

Q3 markets review: 10 charts to remember



Chart #1 The Fed joins the rate cut club

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Fed cuts rates as Europe faces recession, China boosts stimulus, and U.S. debt soars

The Fed cuts rates, meanwhile Europe teeters on the brink of recession, China ramps up stimulus, and U.S. debt surges. Developed market equities surge amid global challenges, while fixed income rallies on easing rate expectations.

Each month, the Syz investment team takes you through the last 3 months in 10 charts.

Charles-Henry Monchau

Chief Investment Officer

Chart #1

The Fed joins the rate cut club

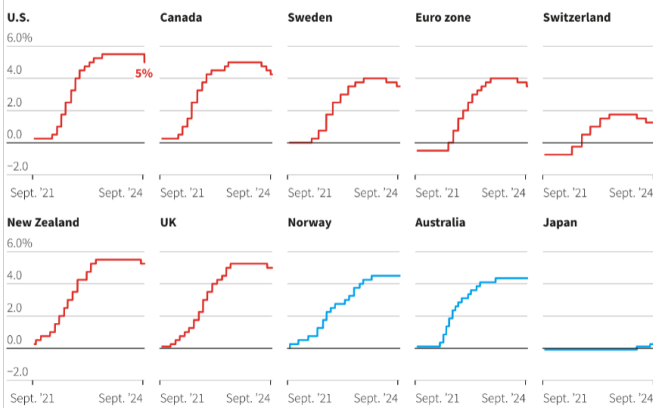
The Federal Reserve has finally cut its interest rates for the first time since March 2020, beginning the long-awaited "Fed pivot". With an oversized 50-basis-point rate cut, the Fed appears to be prioritising the labour market, given the rise in unemployment in the U.S. to 4.2%, rather than maintaining its previous focus on controlling inflation. This decision reflects growing concerns about the economic slowdown and suggests the Fed is now aiming to support the broader economy by moving interest rates back to neutral levels.

This global trend toward easing monetary policy is not limited to the U.S., as central banks across Europe are also shifting their stance. The Bank of England initiated its own easing cycle with a 25-basis-point cut in August. The European Central Bank followed suit in September with its second rate cut, lowering rates to 3.5%, while the Swiss National Bank reduced its key rate for the third consecutive time, bringing it down by 0.25% to 1%.

Fed cuts rates by 50 basis points, joins easing cycle

The Federal Reserve cut the federal funds target rate to a range of 4.75-5%. Six of the 10 major central banks started cutting their policy rates

Change in policy rates by central banks overseeing the 10 most traded currencies



Note: The federal funds target rate is the high end of the official range. Source: LSEG | REUTERS

Multiple line charts showing the policy rates of the central banks overseeing the 10 most traded currencies between September 2021 and September 2024.

Source: Reuters

Chart #2

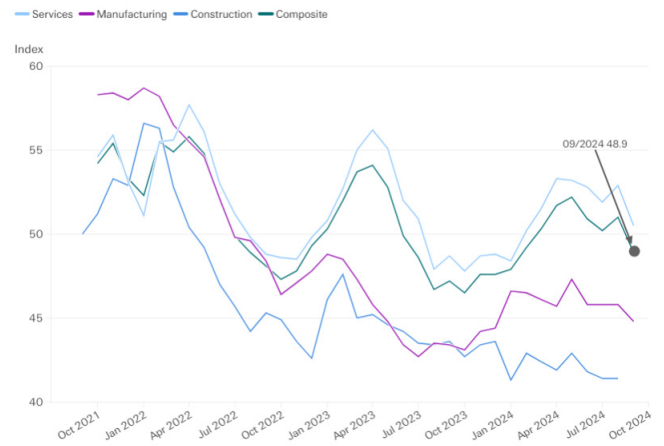
Europe on the brink of recession

Economic growth in the Eurozone began slowing in early summer 2024 and recent data confirms this downward trajectory. While Q2 brought a modest 0.2% q/q GDP growth, largely driven by net exports, the September flash composite PMI fell into contraction territory at 48.9, highlighting the decline in manufacturing activity and its spillover into the services sector.

