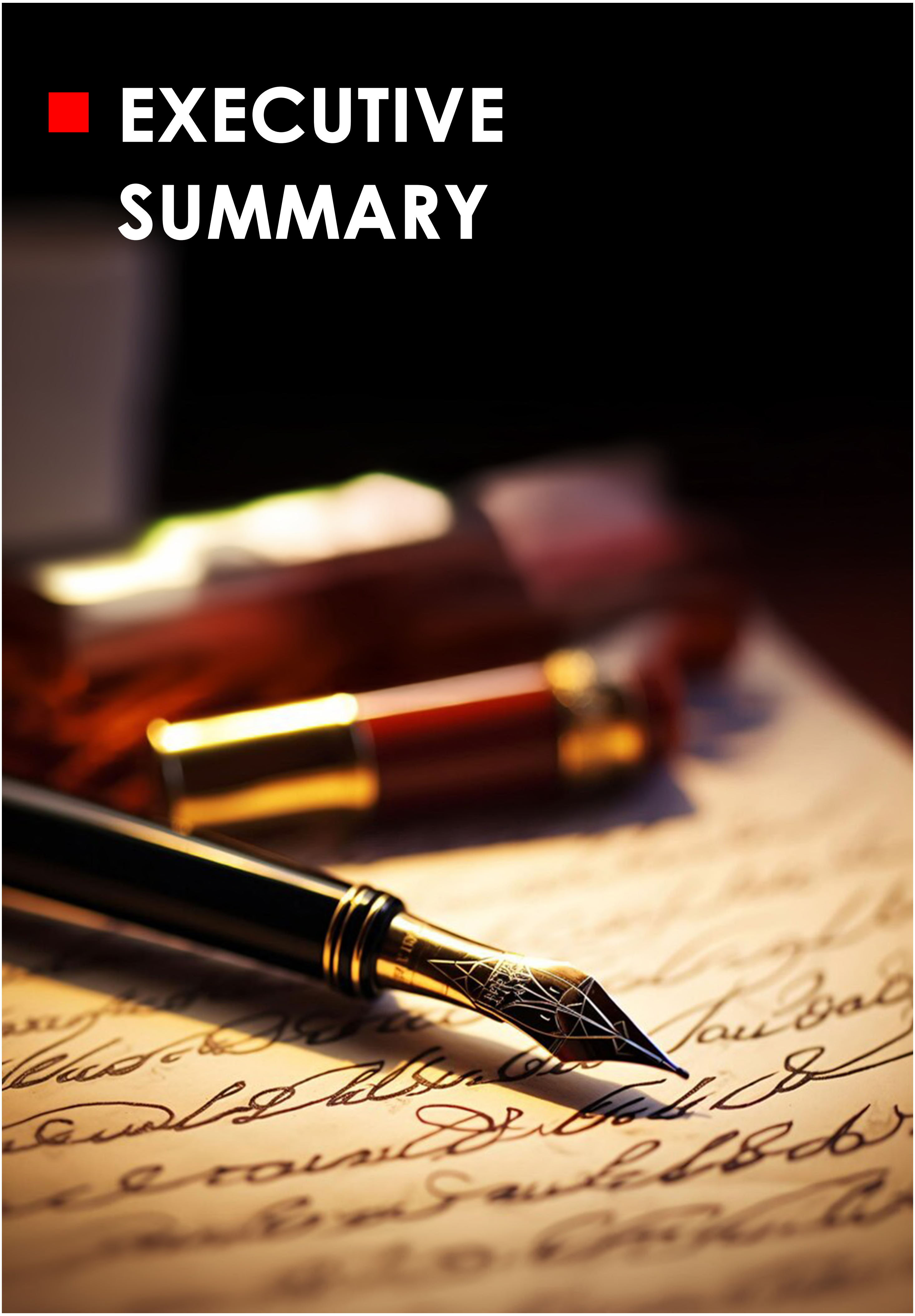
United Capital

UNITED CAPITAL WEALTH MANAGEMENT

GLOBAL MARKET OUTLOOK

OCTOBER 2024

EXECUTIVE SUMMARY



EXECUTIVE SUMMARY

US- The Fed surprised by reducing its fed funds rate by 50bps in September from 23-year highs of 5.25-5.50%. Officials have become less concerned about inflation as consumer price rises have fallen closer to the Fed's 2% target. Instead, the risk of rising unemployment pushing the US into a recession spurred the Fed to begin its easing cycle with a large 50bps rate cut. The US Personal Consumption Expenditure Price (PCE) Index came in at 2.2% year-on-year in August, down from 2.5% the previous month and slightly below the consensus forecast of 2.3%. With inflation approaching the Fed's target, Federal Reserve Chairman Jerome Powell has said that the central bank will lower interest rates 'over time'. The US jobs report released on 4th October was incredibly strong on every front possible – job creation, unemployment, wages and hours worked. While the inflation backdrop is allowing the Fed to start moving monetary policy back to neutral, it could be in 25bp increments, not the 50bp we saw in September. The risks remain skewed towards weaker growth and lower Fed funds given the perception amongst households of a deteriorating jobs market, which may lead to consumers spending more cautiously. This is hugely important given consumer spending is around 70% of GDP.

Europe- The ECB made its second rate cut of the year in September, lowering its deposit rate by 25bps to 3.50%, and is likely to ease interest rates again in December. In France, inflation fell to a three-year low of 1.5% while in Spain it fell to 1.7%, mainly due to lower energy costs These lower-than-expected figures reinforce expectations that the European Central Bank could accelerate the easing of its policy. The ECB is also facing signs of economic weakness in Europe, notably with the unexpected rise in unemployment in Germany.

UK- The BoE seems more wary of inflation. Last month, the BoE kept its Bank Rate at 5.00% after making its first cut in four years in August. Officials still intend to lower interest rates but warned future cuts may only be gradual. UK inflation at 2.2% is near its 2% target. But core inflation is higher at 3.6%. The BoE's gradual approach should benefit the GBP.

