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CIO believes that markets in the last quarter of the year will be driven by further rate cuts, the US presidential election, and likely volatility given political and geopolitical uncertainties. (UBS)

Global equities bucked the seasonal trend for weakness in September

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Global equities bucked the seasonal trend for weakness in September, with the MSCI AC World Index delivering 2% total returns for the month. That took the index's gains for the first nine months of the year to 19.1%.

Gains were led by MSCI China, as a combination of fiscal and monetary easing announcements propelled the index to a 23.3% rally and a ninth consecutive day of gains to close out September.

The most notable development for global markets in September was the beginning of the much-anticipated US rate-cutting cycle and the subsequent all-time highs for select US stock indexes. While US stocks began the month with declines on a soft August ISM manufacturing report, choppy trading for megacap tech stocks, and weaker-than-expected August payrolls data, they recovered their poise as the Federal Reserve began its easing cycle with a decisive 50-basis-point cut to support the US economy from a position of strength. Personal consumption expenditure (PCE) inflation data, the Fed's favorite measure, released at month-end struck an optimistic note, with August headline data of a 2.2% year-over-year increase undershooting market expectations and recording its lowest reading since February 2021.

A second major theme of September was the broadening and continuation of the global rate-cutting cycle, with major central banks lowering borrowing costs as growth concerns mount and inflation pressures ebb. The European Central Bank (ECB) cut rates in mid-September on tepid growth and further falls in inflation. Preliminary inflation data for September from several of the Eurozone's major economies was weaker than expected, with the annual rate in France falling to 1.2% (the lowest level since July 2021) and dropping to 1.5% from 2.3% in August for Spain. These prints boosted the

likelihood of an October cut, in our view. Elsewhere, the Swiss National Bank (SNB) lowered rates by 25bps for a third time this cycle in late September to 1.0%. The central bank warned that additional cuts "may be necessary in the coming quarters" to prevent inflation from slowing further beyond the 1.1% recorded in August. The strength of the Swiss franc against both the euro and US dollar since the SNB's last cut in June added to downward pressure on inflation, and recent business survey readings have been weak.

Finally, the month was marked by a turnaround in Chinese stock market momentum, following a period of slowing economic growth and mounting deflationary pressures (with falling producer prices, core consumer price inflation at a 3.5-year low, and rising risks to the government's 2024 growth target of around 5% GDP growth). Toward month-end, China's top leaders vowed to step up "necessary fiscal spending" to meet the country's economic growth target, in the clearest signal yet on "forceful" stimulus to support the economy. The Politburo meeting noted "new situations and problems" that require an urgent response, according to the state media summary, and gave a new pledge to stabilize the real estate market.

This followed stronger-than-expected monetary stimulus from China's central bank. Cuts to interest rates and the reserve requirement ratio, and some loosening of mortgage rules marked an easing bias to policy on a scale not seen since 2012. Details on new property sector measures were not forthcoming at the time of writing, but the Politburo language suggested more forceful intervention ahead. Investors were also cheered by potential fiscal stimulus targeted at long-term demand, and by the announcement of a CNY 500bn swap facility for brokers, funds, and insurance companies to buy stocks, with two more rounds of CNY 500bn mentioned as possible.

We believe that markets in the last quarter of the year will be driven by further rate cuts, the US presidential election, and likely volatility given political and geopolitical uncertainties.

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