

# Market Overview: October 2024

November 2024



## M&G Investments

October was a challenging month for global markets, marked by heightened volatility and declines in both equity and bond markets. Economic divergence across major economies, mixed inflation and growth trends, and geopolitical tensions added to investor uncertainty.

Despite some economic softening, the outlook for the US remained positive, underpinned by robust employment and ongoing consumer strength. The economy showed resilience with 2.8% (annualised) growth in Q3, supported by strong consumer spending and government expenditure. September's inflation slowed to 2.4% y/y from 2.5%, driven primarily by food prices. Rate cut expectations moderated following strong economic data.

In contrast, Europe and Asia faced economic challenges. Eurozone inflation slowed to 1.7% in September, prompting the European Central Bank (ECB) to cut interest rates for the third time this year. While GDP growth exceeded expectations in Q2 and Q3, key economies like Germany experienced sluggish growth of 0.2%. China showed continued signs of economic stress, with inflation at a mere 0.4% y/y in September and GDP growth in Q3 at just 4.6%, the slowest pace since early 2023, and behind the 5% growth target. Deflationary pressures and weak domestic demand, compounded by ongoing issues in the property sector, left the outlook for China uncertain. The People's Bank of China (PBOC) cut the one- and five-year loan prime rates by 25bps, though market sentiment remained cautious.

In South Africa, inflation moderated to 3.8% y/y in September from 4.4% in August, well below the midpoint of the SARB's target range. However, investor sentiment soured following the government's Medium-Term Budget Policy Statement (MTBPS), which revealed a larger-than-expected fiscal deficit, leading to a dip in the rand and rising bond yields. Despite these concerns, there was some optimism as global risk aversion eased due to strong US growth.

The UK saw an unexpected decline in inflation, with CPI falling to 1.7% y/y in September, which increased expectations for interest rate cuts by the Bank of England. However, fiscal concerns took centre stage, particularly due to proposed tax hikes and increased borrowing, which spooked investors and caused a sharp selloff in UK government bonds. The IMF slightly upgraded its GDP growth forecast for the UK from 0.7% to 1.1% for 2024, but fiscal policy remained a key point of concern.

Commodities experienced continued volatility in October. Geopolitical tensions, particularly related to Russia and the Middle East, supported gains in gold, which was buoyed by safe-haven demand, oil, and palladium. Palladium surged more than 10% due to concerns over potential sanctions on Russian exports.

The month started off with continued volatility in equity markets. Global equity saw a broad-based decline and retraced gains from earlier in the year with the MSCI All Country World Index delivering -2.2% for the month. Both Developed and Emerging market equities fell sharply with returns of -2.0% and -4.4%, respectively. The Emerging market decline was particularly due to weakness in Chinese stocks. Similarly, global bond markets also struggled, with the Bloomberg Global Aggregate Index falling by -3.4% (all in USD).

Locally, SA asset classes experienced a sell-off for the first time since the market-friendly election outcome. The FTSE/JSE All Share Index fell by -0.9%. The Resources sector, however, performed strongly, gaining 2.5% due to stronger commodity prices, while Industrials and Property sectors posted significant losses with -2.8% and -2.7% respectively. SA bonds also faced pressure, with the All Bond Index down by -2.2%. The curve bear-steepened by 11bps to 2.34% during the month as the longer dated R209 bond sold off by 53bps compared to the 42bps sell off in the short-dated R186 bond. The proxy 10-year R2035 bond sold off by around 50bps to end the month back at 10.55, reversing the yield move from the month before (all in rand). The fiscal deficit highlighted in the MTBPS, projected at 5% of GDP, raised concerns but was met with cautious optimism as structural reforms were anticipated.

Currency markets saw a strong US dollar in October, appreciating by 3% against a basket of major currencies, supported by US rate cuts and strong economic data. The rand ended the month at R17.68/US\$, having given back some of its recent gains against the US\$ and weakening by 2.5%, but showed gains against the pound sterling (1.5%) and euro (0.2%).

Looking ahead, the focus has shifted to the US election outcome and the next FOMC meeting, both of which could influence market sentiment and bring short-term volatility. While central bank easing in the US and Europe may help support growth, inflationary pressures and fiscal challenges in regions like China and South Africa remain key risks. Global equities are expected to continue facing uncertainty, with emerging markets particularly vulnerable to shifts in US interest rates and geopolitical developments.

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