LONGLEY
ASSET MANAGEMENT

3Q 2024 Commentary

We saw more volatility in financial markets during the third quarter; nevertheless, returns for investors in the third quarter of 2024 have been good. August began with some heavy market falls as investors became fearful, driven by concerns over a US recession which were based on disappointing US jobs data. The dip in investor confidence was short-lived, however, and shortly thereafter investors were back to believing that there would be a soft landing for the US economy, and the rally in risk assets resumed.

US inflation appears to be under control, with figures recently released showing the US Personal Consumption Expenditure price index (the Federal Reserve's favoured measure of inflation) showing a reading of 2.2%. Over the summer, at the annual Jackson Hole Central Banker conference, Jerome Powell, the Fed Chair, confirmed that the time had come for interest rate cuts. The first of these expected rate cuts came in mid-September, with a 0.50% reduction. Analyst expectations are for two further cuts of 0.25% before year-end.

While the leading index of US equities, the S&P 500, rose approximately 5% over the quarter, investors' fascination in technology and in particular AI has moderated. The two best performing sectors were real estate and energy – both are perceived as benefiting from lower interest rates.

Possibly in light of the heightened Middle East tensions, Saudi Arabia recently announced that they may increase oil production, signalling their desire to regain market share and abandon the $100 oil price target. This has moderated inflation pressures from elevated oil prices.

Facing lower domestic inflation data and a lacklustre growth environment, both the Bank of England and the European Central Bank cut interest rates over the summer.

In early July, at the UK General Election, Labour secured a clear majority, but any feelgood factor from a change of government has not lasted long, and diminishing belief in their ability to secure growth in the economy has led to a sharp pullback in business confidence. There is currently considerable uncertainty surrounding the expected tax increases that will be announced at the upcoming Budget.

Towards the end of the third quarter, Chinese and Asian stocks rallied sharply after Chinese authorities announced a raft of pro-growth measures which include interest rate cuts, a looser fiscal policy, and extra capital for banks and other measures to free up the stagnant property market. This action has led to good performance from emerging market equities.

Politics, and the US presidential election in November, with Democrat and Republican candidates making promises to the electorate, will continue to exert influence over US monetary and fiscal policy. The usual result of this is that both consumer and investor confidence is boosted. Historically, presidential election years are positive years for the stock market. According to the polls it is, at present, too close to call who will be successful in the election.

Although there are still many uncertainties, especially concerning resolution to the Russian invasion of Ukraine and the heightened geo-political conflict in the Middle East, risk assets continue to offer attractive opportunities for the longer-term investor, as do certain fixed income assets which provide useful diversification to investor portfolios.

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