CARTLIDGE MORLAND
INDIVIDUAL WEALTH MANAGEMENT

INVESTMENT COMMENTARY

25 SEPTEMBER 2024

OVERVIEW

At the time of our last commentary (7 August 2024), equity markets had just experienced a severe bout of volatility. Since then global equity markets have recovered and not unsurprisingly those that experienced the sharpest falls, Japan in particular, have made the strongest gains. Investor attention is still focussed on the major central banks' actions and comments. The US Federal Reserve (Fed) cut its main interest rate by 0.5% at its meeting last week whilst the European Central Bank (ECB) reduced its main interest rates by 0.25%. The Bank of England (BoE) and the Bank of Japan (BoJ) kept their rates steady at their meetings. The rate reduction in the US was expected, but larger than anticipated, which proved supportive of market sentiment - pushing the S&P 500 Index to new highs. The Chinese equity market has been boosted in the last few days by a long awaited stimulus package, as the government aims to hit its 5.0% growth target for the year, which was looking increasingly unlikely.

At its September meeting, the Fed decided to "go large" with its interest rate cut of 0.5% to a range of 4.75-5.0% pa - the first cut in more than four years. Up until the day before the Fed meeting, the market had been expecting a 0.25% cut. The Fed took the opportunity to make a meaningful cut ahead of any weakening in the US economy. Jay Powell, the Chair of the Fed, commented that the US economy was "in a good place" and the decision to cut was "designed to keep it there". However, he noted that if inflation proved to be sticky, although the Fed is more confident about inflation gradually returning to target in 2026, then monetary loosening would be slowed. Also that if the jobs market weakened unexpectedly, then the Fed would respond accordingly. Unemployment is predicted to peak at 4.4% in the next two years – up from 4.2% currently, whilst economic growth is expected to be around 2.0% pa over the next few years. The expectation is now for a further 0.25% pa cut in November – just after the US Presidential election.

The ECB also cut interest rates for the second time this year by 0.25% to 3.5% as eurozone inflation fell. There are signs that growth in the eurozone economy is petering out. Eurozone inflation was at 2.2% pa in August 2024 – a three year low. Labour costs now appear to be moderating. More concerning are the prospects for economic growth, with data pointing to industrial output falling in both German and Italy. Private consumption and investment remain weak so impacting upon economic activity. One more interest rate cut is expected in 2024 with further cuts expected in 2025.

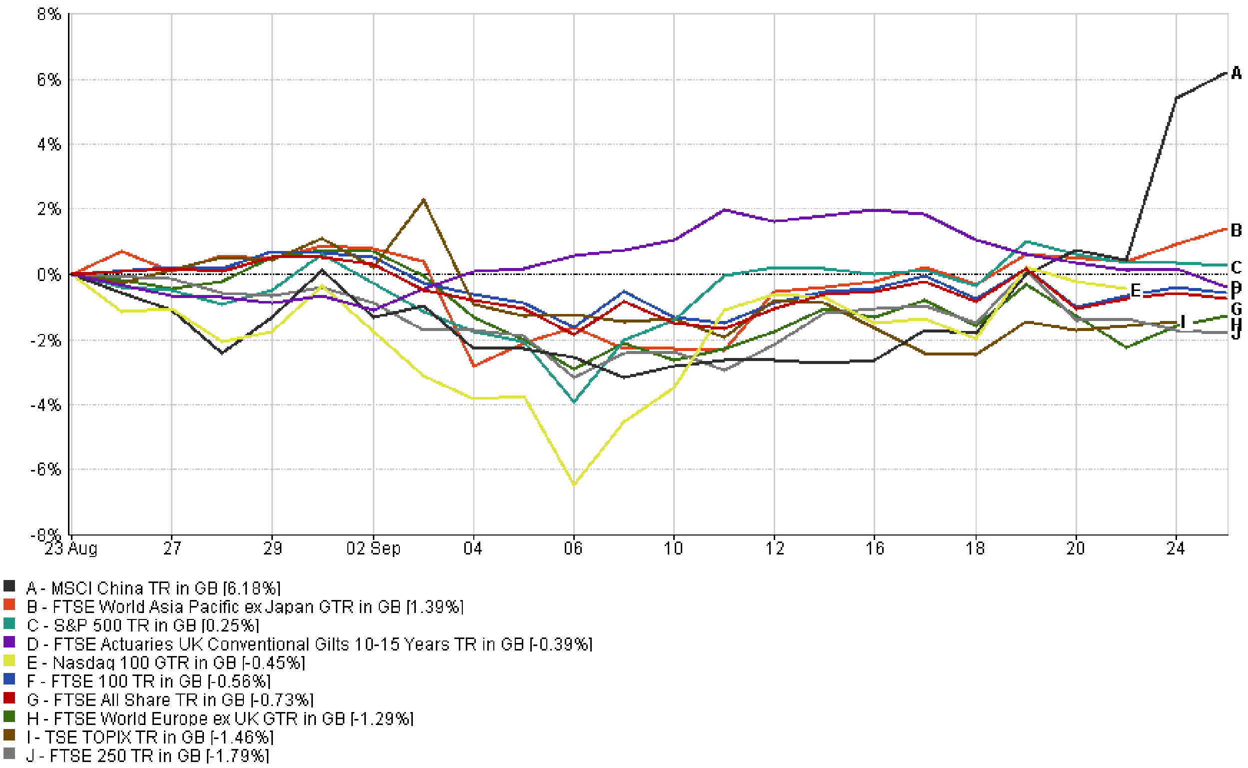
The BoE maintained interest rates at 5.0% pa at its latest meeting but indicated that a further reduction may be forthcoming in November 2024. The BoE believes that inflationary pressures are easing and that monetary policy could be loosened gradually over time, to maintain inflation at the target level of 2.0% pa. Nevertheless, inflation is expected to tick up to 2.5% pa towards the end of 2024.

