October 2024 | Monthly update

Omnis Managed Portfolio Service

September sees steady gains as central banks cut rates, but mixed economic data keeps markets cautious

Market-moving events

Fed cuts rates but data remains mixed. The US Federal Reserve cut rates by 0.5 percentage points, marking the first reduction since the pandemic. While the unemployment rate dipped to 4.2%, job creation fell short of expectations. Inflation eased to 2.5%, but core inflation stayed at 3.2%. Despite the mixed data, US growth was revised up to 3%, supported by strong retail sales.

China stimulus boosts stock markets. Chinese share prices rose after new stimulus measures were introduced, including lower borrowing costs and expanded lending. But bond markets remain wary as concerns persist over the property sector and consumer demand. Youth unemployment hit a record 18.8%, while industrial production and retail sales both slowed.

Bank of England holds rates steady but hints at cuts. The Bank of England kept interest rates at 5% after inflation stayed above target. However, Governor Andrew Bailey suggested rates could be cut gradually if inflation continues to fall. The UK economy saw no growth in July, but unemployment dropped to 4.1%, and wage growth slowed slightly.

Investment highlights

Relative performance. Most equity markets were flat or slightly positive, with Asia standing out due to Chinese stimulus. Small caps outperformed large caps as interest rate cuts continued. Growth marginally outperformed value, while both corporate and government bonds delivered steady returns. Emerging markets outperformed developed markets.

Tactical asset allocation. Rate cuts should pave the way for out-of-favour asset classes to come back into favour, including value, small cap and sovereign debt. Investors are already tilting their portfolios to these areas. Our diversified portfolios hold all these asset classes and we'll continue to make tactical decisions to capture opportunities we identify.

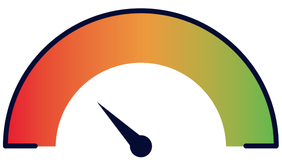
We remain cautiously positioned. We have an overweight allocation to bonds and slight underweight in equities. Although stock markets have rallied, a weaker economy could put pressure on company revenues. Our central case remains falling inflation, a peak in the interest rate cycle and a soft landing, but with a larger than normal risk of a deeper recession.

Asset allocation

Red = underweight
Amber = neutral weighting
Green = overweight

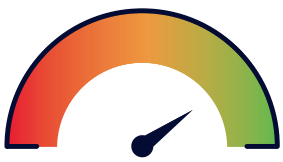
If you'd like more detail on our asset allocation views then please visit our online dashboard.

equities



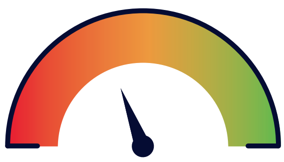
Negative = UK + US
Neutral = Asia, Europe, Japan + emerging markets

bonds



Negative = corporate bonds
Positive = gilts, global bonds + strategic bonds

alternatives + cash



Negative = absolute return bonds + diversified returns
Positive = short-dated bonds + cash

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