China- China announced intensive stimulus measures at the end of September 2024 to boost growth and support the economy. Authorities have taken measures to support the property market, the financial markets, retail sales, with a strong focus on the middle class and less affluent households. This is the largest support plan in years. Beijing seems to have realised that the economy is losing momentum and that the outlook is deteriorating. The arsenal of measures announced should enable growth to regain sufficient momentum to meet the government's 5% growth target for 2024. This is also reflected in the authorities' desire to deploy specific measures for the property sector, whose weakness is contributing to the loss of confidence (and thus weak consumption) among Chinese households.

Japan- In September, the Band of Japan (BoJ) left its overnight call rate unchanged at 0.25%, after making its second hike of the year in July. But officials signaled interest rates are likely to rise further as inflation is anticipated to keep firming. Governor Ueda said the BoJ would raise rates again, if its outlook was achieved. Japan's core inflation rate in August picked up to 2.1% above the BoJ's 2% target.

***Source** - Bloomberg, United Capital WM Research*

EXECUTIVE SUMMARY - INVESTMENT IMPLICATIONS

Fixed Income- With a strong jobs report release on 4th October, The US 10 year has rebounded, in line with our expectations. We expect 10 year to target 4.15%-4.30%.

Equities- Q3 results could be the trigger for a market correction. We expect S&P 500 & Nasdaq to correct by 7% -10% on any deterioration in quarterly earnings. We find value in Energy sector.

Currencies-

- EUR/USD – Upside is capped at 1.12, we expect ECB to resume cutting rates. Euro to target 1.0850 initially, 1.0650-1.07 eventually.
- GBP/USD – BOE to hold rates steady as service inflation continues to be higher. GBP to find support at 1.2850-1.2950 and rebound to 1.3200
- USD/JPY – Headline and core inflation continue to trend higher; BOJ may hike rates again in December. Resistance in 148-150 range, could target 141-143 unless inflation declines.
- USD/CHF – Support in 0.8480-0.8530 range, to target 0.8750-0.88 initially.

Precious metals- Rising geopolitical tensions and EM central bank buying have given strong support to the rally of Gold. We expect precious metals to stay elevated as long as geo-political risks remain

Crude oil- Rising geopolitical tensions have led to a moderate increase in oil prices. We expect oil to trade in the range of $78-$85, unless geopolitical tensions recede.

Source *- Bloomberg, United Capital WM Research*

INVESTMENT VIEWS -MARGIN OF SAFETY IS LIMITED ACROSS SEGMENTS

Asset Class	Region	Allocation Preference	Investment Rationale
Fixed Income	US	🟢	Weak consumer savings, household employment surveys but strong service PMIs will add to volatility in rates. . We prefer adding exposure to duration when yields rebound to 4.10%. Tight credit spreads and the impending risk of a slowdown, make us prefer equal weightage to US IG, Duration & HY.
	Eurozone	⚪	Industrial production, Business sentiment & core inflation has been declining. ECB to continue cutting rates. Euro zone perps are attractive given the high YTMs.
	UK	⚪	UK 10Yr GILT yields could remain range bound as service inflation is sticky.
	Emerging Markets	🟢	We prefer Emerging Market Investment Grade USD bonds over local currency bonds. Rate cuts in the developed economies are supportive, unless it is a hard landing.
Equities	Developed Markets	⚪	We remain Neutral. Valuations are high, divergence in the price action between S&P vs Nasdaq Vs Dow Transportation index/Industrials is portending a pull back. *We prefer value oriented large cap equities in US & Developed Markets, in select sectors like Healthcare, Energy & Industrials. Q3 results could later the direction of the equity markets if they are weaker than expected.*
	Emerging Markets	⚪	We are neutral Emerging Market equities, given that developed markets are showing signs of weak economic momentum.
Precious Metals	Gold & Silver	🟢	Geo-political risks have kept the prices elevated, Silver could gain momentum as it is significantly lower than its earlier all-time highs at 49.51.
Commodities	Crude Oil	🟢	We expect Oil to trade in 75-85 range on the back of worsening geo-political situation. Weak economic momentum in developed markets could keep the prices capped at 85.
Alternatives		🟢	We believe that alternative investment strategies such as relative value trades and private market assets have the potential to offer diversification to the portfolio due to their low correlation with public market assets.

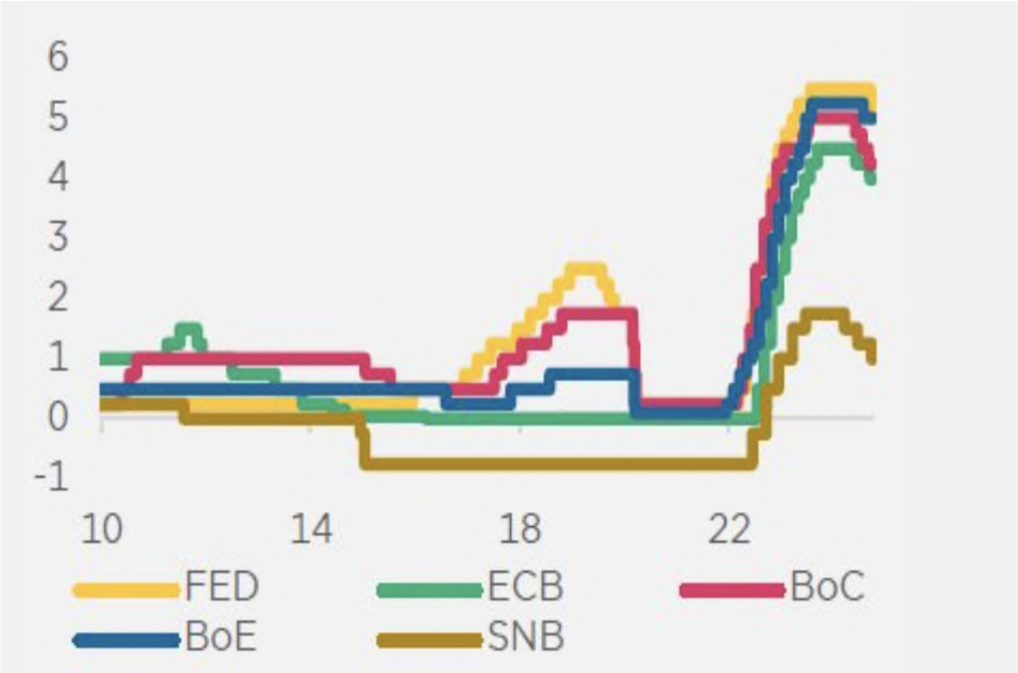
🟢 More Preferred ⚪ Neutral 🔴 Less Preferred

Source - Bloomberg, United Capital WM Research

KEY MACRO DATA

THE GLOBAL EASING CYCLE HAS BEGUN

Major Central Banks have eased monetary policy in Q3 2024.