The BoJ also kept its interest rates on hold as the economy continued to recover. It is likely that the BoJ will tighten its monetary policy further if economic data continue to be positive. Private consumption appears to be increasing despite rising prices.

The Japanese Yen has been strengthening over the past few months as interest rates look set to rise, whilst other major central banks are cutting rates. A stronger yen makes imports less expensive and so dampens inflationary pressures. Conversely, it impacts negatively on the valuations of export-led Japanese companies – though we believe Sterling investors will be net beneficiaries of a rise in the Yen from historic lows.

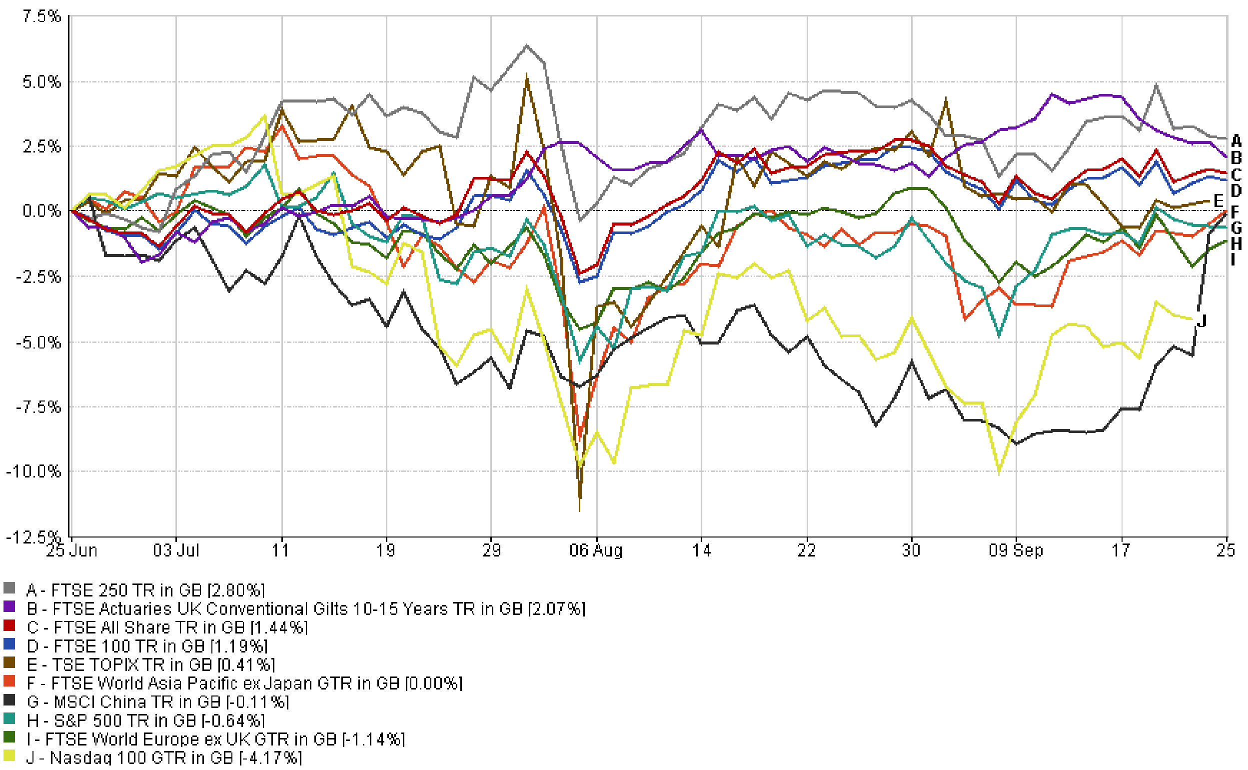
The significant Chinese stimulus package announced earlier this week has also been beneficial for international equity markets. The People's Bank of China (PBoC) cut its main policy rate as well as reducing the reserve requirements that lenders must hold, so improving liquidity in the banking system. The PBoC also lowered mortgage downpayments for second homes. There is a vast amount of unsold property in China which needs to be reduced, to encourage consumer confidence and consumption, which should support economic growth. Measures to provide funding for brokers, insurance companies and funds to buy stocks were welcomed. However, domestic demand remains weak and prospect for export-led growth is negatively affected by pressures from the escalating trade tensions with the US. Although having a positive impact, perhaps more fiscal stimulus and incentives for business investment would be of greater support for the Chinese economy together with less state control of the private sector. These recent stimulatory measures saw the Chinese equity market move by 4.3%, with other Asia Pacific equity markets making gains as well. The European equity market also rose as luxury goods companies gained at the prospect of Chinese demand improving.

