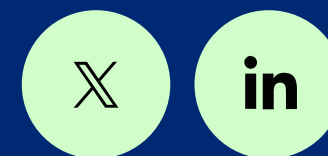


Weekly Market Commentary

16 September 2024



In summary

- US politics back centre-stage, following second assassination attempt on former US president Trump
- The day of monetary policy reckoning finally arrives for the US Federal Reserve this Wednesday
- Following August's Bank of Japan hiatus in markets, investors keep a close eye on its latest meeting this week
- Technicals matter, as equity markets temporarily lose an important mechanical support from corporate share buy backs





Markets had a solid day on Friday, as the potential for a larger 50 basis points (bps) cut in interest rates from the US Federal Reserve (Fed) later this week was dialled up.

Providing a tailwind for equities, in local currency terms the US S&P500 equity index was up +0.54% on Friday, while the pan-European STOXX600 was up +0.76%. While the Fed is supposed to be the key focus for investors this week, US politics could well dominate too, given an apparent (failed) second assassination attempt on former US president Donald Trump yesterday evening UK time. Given the political polling bounce that Trump saw back in July after the first attempt on his life, this could also be significant for the US election which is just over seven weeks away. Turning to the week ahead now, this week has its gravitation pull around three of the world's major developed market central banks: namely the Fed, the Bank of England (BoE), and the Bank of Japan (BoJ). Respectively, they are due to announce on interest rates on Wednesday 18th, Thursday 19th, and Friday 20th. For the BoE specifically, markets on the whole expect the bank to leave UK interest rates unchanged after both last month's knife-edge 5-4 vote to cut, but also given the still-elevated nature of UK Services consumer inflation currently. Finally, elsewhere this week, economic data of note includes UK Consumer Price Index (CPI) inflation due on Wednesday, and Japan CPI due on Friday.

This Wednesday is likely to mark a pivotal point for the Fed. It will be the first time in over four years, since the start of the pandemic in early 2020 that the Fed has cut interest

rates. After the fastest pace of hikes in decades that started in early 2022, and a subsequent and well-worn 'higher-for-longer' interest rate narrative, the Fed is expected to pivot this week, and herald a new monetary policy phase of rate cuts instead. But while a cut taking place is largely a racing certainty, the size of such a cut is not. Not only that, but markets are still looking for around 100bps of cuts by the end of the year – with only three Fed meetings to go including this week, that means that if markets are right, one of those meetings has to see a larger 50bps cut – and speculation has mounted in recent days that there is a risk the Fed could lead with a bigger 50bps cut on Wednesday. Earlier this morning, US interest rate derivative markets were pricing in 41bps of cuts this week – that arguably reflects the position of Fed members who appear to be split between a 25 or 50bps cut. Given the knife-edge for US rates this week then, a near-term burst of market volatility is a real risk.

Friday sees the BoJ announce on interest rates. Investors will be keenly aware of what happened the last time the BoJ met and surprised markets by the timing of a rate hike back at the end of July. Then, it fed into a rapid downward spiral in markets and investor confidence, the magnitude of which was remarkable – at one point, over a cumulative three-day period in early August, the broader TOPIX Japanese equity index suffered its biggest ever three-day fall, of more than -20%, in data going all the way back to 1959. Tellingly, in order to calm markets, the BoJ Deputy Governor at the time promised no hikes if markets were 'unstable'. This time around, markets are not expecting a hike – partly because the BoJ is still digesting that recent hike, but also given Japan political timing, with the ruling Liberal Democratic Party (LDP) holding a party leadership election a week later

on 27 September. Still, the BoJ has made no secret of its wish to continue to try to normalise monetary policy and unwind decades of ultra-accommodation. Given the market hiatus after the last meeting's hike in late July, all aspects of the BoJ's communication this week will be heavily scrutinised. No pressure for the BoJ then.

Investors will be forgiven for thinking that we have only just finished getting through all the calendar Q2 earnings results... but with the end of the calendar Q3 in sight later this month, last Friday saw an important deadline hit. Around half of US companies are now in a blackout-period as far as corporate share buybacks go, with more companies set to move into blackout in the coming days, as they collectively head towards Q3 results starting next month. According to investment bank Deutsche Bank and reported by Bloomberg, buybacks are thought to drive as much as 10% in annual returns for the US S&P500 equity index. It means that without such background buying to fall back on, markets could be especially vulnerable should bad news hit investors in the coming few weeks – and that arguably makes this week's decision from the Fed all the more important.