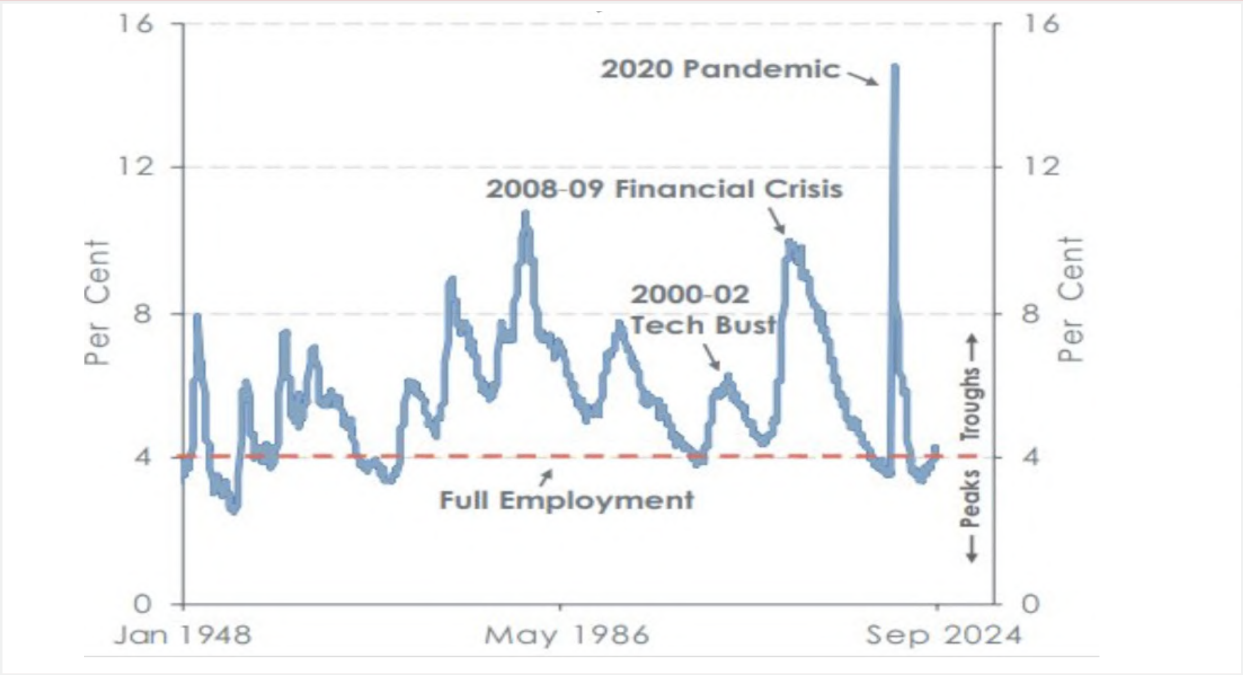


ETF holdings of Gold have risen as the global easing cycle has picked up.

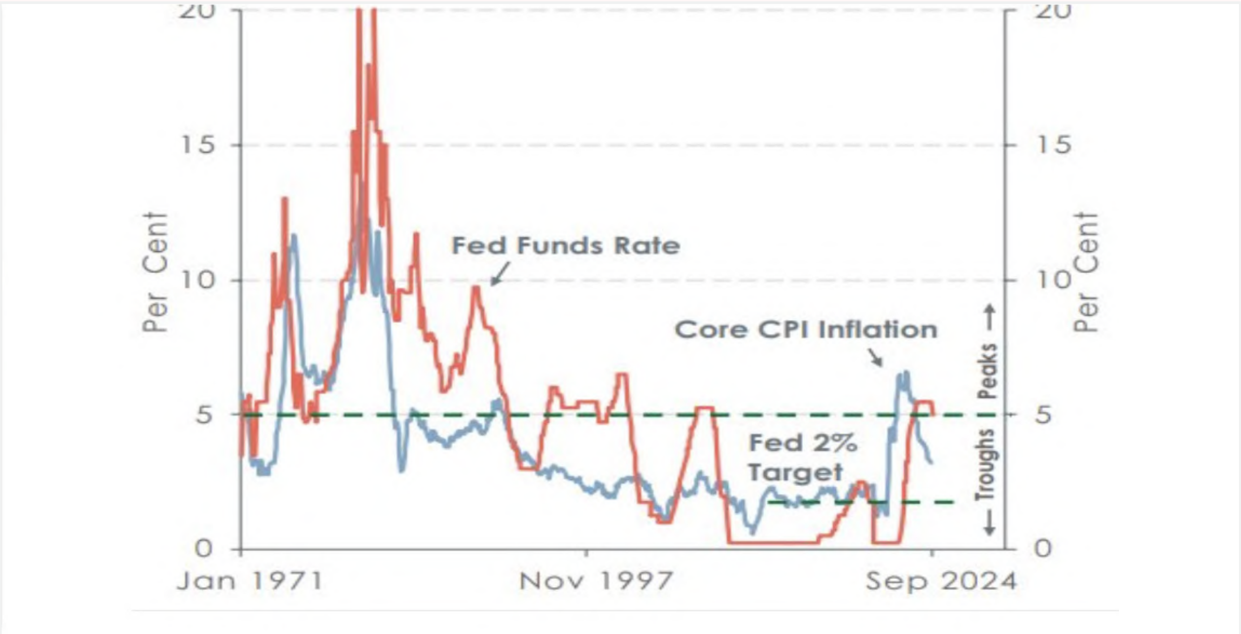
Source - *Bloomberg, United Capital WM Research*

US - LABOUR MARKET COOLING, FALL IN INFLATION & GROWTH ESTIMATES SUPPORT FED'S EASING

The unemployment rate has increased from five-decade lows of 3.4% last year to 4.1% now.



