September Market Update: Cuts and comebacks

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In a nutshell

- Surprise 0.5% fall in US interest rates
- No UK rate cuts due to high services inflation
- China finds favour with markets

What's moving markets

Weak US economic data stoked recession fears this month, pushing Developed Market equities down across the board. However, China gave a huge boost to Emerging Market returns, with stimulus measures there appearing to hit the mark with investors.

In the US

The Federal Reserve's (Fed) dual mandate means they need to keep an eye on both inflation and unemployment. Maintaining a healthy jobs market as inflation approaches its target level is undoubtedly hard - and made even harder by the lagged effect of rate cuts and the unusual dynamics of the post-Covid labour market.

New US jobs numbers at the start of the month were lower than expected at 142,000. Data from the previous couple of months was also revised down, and the number of job openings sat at 7.7m, the lowest for three years. All of this points to a slowing labour market and a slowing economy. Employers are less concerned about hiring and employees are less likely to get pay rises.

In response, the Fed made a bold 0.5% rate cut, surprising many who were expecting the usual 0.25%. Could this be a sign they're worried they've taken too long? Interestingly, there was a dissenter within the committee that's usually unanimous.

ECB and stubborn UK inflation

Meanwhile, the European Central Bank (ECB) continued on their rate cutting cycle, but the Bank of England (BoE) held steady. Data from mainland Europe shows growth expectations are being downgraded and powerhouse economies such as Germany may well be in recession already.

UK inflation remains sticky, driven by services inflation that's stopping the BoE cutting rates further. While headline inflation remained at 2.2% (within a comfortable tolerance of the 2% target), services inflation rose to 5.6%, hindering rate cuts.
With wages still climbing, there's concern of inflation reigniting - bad for consumers and embarrassing for central bankers.

China boosts Emerging Markets

Emerging Markets stole the spotlight in late September, taking what would have been a negative month into comfortably positive territory. Stimulus measures in China – and importantly the rhetoric around them – finally seem to have hit the mark with investors. The domestic China A market was up around 25%, marking one of the biggest weekly gains in its history.

Sentiment towards China has been incredibly poor, with the market decoupling from other EM regions and performance going backwards for the last three years. Political tension, a failing property market, massive youth unemployment and a population that wants to save instead of spend has weighed heavily on economic growth and equity returns. Various attempts to stimulate both have fallen short over recent years.

Whether this latest upturn is the start of a sustained recovery or another false dawn is still to be determined, but the magnitude of the market reaction suggests something could be different this time. With both monetary and fiscal support pledged, and policies directly aimed at reviving the stock market, there is a clear desire to address the current issues and meet the 5% GDP growth target for the year.

With recent gains, Emerging Markets have almost caught up with the US this year, underscoring just how quickly market sentiment can shift.

Name	1m	3m	YTD	1yr	3yr
FTSE Actuaries UK Conventional Gilts All Stocks	0.03	2.32	-0.23	7.86	-19.30
ICE BofA Global Corporate	1.50	4.81	5.20	12.55	-3.74
ICE BofA Global High Yield	1.52	4.80	8.36	15.33	5.52
FTSE All Share	-1.29	2.26	9.85	13.40	23.94
FTSE USA	-0.03	-0.21	15.36	23.43	36.30
FTSE World Europe ex UK	-1.54	0.05	7.17	15.28	21.17
FTSE Japan	-2.11	0.53	6.80	10.29	8.63
FTSE Asia Pacific ex Japan	5.80	4.42	13.88	17.75	8.05
FTSE Emerging	6.01	4.62	14.20	16.52	7.46

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