Economic indicators (week beginning 9 September 2024)

Day	Data Release	Consensus	Prior	Actual
Mon	China CPI YoY Aug	0.7%	0.5%	0.6%
	Japan GDP SA QoQ 2Q F	0.8%	0.8%	0.7%
	Japan GDP Annualized SA QoQ 2Q F	3.2%	3.1%	2.9%
	Japan BoP Current Account Balance Jul	¥2498.0b	¥1533.5b	¥3193.0b
	China PPI YoY Aug	-1.5%	-0.8%	-1.8%
	Japan GDP Deflator YoY 2Q F	3.0%	3.0%	3.2%
	United States Wholesale Inventories MoM Jul F	0.3%	0.3%	0.2%
Tue	Germany CPI YoY Aug F	1.9%	1.9%	1.9%
	United Kingdom Jobless Claims Change Aug	--	135.0k	23.7k
	Germany CPI MoM Aug F	-0.1%	-0.1%	-0.1%
	United Kingdom ILO Unemployment Rate 3Mths Jul	4.1%	4.2%	4.1%
	Italy Industrial Production MoM Jul	-0.2%	0.5%	-0.9%
	China Trade Balance Aug	\$81.10b	\$84.65b	\$91.02b
	Australia Westpac Consumer Conf SA MoM Sep	--	2.8%	-0.5%
	United Kingdom Claimant Count Rate Aug	--	4.7%	4.7%
	China Exports YoY Aug	6.6%	7.0%	8.7%
	Germany CPI EU Harmonized YoY Aug F	2.0%	2.0%	2.0%
Wed	United States CPI MoM Aug	0.2%	0.2%	0.2%
	United States CPI YoY Aug	2.5%	2.9%	2.5%
	United Kingdom Industrial Production MoM Jul	0.3%	0.8%	-0.8%
	United States MBA Mortgage Applications 38961	--	1.6%	1.4%
	United Kingdom Manufacturing Production MoM Jul	0.2%	1.1%	-1.0%
Thu	United States Initial Jobless Claims 39326	226k	227k	230k
	Japan PPI YoY Aug	2.8%	3.0%	2.5%
	United States PPI Final Demand MoM Aug	0.1%	0.1%	0.2%
Fri	Japan Industrial Production MoM Jul F	--	2.8%	3.1%
	France CPI YoY Aug F	1.9%	1.9%	1.8%
	United States U. of Mich. Sentiment Sep P	68.5	67.9	69.0
	China Money Supply M2 YoY Aug	6.2%	6.3%	6.3%
	United Kingdom Construction Output MoM Jul	0.5%	0.5%	-0.4%

Source: Bloomberg, data accessed 16 September 2024.

Economic indicators (week beginning 16 September 2024)

Day	Data Release	Consensus	Prior
Mon	Italy CPI EU Harmonized YoY Aug F	1.3%	1.3%
	United States Empire Manufacturing Sep	-4.3	-4.7
Tue	Germany ZEW Survey Expectations Sep	17.0	19.2
	Canada CPI YoY Aug	2.1%	2.5%
	Germany ZEW Survey Current Situation Sep	-80.0	-77.3
	United States Retail Sales Advance MoM Aug	-0.2%	1.0%
	Canada CPI NSA MoM Aug	0.0%	0.4%
	United States Industrial Production MoM Aug	0.2%	-0.6%
	Japan Tertiary Industry Index MoM Jul	0.9%	-1.3%
Wed	United States FOMC Rate Decision (Upper Bound) 43344	5.3%	5.5%
	United Kingdom CPI YoY Aug	2.2%	2.2%
	United Kingdom CPI MoM Aug	0.3%	-0.2%
	United Kingdom CPI Core YoY Aug	3.6%	3.3%
	Japan Core Machine Orders MoM Jul	0.5%	2.1%
	United States MBA Mortgage Applications 41518	--	1.4%
	United States Housing Starts Aug	1320k	1238k
Thu	United Kingdom Bank of England Bank Rate 43709	5.0%	5.0%
	United States Initial Jobless Claims 41883	230k	230k
	Australia Unemployment Rate Aug	4.2%	4.2%
	Australia Employment Change Aug	26.0k	58.2k
	United States Existing Home Sales Aug	3.90m	3.95m
	United States Leading Index Aug	-0.3%	-0.6%
Fri	Japan Natl CPI YoY Aug	3.0%	2.8%
	Japan BOJ Target Rate 44075	0.3%	0.3%
	United Kingdom Retail Sales Inc Auto Fuel MoM Aug	0.3%	0.5%
	United Kingdom Retail Sales Inc Auto Fuel YoY Aug	1.3%	1.4%
	Italy Trade Balance EU Jul	--	-1045m

Source: Bloomberg, data accessed 16 September 2024.

Asset market performance

Index	Value	As at Friday close		YTD	
		CR	TR	CR	TR
MSCI UK GBP	2362	0.95%	0.97%	6.61%	10.11%
MSCI USA USD	5352	4.09%	4.12%	17.57%	18.39%
MSCI Europe ex UK EUR	205	2.07%	2.07%	6.98%	9.17%
MSCI AC Asia ex JPN USD	569	0.77%	0.94%	7.54%	9.83%
MSCI Japan JPY	1576	-0.99%	-0.99%	8.84%	9.90%
MSCI Emerging Markets USD	1082	0.69%	0.79%	5.72%	7.94%
Barclays Sterling Gilts GBP	237		0.88%		1.34%
GOLD USD	2578	3.21%		24.95%	
WTI Oil USD	69	1.45%		-4.19%	
MSCI PIMFA Income		1.60%	1.64%	5.59%	7.47%
MSCI PIMFA Balanced		1.88%	1.91%	6.35%	8.17%
MSCI PIMFA Growth		2.24%	2.27%	7.96%	9.69%

Source: Bloomberg, MSCI: please see important information, data accessed 16 September 2024.

YTD denotes year to date, TR denotes total return and CR denotes capital return.

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