Germany, once the economic powerhouse of the Eurozone, has become its weakest link. Its industrial sector struggles with declining demand from China, increased competition from cheaper Chinese exports, and energy supply challenges worsened by sanctions on Russia. Economists are now expecting that Germany's economy will stagnate at best for the remainder of 2024.

Meanwhile, in France, the brief economic boost from the "Olympic effect" in August has faded away, leaving the country, along with Germany, facing economic contraction. Italy and Spain have shown resilience, with strong service sector activity helping to offset the broader European slowdown. Still, the overall growth in the Eurozone remains weak and underperforms expectations.

Figure 1: Purchasing Managers' Index in the euro area across PMI categories



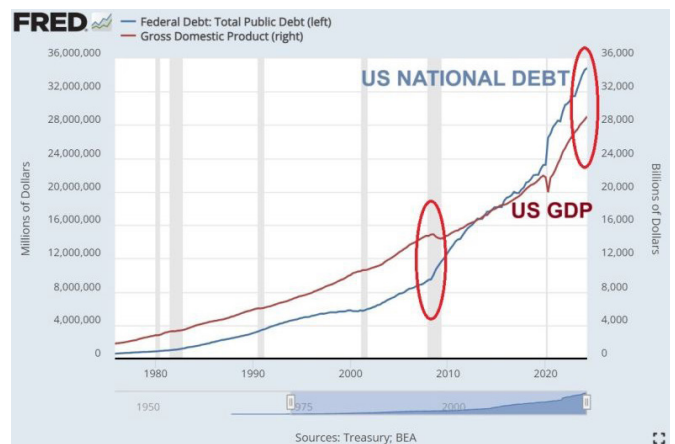
Source: S&P Global, Macrobond, Swiss Re Institute

Source: Swiss Re Institute

Chart #3

US Debt explodes

Total U.S. debt explodes again, reaching \$35.7 trillion on October 1, up \$345 billion from September 27. This figure becomes more alarming when looked at in its relationship to US GDP. In 2008, the U.S. federal debt was \$9.4 trillion while the U.S. GDP was \$14.7 trillion, resulting in a debt-to-GDP ratio of 64%. Now, with public debt sitting at \$35.7 trillion and GDP at \$29 trillion, the debt-to-GDP ratio has skyrocketed to 122%, making the U.S. the country with the 6th highest ratio in the world.



Source: Global Markets Investor, FRED

Chart #4

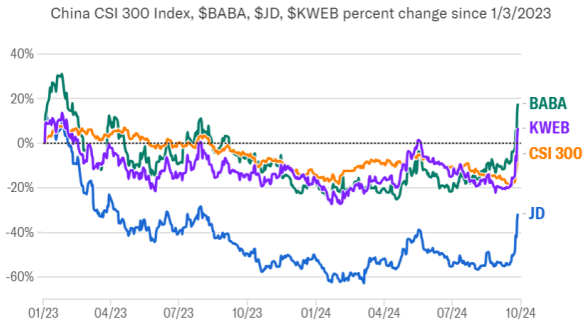
Chinese authorities “go big”

The story of the end of the quarter was the deployment of China’s massive stimulus package. After years of stagnation and a slow recovery post-pandemic, Chinese authorities finally decided to “go big” to stabilise the struggling property market and support the country’s economy.

A key component of the plan is the People’s Bank of China (PBOC) cutting mortgage rates for individual borrowers and lowering the reserve requirement ratio (RRR) for banks by 0.50 percentage points. Additionally, the minimum down payment for second-home purchases has been reduced from 25% to 15%. Further cuts to the RRR, potentially between 0.25 to 0.5 percentage points, are being considered for later this year, though these adjustments will not apply to smaller banks. Lastly, the government has proposed a \$113 billion market stabilisation fund, representing less than 1% of China’s total stock market capitalisation, to bolster the financial sector.

These measures triggered an immediate 4.3% surge in the CSI 300 index after the stimulus package announce and Asia ex-Japan was the top performing major region, returning 10.6% over the quarter.

