October Market Update: Budget shifts, tensions build

Jasper Thornton-Boelman
Investment Director

In a nutshell

- Autumn Budget lands at last
- UK Inflation falls to 1.7%
- European Central Bank delivers a third rate cut

Market slowdown

It was a tough month for most asset classes and regions - not enough to derail what's been a favourable year so far, but October certainly hit the brakes. Markets tend to get bumpy in the lead up to big events like elections, and the close race for the White House only adds to the tension.

As Kamala Harris and Donald Trump give their final pitches to voters, the contest looks too close to call. Betting odds had moved in Trump's favour, but that's reversed somewhat over the last few days. All eyes are on swing states - just don't necessarily expect an immediate winner to be called.

Last month, the US was the standout equity market performer, though in Dollar terms it fell into negative territory. Currency moves are generally considered to wash out over time, but when central banks are trying to navigate interest rate changes, it can create shorter term deviations that stand out.

The Budget's impact

Closer to home, after what felt like a very long wait, the Autumn Budget was finally delivered – and notably, it was delivered by a female chancellor for the first time.

Much of the talk has been on the £40bn in new taxes, but there was also a significant increase in borrowing. That shift has already nudged UK Government Bond yields, signalling that lenders will want a higher return in order to support Reeves' plans. The 10-year yield rose to 4.5%, nearing recent highs. It's not quite Truss/Kwarteng levels of volatility, but it's enough to take note, with gilts ending the month nearly 2.5% down.

You can read our full reaction to the Budget and potential implications **here.**

UK Gilt yields have been on a bit of a rollercoaster this month. Early on, they took a sharp dive following a 1.7% inflation read - below the 2% target and even the expected 1.9%. It feels like a long time since we could say that. Lower petrol and airline prices helped, but the real surprise was the fall in the usually stubborn 'Services' sector – a shift worth watching.

Central banks and global outlook

The European Central Bank just rolled out its third 0.25% rate cut, dropping the overnight deposit rate to 3.25% in an attempt to stimulate growth and ease the cost of borrowing. The path ahead won't be easy, as the bank's success depends on various factors outside of its control – including China. As a major export destination for European goods, China's growth and consumer confidence are incredibly important. However, recent tariff wars - with the EU bringing the levy on Chinese EVs to 35% and brandy going the other way incurring 39% - could be a blocker.

On a more positive note, China's Manufacturing PMI hit a six-month high of 50.1 in October, officially moving the index from contraction to expansion. While it's a small margin, it offers some hope that the recently announced stimulus measures may start to feed through into the economy.

Name	1m	3m	YTD	1yr	3yr
FTSE Actuaries UK Conventional Gilts All Stocks	-2.48	-1.94	-2.71	5.56	-22.96
ICE BofA Global Corporate	-1.64	0.95	3.47	11.88	-5.28
ICE BofA Global High Yield	-0.24	2.76	8.11	16.22	6.02
FTSE All Share	-1.64	-2.47	8.05	16.30	19.72
FTSE USA	3.51	3.64	19.41	29.94	34.01
FTSE World Europe ex UK	-1.92	-1.94	5.11	16.56	15.36
FTSE Japan	-0.03	-3.86	6.77	14.75	14.34
FTSE Asia Pacific ex Japan	-0.85	4.77	12.91	21.13	7.12
FTSE Emerging	0.10	5.72	14.32	20.53	8.14

Source: FE Analytics, GBP total return (%) to last month end

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Registered Office: Aurora, Counterslip, Bristol, BS1 6BX.
Website: www.parmenion.co.uk

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