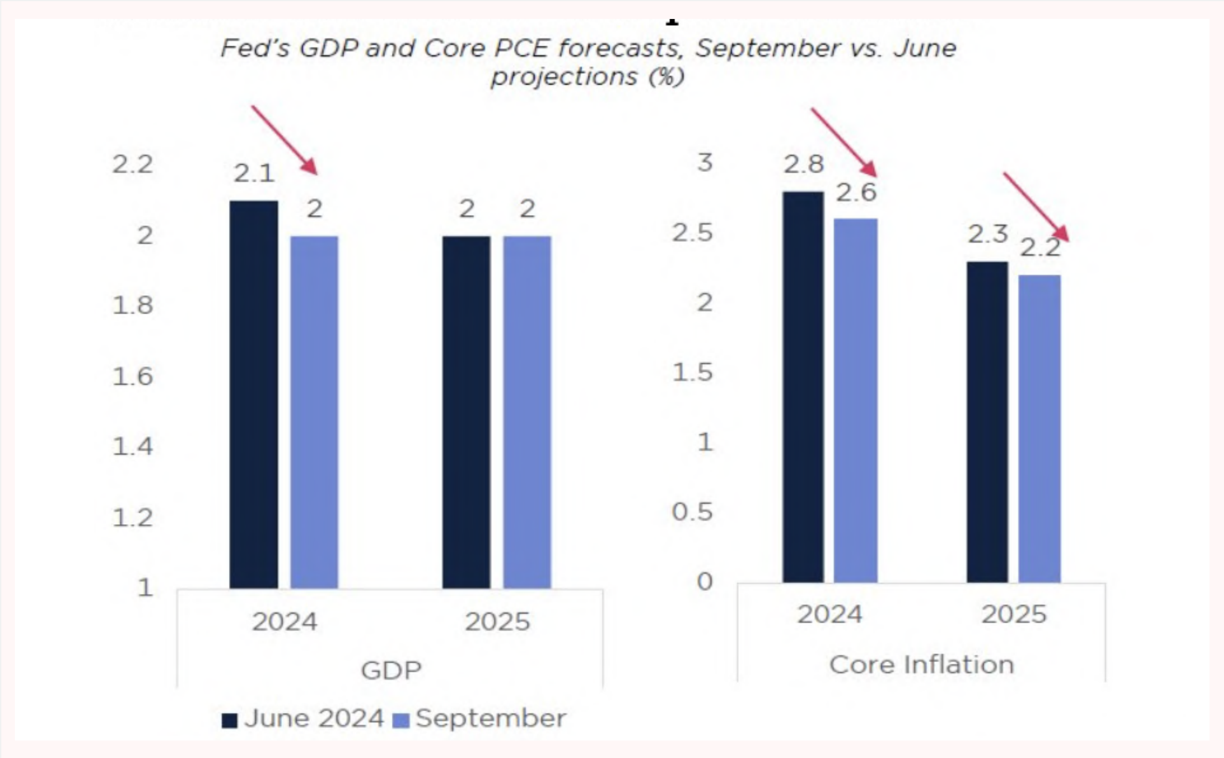
Core inflation excluding volatile food and energy prices, has fallen sharply from its four-decade highs.



Source - *Bloomberg, United Capital WM Research*

US - LABOUR MARKET COOLING, FALL IN INFLATION & GROWTH ESTIMATES SUPPORT FED'S EASING

The Fed has reviewed its GDP growth and inflation forecasts downwards vs. its prior estimates

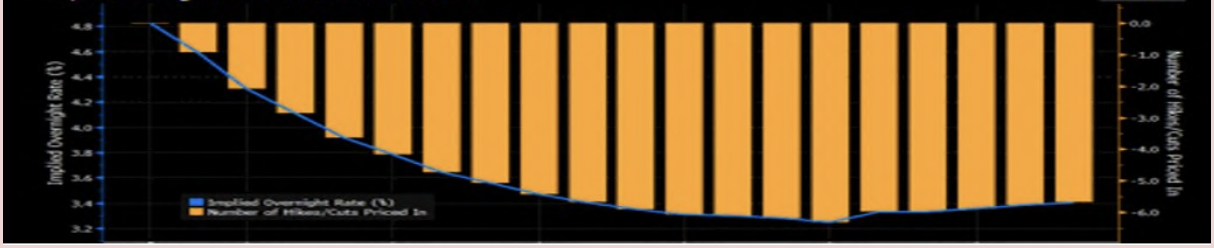


The market currently forecasts 50 bps of rate cuts by end-2024

Region: United States »
Target Rate 5.00
Effective Rate 4.83
Instrument: Fed Funds Futures »
Pricing Date 10/07/2024
Cur. Imp. O/N Rate 4.826

Meeting	#Hikes/Cuts	%Hike/Cut	Imp. Rate Δ	Implied Rate	A.R.M.
11/07/2024	-0.933	-93.3%	-0.233	4.593	0.250
12/18/2024	-2.084	-115.2%	-0.521	4.305	0.250
01/29/2025	-2.855	-77.1%	-0.714	4.113	0.250
03/19/2025	-3.632	-77.8%	-0.908	3.918	0.250
05/07/2025	-4.165	-53.2%	-1.041	3.785	0.250
06/18/2025	-4.737	-57.3%	-1.184	3.642	0.250
07/30/2025	-5.075	-33.8%	-1.269	3.557	0.250
09/17/2025	-5.425	-35.0%	-1.356	3.470	0.250
10/29/2025	-5.685	-26.0%	-1.421	3.405	0.250
12/10/2025	-5.908	-22.3%	-1.477	3.349	0.250
01/28/2026	-6.075	-16.7%	-1.519	3.307	0.250
03/18/2026	-6.118	-4.3%	-1.529	3.297	0.250
04/29/2026	-6.195	-7.7%	-1.549	3.278	0.250
06/17/2026	-6.319	-12.4%	-1.580	3.247	0.250
07/29/2026	-5.985	+33.4%	-1.496	3.330	0.250
09/16/2026	-5.979	+0.6%	-1.495	3.331	0.250