CHINA'S STIMULUS MEASURES ARE CONVINCING INVESTORS THAT THIS TIME IS DIFFERENT



SOURCE: YAHOO FINANCE - AS OF SEPTEMBER 27, 2024



Source: Yahoo!finance

Chart #5

Developed market equities surge despite global challenges

During the third quarter of the year, developed market equities delivered a strong 6.5% return. Geopolitical tensions in the Middle East and Europe, along with a revision in U.S. employment data and concerns about the “Yen Carry Trade” posed challenges during the quarter. Nonetheless, the S&P 500 maintained its upward momentum, adding 5.9% over the quarter. Small-cap stocks led the way with a notable 9.5% increase, while global REITs delivered a remarkable 16.2% gain.

European markets, however, showed more muted growth. The UK posted a modest 2.3% increase, while the broader European market, excluding the UK, edged up by 1.6%. The Eurozone’s economic recovery continues to struggle, with Germany’s manufacturing sector facing headwinds from weak Chinese demand and increased competition from lower-cost Chinese exports.

In Asia, Japanese stocks dropped 4.9%, hit by the Bank of Japan’s July rate hike and Governor Ueda’s signals of more hikes to come. A weak U.S. labour market report and narrowing U.S.-Japan interest rate differentials led to a sharp yen appreciation and the unwinding of carry trades.

Exhibit 4: World stock market returns

2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	YTD	Q3'24
Japan TOPIX 54.4%	US S&P 500 13.7%	Japan TOPIX 12.1%	UK FTSE All-Share 16.8%	MSCI Asia ex-Japan 42.1%	US S&P 500 -4.4%	US S&P 500 31.5%	MSCI Asia ex-Japan 25.4%	US S&P 500 28.7%	UK FTSE All-Share 0.3%	Japan TOPIX 28.3%	US S&P 500 22.1%	MSCI Asia ex-Japan 10.6%
US S&P 500 32.4%	Japan TOPIX 10.3%	MSCI Europe ex-UK 9.1%	US S&P 500 12.0%	MSCI EM 37.8%	UK FTSE All-Share -9.5%	MSCI Europe ex-UK 27.5%	MSCI EM 18.7%	MSCI Europe ex-UK 24.4%	Japan TOPIX -2.5%	US S&P 500 26.3%	MSCI Asia ex-Japan 21.5%	MSCI EM 8.9%
MSCI Europe ex-UK 24.2%	MSCI Europe ex-UK 7.4%	US S&P 500 1.4%	MSCI EM 11.6%	Japan TOPIX 22.2%	MSCI Europe ex-UK -10.6%	UK FTSE All-Share 19.2%	US S&P 500 18.4%	UK FTSE All-Share 18.3%	MSCI Europe ex-UK -12.2%	MSCI Europe ex-UK 17.3%	US S&P 500 5.9%	MSCI EM 17.2%
UK FTSE All-Share 20.8%	MSCI Asia ex-Japan 7.4%	UK FTSE All-Share 1.0%	MSCI Asia ex-Japan 5.8%	US S&P 500 21.8%	MSCI Asia ex-Japan -14.1%	MSCI EM 18.9%	Japan TOPIX 7.4%	Japan TOPIX 12.7%	US S&P 500 -18.1%	MSCI EM 10.3%	Japan TOPIX 14.2%	UK FTSE All-Share 2.3%
MSCI Asia ex-Japan 3.3%	UK FTSE All-Share 1.2%	MSCI Asia ex-Japan -8.9%	MSCI Europe ex-UK 3.2%	MSCI Europe ex-UK 14.5%	MSCI EM -14.2%	MSCI Asia ex-Japan 18.5%	MSCI Europe ex-UK 2.1%	MSCI EM -2.2%	MSCI Asia ex-Japan -19.4%	UK FTSE All-Share 7.9%	MSCI Europe ex-UK 12.1%	MSCI Europe ex-UK 1.6%
MSCI EM 2.3%	MSCI EM -1.8%	MSCI EM -14.6%	Japan TOPIX 0.3%	UK FTSE All-Share 13.1%	Japan TOPIX -16.0%	Japan TOPIX 18.1%	UK FTSE All-Share -9.8%	MSCI Asia ex-Japan -4.5%	MSCI EM -19.7%	MSCI Asia ex-Japan 6.3%	UK FTSE All-Share 9.9%	Japan TOPIX -4.9%