ONE MONTH NVESTMENT MARKETS STERLING TOTAL RETURNS



23/08/2024 - 25/09/2024 Data from FE fundinfo2024

THREE MONTHS INVESTMENT MARKETS STERLING TOTAL RETURNS



25/06/2024 - 25/09/2024 Data from FE fundinfo2024

OUR VIEW

Compiled by Angela Cooper, MD - Investment Services.

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The Federal Reserve's signalling its belief that the US economy is on track for a so-called 'soft landing' has done much to allay the recent fears of investors. The alternative narrative is that US interest rates have been too high, for too long with contraction in economic activity the inevitable consequence. Those taking a bearish view of the US economy will tend to view the Fed's recent cut is 'too little, too late' – but the bold move of a 0.5% reduction in rates has reduced the number of sceptics.

As alluded to in recent editions of our Investment Commentary, the US economy, its corporations and financial markets have reasserted their dominance after prolonged period of challenge from both Europe and China. Presently, the economic temperature in the US and resultant sentiment in its financial markets are likely to be more influential on sentiment elsewhere than has been typical over the past 20 years.

Japan's markets are marching to their own tune but the important export sector needs benign economic conditions in the US and better ones in China. The signs are therefore positive.

European sentiment is subject to political upheaval and uncertainty in several countries – notably both France and Germany, the European Union's dominant powers. The German economy seems likely to experience contraction whilst France's grows largely by virtue of unchecked government spending. Fear is growing of a day of reckoning. This said, Europe's global corporations stand to benefit from a global economy set to expand at a higher rate.

To some degree, the UK bond and equity markets bask in Europe's discomfort presently. A strong government – likely to remain in office for 5 years - makes the UK a beacon of stability. Sentiment will be strengthened if the Budget and forthcoming revised employment legislation are more benign than the Chancellor and Prime Minister have indicated to date. The Budget on 30 October will provide a strong indication as to whether the UK government is sincere in its promised 'growth' agenda, or if social expenditures and to some degree the redistribution of what might become a shrinking cake per capita are taking precedence.

See overleaf for Important Notes on the Budget 30 October 2024

Budget 30 October 2024 - Important Considerations

Those with general investment accounts (GIAs) should give thought as to whether they wish to consolidate portfolio gains at the current capital gains tax rate applicable, or to leave portfolio gains intact – potentially only realisable at higher rates of capital gains tax if rates increase – which seems likely. There is much to be said against triggering capital gains tax charges unnecessarily and if in doubt you should contact your Cartlidge Morland Consultant. It might be in your interests to realise portfolio gains now, to re-invest and re-set your capital gains position.

The annual ISA allowance may be reduced in the Budget as may the rate of tax relief in respect of pension contributions. Those planning to invest in ISAs this tax year or to pay pension contributions, are advised to obtain our advice on doing so well before 30 October 2024. We cannot be certain either that the ability to make significant gifts to children/grandchildren (or others) without an immediate lifetime charge to inheritance tax will survive the Budget. Potentially Exempt Transfers (PETs) and the seven year tapering period may either be abolished or reformed. If gifts are planned in the near future – and you can afford to make them – consider doing so before the Budget.

If you have any queries please do not hesitate to contact your Cartlidge Morland consultant.

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