As expected, the US central bank cut interest rates at its September meeting and China announced that it would be providing support for the Chinese economy. Smaller companies outperformed larger company shares in the period. The was also less focus on technology companies. This highlighted investors' appetite for diversification, and therefore a shift away from the technology sector, which has driven the positive stock market performance of the last 12 months.

Political risk remained every-present in the period. A surprise presidential election was held in France in July, resulting in more uncertainty. While investors were taken by surprise by the July date for the UK government election, there was little reaction to the outcome of the election itself. The greater degree of certainty in the UK compared to the eurozone and the US, where the presidential election will take place in November, provided reassurance to investors. The UK currency - sterling - also known as the British pound - gained in value against the US dollar and the euro.

This meant however that returns from overseas company shares and bonds to UK-based investors were lower in sterling terms. For example, returns from the US stock market were positive in US dollar terms in the period, but were negative when converted back into sterling. This is the return seen by investors whose investments are denominated in sterling.

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Performance of company shares (equities) and fixed interest assets (bonds) in Q3 2024.

UK company shares

The FTSE All-Share Index delivered a positive return. There was little, if any, reaction from the UK market to the outcome of the general election in July and this was then followed by a cut in UK interest rates in August, which also helped. International events, namely stimulus for China and a cut in US interest rates, were positive owing to the international focus of many businesses listed on the UK stock market.

Japanese company shares

Japanese company shares struggled in the period and underperformed other markets. The Bank of Japan increased interest rates for the second time in 2024 in order to fight inflation, adding that more interest rate hikes, and so more increases in interest rates, would be needed. Performance improved in late September.

US company shares

The US stock market fell heavily in August amid fears about the health of the US economy following the release of weaker jobs and manufacturing data. This led investors to ask whether the US central bank should have cut interest rates sooner. As expected, US interest rates were cut in September and by more than expected and this helped the US stock market to finish September in a strong position.

Asian company shares

Asian company shares did better than other markets thanks to the Chinese government's package of measures to help the China economy. It has struggled to recover from the zero-Covid strategy and therefore the lockdowns used in 2020 and 2021. More aggressive support for Chinese consumers and businesses has therefore been welcomed by the markets. Technology stocks in Korea and Taiwan were negatively impacted by the sell-off in July but then recovered in September.

European company shares

Heightened pollical risk in the eurozone dampened confidence in the region's stock markets. Economic data, and especially from German manufacturing data, also disappointed. The second cut in interest rates this year in September provided some optimism though. European company shares achieved positive returns but underperformed most other markets.

Emerging market company shares

Emerging market company shares also benefited from the aggressive stimulus in China. This helped Asian company shares especially. Asian emerging market company shares outperformed Latin American company shares where political risk remains high.

Bonds

Bonds, including UK government and corporate bonds, achieved gains. With inflation remaining stable and far lower than it was in 2022, investors agreed that interest rates would continue to be reduced. US interest rates were cut by more than expected in September. Bond prices increased, reflecting many investors believing that interest rates were likely to be cut again before the end of 2024.

The strength of sterling reduced returns from overseas bonds, and therefore global government and corporate bonds, including high yield bonds and emerging market bonds, to investors whose investments are denominated in sterling.

This update is for information purposes only.

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