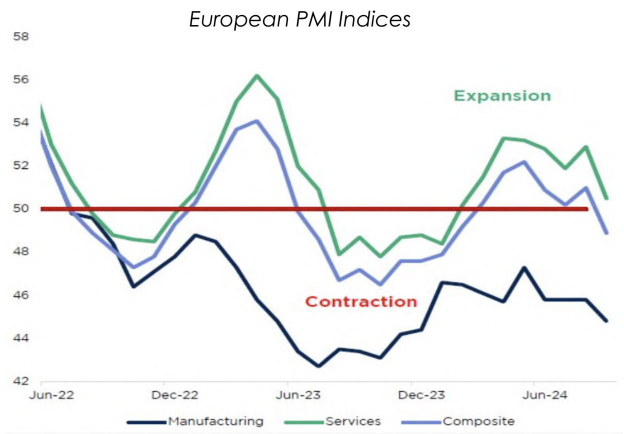
Implied Overnight Rate & Number of Hikes/Cuts



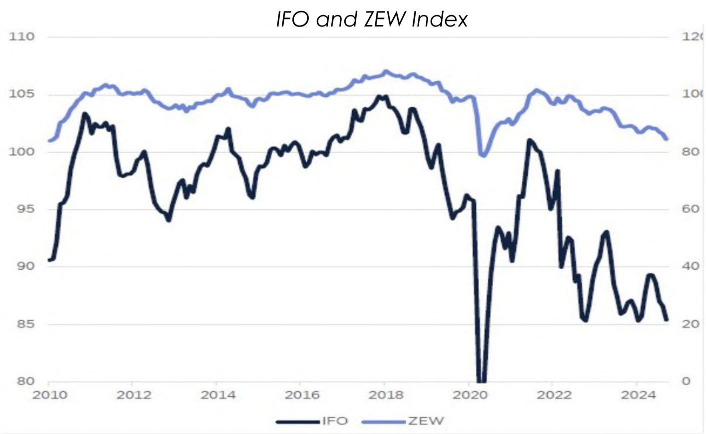
Source - Bloomberg, United Capital WM Research

EUROZONE - GROWTH MOMENTUM CONTINUES TO DETERIORATE, PAVING THE WAY FOR MORE RATE CUTS

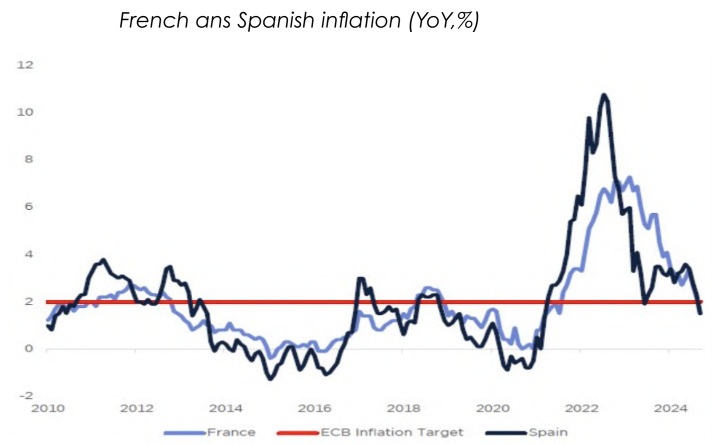
PMIs declined further in September



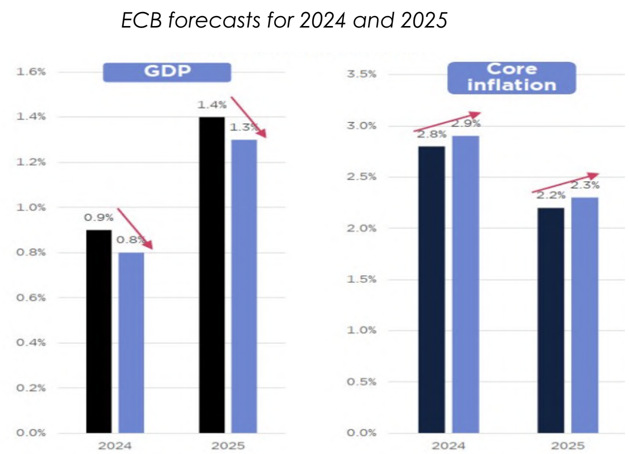
German activity continues to deteriorate