Source: FTSE, LSEG Datastream, MSCI, S&P Global, TOPIX, J.P. Morgan Asset Management. All indices are total return in local currency, except for MSCI Asia ex-Japan and MSCI EM, which are in US dollars. Past performance is not a reliable indicator of current and future results. Data as of 30 September 2024.

Source: J.P.Morgan

Chart #6

Investors All-in

Sentiment in the equity market has continued to pick up throughout Q3 and is now through the roof. U.S. equity futures positioning by investors (excl. market-makers) just hit a net long of approx. \$290 billion, the most on record. This net long positioning by investors has more than doubled since the beginning of the year, and currently sits at a level over twice as high as those seen during previous peaks in early 2018 and 2020. This sentiment is further highlighted by the Fear & Greed Index reaching levels of “extreme greed” for the first time since March. With U.S. household stock allocation also hitting new highs, investors appear to be all-in on stocks.



Non-Dealers in US Index Futures (\$bn net length)
Source: Goldman Sachs FICC & Equities Division Futures Strats Group as of 24-Sep-2024
Past performance is not indicative of future results

Source: The Kobeissi Letter

Chart #7

Bulls continue charging ahead

Bulls are thriving as Q3 has been favourable to equity markets. The quarter ended on a high note, with the S&P500 posting a green September for the first time in 5 years. The bull market also appears to continue broadening (a prediction we made for 2024), with 337 stocks outperforming the S&P500 in Q3. Overall, 394 stocks were positive in Q3, with the index closing at 5.3% for the quarter. With tech stocks struggling, it was value stocks that took the lead in the third quarter. US value stocks managed to outperform growth by 7% points, with small caps rallying in anticipation of lower rates to come.



Source: All Star Charts

Chart #8

Fixed income rally on easing rate expectations

Fixed income markets performed strongly in Q3 2024, largely driven by the anticipation of lower interest rates, and increasing confidence of a soft landing for the economy. The changing outlook on interest rates boosted government bonds, with U.S. Treasuries returning 4.7%, while European sovereign bonds gained 4.0% during the quarter.

Investment-grade (IG) credit spreads narrowed slightly by the end of the quarter, resulting in a 6.3% quarterly return. High-yield bonds followed a similar trend, leading to gains of 5.3% in the U.S. and 3.5% in Europe. Emerging market debt saw a strong rally, gaining 6.1% and ranking near the top of fixed income sector performances year-to-date.

Exhibit 3: Fixed income sector returns

2015	2016	2017	2018	2019	2020	2021	2022	2023	YTD	Q3 '24
Euro Gov. 1.6%	US HY 17.5%	EM Debt 9.3%	Euro Gov. 1.0%	EM Debt 14.4%	Global IL 12.7%	US HY 5.3%	US HY -11.2%	US HY 13.5%	US HY 8.1%	Global IG 6.3%
EM Debt 1.2%	EM Debt 10.2%	Global IG 9.1%	US Treas. 0.9%	US HY 14.4%	Global IG 10.4%	Euro HY 3.4%	Euro HY -11.7%	Euro HY 11.9%	EM Debt 8.0%	EM Debt 6.1%
US Treas. 0.8%	Euro HY 10.1%	Global IL 8.7%	US HY -2.3%	Global IG 11.5%	US Treas. 8.0%	Global IL 2.7%	US Treas. -12.5%	EM Debt 10.5%	Euro HY 6.7%	Global IL 6.0%
Euro HY 0.5%	Global IG 4.3%	US HY 7.5%	Global IG -3.6%	Euro HY 10.7%	US HY 6.1%	EM Debt -1.5%	EM Debt -16.5%	Global IG 9.6%	Global IG 5.3%	US HY 5.3%
Global IG -3.6%	Global IL 3.0%	Euro HY 6.1%	Euro HY -3.6%	Global IL 8.0%	EM Debt 5.9%	US Treas. -2.3%	Global IG -16.7%	Euro Gov. 7.1%	US Treas. 3.8%	US Treas. 4.7%
US HY -4.6%	Euro Gov. 3.2%	US Treas. 2.3%	Global IL -4.1%	US Treas. 6.9%	Euro Gov. 5.0%	Global IG -2.9%	Euro Gov. -18.5%	Global IL 5.8%	Global IL 3.2%	Euro Gov. 4.0%
Global IL -5.0%	US Treas. 1.0%	Euro Gov. 0.2%	EM Debt -4.6%	Euro Gov. 6.8%	Euro HY 2.7%	Euro Gov. -3.5%	Global IL -22.9%	US Treas. 4.1%	Euro Gov. 2.0%	Euro HY 3.5%

