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September Overview

September saw a pause in developed market central bank rate hikes, but also higher longer-term bond yields as investors priced in longer delays before rate cuts began. Bond prices consequently fell over the month, particularly in the US. The 'higher interest rates for longer' narrative also hit equities, with most regional markets falling in local currency terms. Oil prices continued to rise as Saudi Arabia and Russia agreed to extend their production cuts to the end of 2023. Greater uncertainty and higher US yields helped the US dollar to appreciate further against most other currencies.

In the **UK**, inflation surprised to the downside with headline CPI for the month of August falling to 6.7%, from 6.8% in July (the expectation had been for 7%). Core inflation also recorded a surprising fall to 6.2%, from 6.9% in July. Other data points, however, were less positive, particularly the Purchasing Managers Index (PMI) where Composite PMI fell from 48.7 in August, to a below expectations 46.8 in September. Unemployment continued to creep upwards, reaching 4.3% in July (from 4.2% in June); but for those employed, news was rosier as earnings including bonuses rose 8.5% (year-on-year) in July. Following the 0.25% rate hike the previous month, and with the latest data points being mixed, the Bank of England maintained the policy rate at 5.25%.

In the **US**, expectations of rate cuts in 2024 reduced as there was a sense of 'good news is bad news'. Broadly positive data points released during the month resulted in expectations that the Federal Reserve would need to keep rates higher for longer on the back of continued economic strength. In labour markets, despite unemployment edging up to 3.8%, 187,000 new jobs were created in August which was ahead of expectations. Inflation news was broadly positive, Core PCE (the Federal Reserve's preferred inflation measure) rose only 3.9% in August, down from 4.3% in July. Business activity appeared to stabilise: Composite PMI for September was 50.1, marginally down from 50.2 in August. This was aided by a strong jump in Manufacturing activity, up to 49.8 in September, from 47.9 in August. Against this backdrop, the Federal Reserve held rates flat but the committee member's forecast for future rates ('dot-plot') confirmed members anticipate rates remaining higher for longer.

In the **Euro** area, news flow was relatively muted. There was good news for households in the form of lower inflation, which fell more than expected to 4.3% in September (from 5.2% in August). Additionally, unemployment dropped back down to 6.4% in August, the lowest level on record. Youth unemployment also remained at record lows at 13.8% (in July). Activity surveys remained dreary, however. Despite a rise in Composite PMI in September to 47.1 (from 46.7 in August) and above estimates of 46.5, the figure remains below the neutral activity level (50). September marks the 4th month of activity being below 50, symbolising a continuation of a contractionary environment.

The **Japanese** economy continued to be a relatively bright spot within global markets. Inflation remained above 3% (3.2% in August), good news for a country which has struggled to stoke any persistent inflation for decades. Business activity also remained robust, Composite PMI has remained in expansionary territory since the start of the year, although it did fall slightly in September to 51.8 (from 52.6 in August).

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In **Emerging Markets**, the most noteworthy news was the extension of the oil supply cuts announced by Saudi Arabia and Russia until the end of the year. This pushed oil prices to peak just below $95 per barrel at the end of the month. China, emerging markets' economic powerhouse, continued to disappoint on the data front. Very low inflation persisted, with prices rising 0.1% year-on-year in August, below expectations. Composite PMI continued to trickle down, falling to 50.9 in September, its lowest level since January 2023.

Currencies - Sterling had a challenging September against major global currencies. It was down 3.7% vs the US dollar, 1.3% weaker vs the euro, down 1.3% vs the Japanese yen and 3.3% weaker vs the Australian dollar. Against emerging market currencies, the pound was down 4.2% vs the South African rand and 2.6% weaker vs the Brazilian real.

Asset Classes

August was a negative month for most asset classes. Europe ex-UK equities were the worst-performing equity region, closely followed by the US. UK equities on the other hand were the best performing. Commodities continued to perform well on the back of supply cuts.

Within UK equities, larger companies outperformed smaller-sized companies, aided by the large energy companies which benefitted from the higher oil price. The large-cap FTSE 100 was up 2.4%, whilst the mid-cap FTSE 250 index was down 1.5%.

Bonds sold off again in September, with Emerging Market bonds worst hit, suffering both from higher bond rates in general, as well as nervousness around emerging market issuers.

Cash & Short-Term Bonds	Global Government Bonds	Global Inflation Linked Bonds	Global Corporate Bonds	Global High Yield	Emerging Market Bonds	US Equities	Europe ex-UK Equities	UK Equities	Japan Equities	PACIFIC ex-Japan Equities	Emerging Market Equities	Global Infrastructure	Global Property	Commodities
£	HDG	HDG	HDG	HDG	HDG	£	£	£	£	£	£	£	£	£
0.39%	-1.66%	-2.58%	-1.95%	-1.14%	-3.24%	-1.00%	-1.25%	1.82%	1.64%	0.64%	1.10%	-1.02%	-2.20%	3.10%

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