French & Spanish inflation fell below 2%

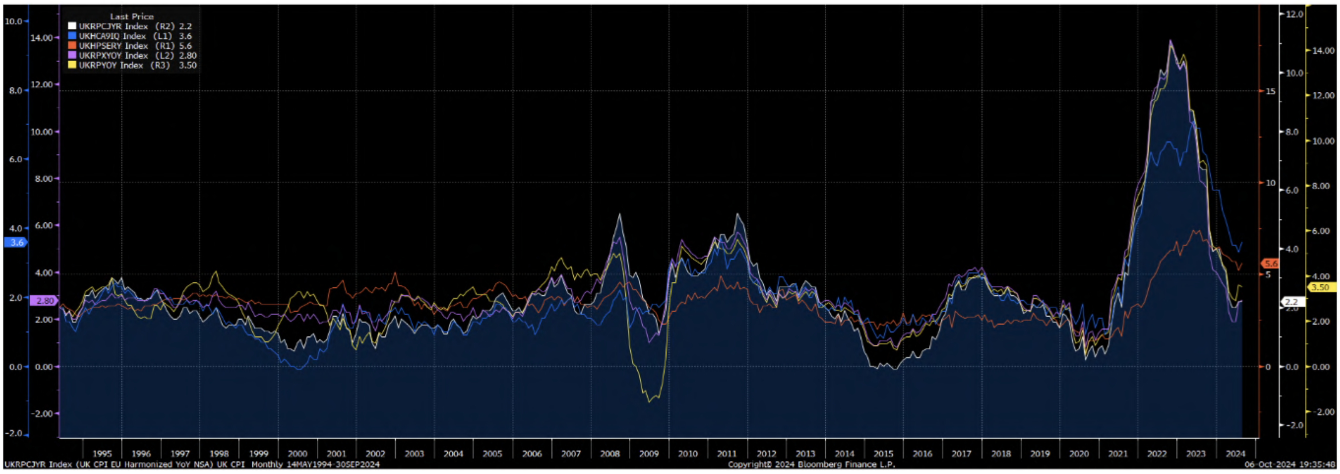


ECB revised up its core inflation forecast but cut GDP growth expectations

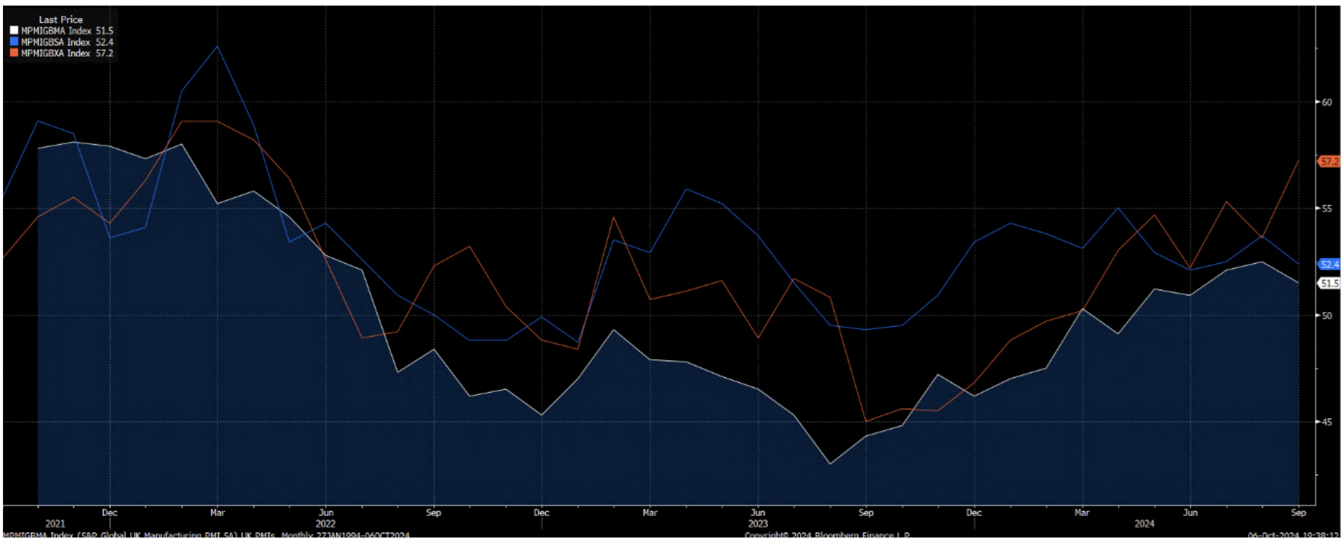


UK – STUBBORN INFLATION, SLOWER THAN EXPECTED RATE CUTS

Services Inflation rose from 5.2% to 5.6% Excluding volatile categories like airfares, package holidays, and rents, services inflation has now fallen to 4.9% from 5.5% just two months ago.



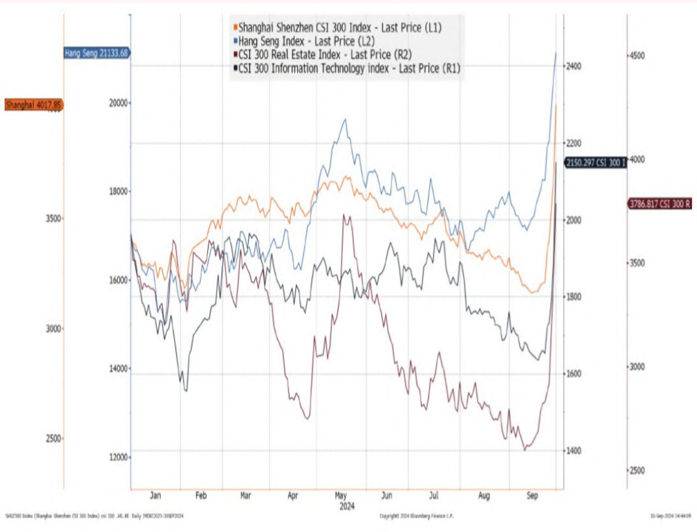
Manufacturing, services & construction PMIs remain in expansion zone



CHINA – ARSENAL OF STIMULUS MEASURES INTENDED TO BOOST GROWTH MOMENTUM

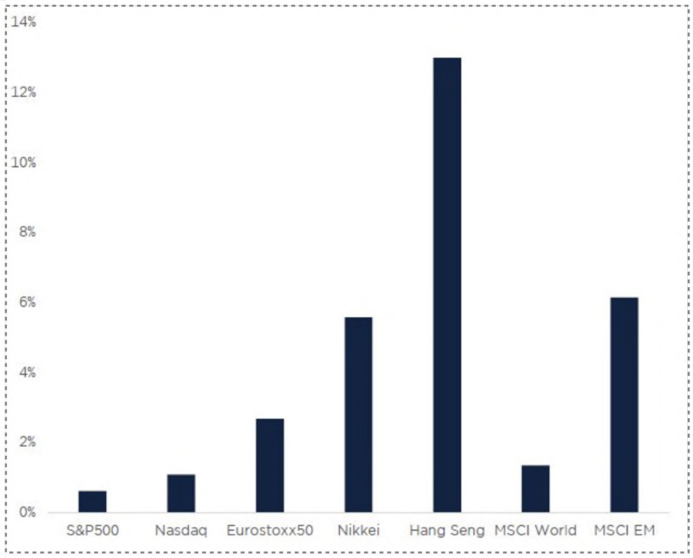
At the end of September, China announced intensive stimulus measures. First, the PBoC cut key interest rates. Its 7-day reverse repo rate was reduced by 20bps to 1.50% and the 1Y Medium-term Lending Facility (MLF) rate was lowered by 30bps to 2.00%. Second, banks' reserve requirement ratios (RRR) were reduced by 50bps to 9.50% to free up an estimated CNY1t of liquidity.

Third, to support the property market, interest rates on current mortgages were cut by 50bps and downpayment ratios for second property purchases were reduced from 25% to 15%. Fourth, to support equities, the PBoC will set up a new CNY500b facility to allow insurers, funds and brokers to borrow directly from the central bank to invest in shares. The PBoC will also set up a re-financing facility for banks to aid firms' share buy-backs.