Source: Bloomberg, BofA/Merrill Lynch, J.P. Morgan Economic Research, LSEG Datastream, J.P. Morgan Asset Management. Global IL: Bloomberg Global Inflation-Linked; Euro Gov: Bloomberg Euro Aggregate - Government; US Treas: Bloomberg US Aggregate - Treasury; Global IG: Bloomberg Global Aggregate - Corporate; US HY: BofA/Merrill Lynch US HY Constrained; Euro HY: BofA/Merrill Lynch Euro Non-Financial HY Constrained; EM Debt: J.P. Morgan EMBIG. All indices are total return in local currency, except for EM and global indices, which are in US dollars. Past performance is not a reliable indicator of current and future results. Data as of 30 September 2024.

Source: J.P.Morgan

Chart #9

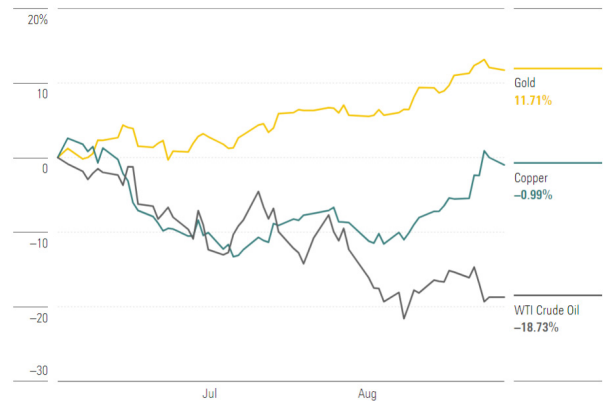
Energy slumps, precious metals shine

In the third quarter of 2024, commodity markets experienced relatively muted performance overall, returning just 0.7%. Amid ongoing concerns about the global economy, energy markets took a hit: Brent Crude oil prices fell by 17% largely driven by weakening demand in China, compounded by OPEC+ easing production cuts later in the year.

Meanwhile, the precious metals market performed well. Gold's new all-time highs rally continues, soaring over 11% over the quarter. This rally is now supported by the U.S. Federal Reserve's rate-cutting cycle, which historically has led to strong gains in the following months. Similarly, silver rose more than 6%.

Copper saw only a marginal increase of approximately 1% in Q3 2024, following a mid-year surge driven by rising demand from the energy transition and power needs for AI-related data centers. As a metal widely used in various industrial processes and products, copper prices faced pressure from concerns about declining demand for industrial materials in China.

Commodity Futures Performance



Source: Morningstar

Chart #10

A more cautious crypto market

After posting spectacular gains at the start of the year following the approval of its first spot ETFs, bitcoin performed rather modestly in the third quarter, returning 5.24%. This relative stagnation can be explained by a slowdown in investor enthusiasm after the initial euphoria linked to the approval of ETFs.

Meanwhile, ether suffered losses of over 20%. Interest in ether also waned after the launch of Ethereum ETFs, which failed to generate the hoped-for enthusiasm, and investors preferred to turn to safer havens in the face of market uncertainty.

Cryptocurrency Performance



Source: Morningstar

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