OCT 2024 INVESTMENT UPDATE

HIGHLIGHTS

Market Review

- September saw strong performance for U.S. and Chinese equities despite historically poor seasonality.
- The S&P 500 and China equities were down 4% early in the month but they rebounded strongly as announcements of an outsize rate cut by the Federal Reserve and unexpected large-scale stimulus measures from the Chinese government boosted markets.
- U.S. equities reached new highs, while Chinese equities gained over 20% for the month, marking a remarkable recovery after years of declines
- As more economies transition to a late-stage growth cycle and significant events like the U.S. presidential election approach, investors must be prepared for more volatility ahead.

Central Banks Talk, Markets Listen

- Following rapid rate hikes in 2022-2023 to combat high inflation, many central banks worldwide are now easing policies, to stimulate growth and prevent a meaningful downturn.
- A synchronized easing reflects a broader shift in global monetary policy as inflation pressures subside, which should continue to support risk assets - notably, China's easing may also bolster global expansion at a time when U.S. growth is slowing.
- Recent developments in China have **benefitted our Emerging Market positions** due to the undervalued nature of Chinese assets. We continue to remain tactical as we assess the impact of government measures on the housing crisis and the broader economy.

Crossroads: Growth or Further Slowdown?

- Earnings is a key driver and determinant, among others 'true drivers', of whether markets can rise over time. Historically, sharp declines in earnings have signaled recessions, often leading to poor market performance.
- The latest economic data indicates that the U.S. is not currently in a recession. Key indicators, such as the manufacturing PMI and labour market trend, suggest a phase of slowing growth rather than a recession.
- We **remain cautiously optimistic** going into the end of the year, balancing higher quality segments such as Healthcare, which tend to be more resilient during a slowdown, with positions like Emerging Markets which have better upside in a recovery scenario.

Finding the 'Right' Income!

- Declining yield environment has made it challenging for investors seeking income.
- Government bond yields have dropped from around 5% to just over 3.5% today in four months, leading to reduced returns. Corporate bonds are experiencing similar declines, offering less compensation for credit risk.
- Investors seeking higher income should look beyond standard corporate bonds. Asset-Backed Securities can offer slightly higher returns than investment-grade government bonds. Additionally, high-yield markets, particularly in certain Emerging Markets, provide yields 3-5% above cash.

Read the full commentary here

Finexis Asset Management