Following these announcements, China's benchmark CSI 300 Index surged by 23% in just 5 days

China dominates global equity index returns (local currency) – last week of September



ANNEXURE

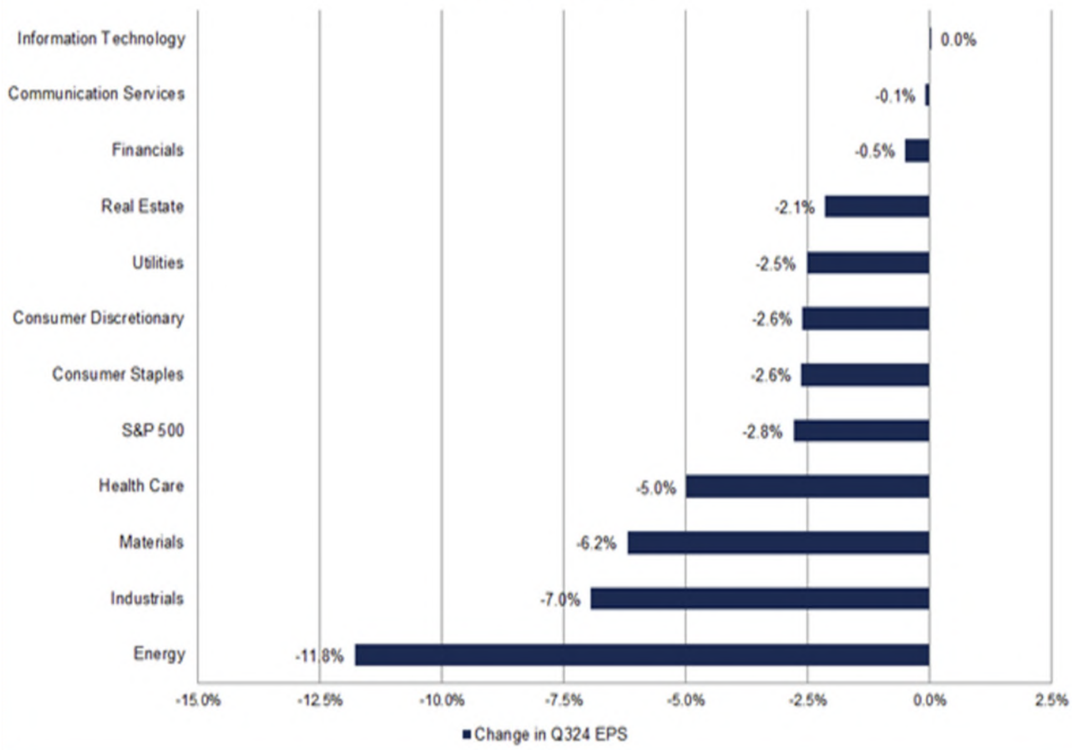
S&P 500 - Q2 EARNINGS & Q3 EXPECTATIONS

- For Q2 2024 (with more than 99% of S&P 500 companies reporting actual results), 79% of S&P 500 companies have reported a positive EPS surprise and 60% of S&P 500 companies have reported a positive revenue surprise.

- Earnings Guidance: For Q3 2024, 59 S&P 500 companies have issued negative EPS guidance and 50 S&P 500 companies have issued positive EPS guidance.

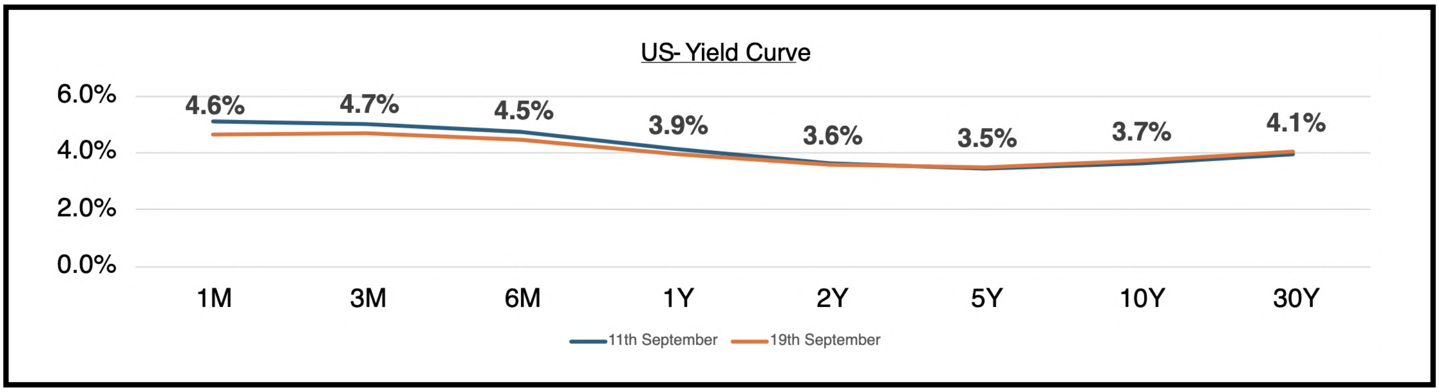
- At the sector level, ten of the eleven sectors witnessed a decrease in their bottom-up EPS estimate for Q3 2024 from June 30 to August 31, led by the Energy (-11.8%) sector. On the other hand, no sector recorded an increase in its bottom-up EPS estimate for Q3 2024 during this period. However, it is interesting to note that while analysts decreased EPS estimates in aggregate for Q3 2024 during the past two months, they increased EPS estimates for CY 2025 by 0.3% (to $279.52 from $278.79) over this same period.

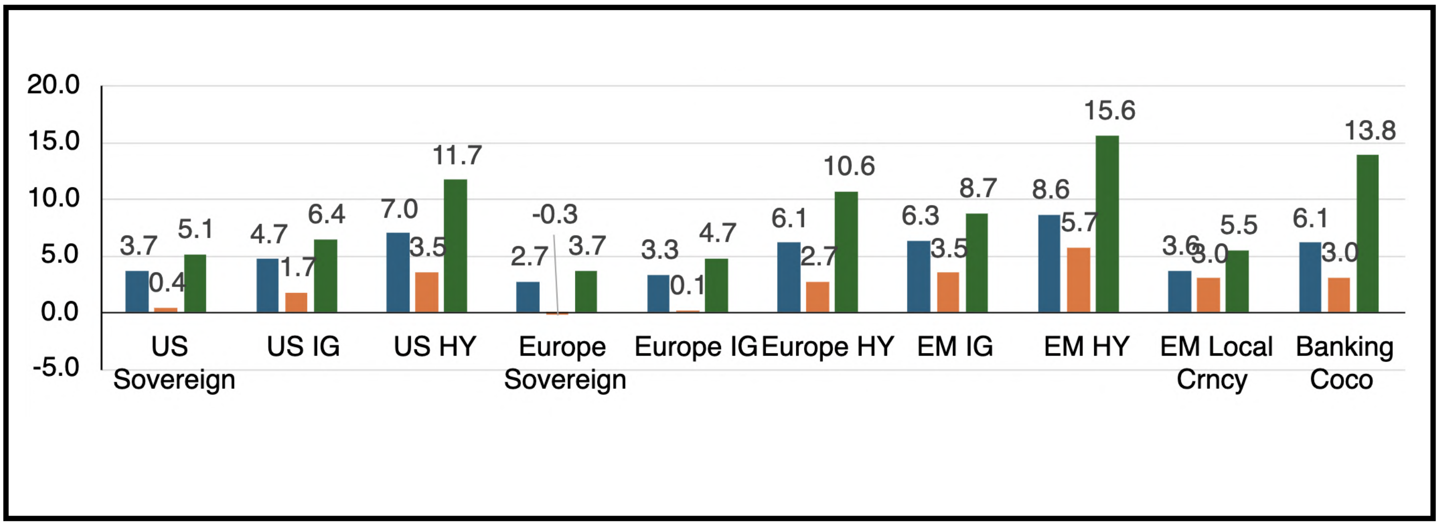
S&P 500: Sector Level Change in Q3Q4 EPS (June 30 - Aug 31)
(Source: FactSet)



S&P 500 - Q2 EARNINGS & Q3 EXPECTATIONS

Fixed Income – margin of safety is very low, selectivity is key





ASSET CLASS - PERFORMANCE

Asset Class	Instrument	2021	2022	2023	YTD 2024
Commodities	Natural Gas	46.9%	20.0%	-43.8%	12.3%
	Brent Crude oil	50.2%	10.5%	-10.3%	2.0%
	Nickel	26.0%	43.2%	-45.0%	8.1%
	Copper	26.8%	-14.6%	2.1%	17.4%
	Silver	-11.7%	2.8%	-0.7%	34.3%
	Gold	-3.6%	-0.3%	13.1%	28.4%
	Platinum	-9.6%	10.9%	-7.7%	-1.1%
	Palladium	-22.2%	-5.9%	-38.6%	-7.7%
	Coffee	76.3%	-26.0%	12.6%	36.7%
	Bloomberg Commodity Index	27.1%	13.8%	-12.6%	3.4%
Currencies	Japanese Yen vs. U.S. Dollar	-11.5%	-13.9%	-7.6%	-4.9%
	Swiss Franc vs. U.S. Dollar	-3.1%	-1.3%	9.0%	-1.9%
	Australian Dollar vs U.S. Dollar	-5.6%	-6.2%	0.0%	-0.3%
	New Zealand Dollar vs U.S. Dollar	-5.0%	-7.0%	-0.5%	-2.7%
	Canadian Dollar vs U.S. Dollar	0.7%	-7.3%	2.3%	-2.5%
	Euro vs U.S. Dollar	-6.9%	-5.8%	3.1%	-0.7%
	GBP vs. U.S.Dollar	-1.0%	-10.7%	5.4%	2.9%
	Dollar index	6.4%	8.2%	-2.1%	1.2%

Asset Class	Instrument	2021	2022	2023	YTD 2024
MSCI world sectors	MSCI World Index	20.1%	-19.5%	21.8%	16.7%
	Utilities	7.1%	-7.0%	-2.5%	19.1%
	Energy	35.1%	41.1%	-0.7%	8.9%
	Consumer Staples	10.8%	-8.0%	0.1%	8.7%
	Real Estate	21.1%	-28.0%	3.4%	5.1%
	Materials Sector	12.9%	-13.7%	11.7%	5.8%
	Health Care	18.3%	-6.6%	2.4%	10.9%
	Industrials	15.1%	-14.6%	21.2%	16.1%
	Financials	25.1%	-12.4%	13.1%	19.2%
	Communication Services	13.4%	-37.6%	44.0%	25.5%
	Information Technology	29.1%	-31.3%	52.3%	25.8%
	Consumer Discretionary	17.1%	-34.0%	33.6%	9.1%

Source - *Bloomberg, United Capital WM Research*

ASSET CLASS - PERFORMANCE

Asset Class	Instrument	2021	2022	2023	YTD 2024
Fixed Income	Bloomberg US Treasury Index	-2.3%	-12.5%	4.1%	2.7%
	Bloomberg Global High Yield	1.0%	-12.7%	14.0%	9.1%
	Bloomberg EM Local Currency Debt	-1.6%	-8.4%	6.9%	4.8%
	Bloomberg Global Aggregate - Corporate	-2.9%	-16.7%	9.6%	4.0%
Equities	Shanghai A shares	4.8%	-15.1%	-3.7%	12.2%
	Japan Nikkei 225	16.0%	4.9%	16.2%	17.5%
	FTSE 100	14.3%	0.9%	3.8%	7.0%
	Euro zone STOXX	21.0%	-11.7%	19.2%	9.3%
	S&P 500	26.9%	-19.4%	24.2%	20.6%
	Dow Jones Industrial Average	18.7%	-8.8%	13.7%	12.4%
	Nasdaq 100	26.6%	-33.0%	53.8%	19.1%
	MSCI Frontier Markets	16.4%	-29.0%	7.3%	5.4%
	MSCI Emerging Markets	-4.6%	-22.4%	7.0%	15.2%
	MSCI Developed Markets	20.1%	-19.5%	21.8%	16.7%
	MSCI All-Country	16.8%	-19.8%	20.1%	16.6%
Volatility	Volatility index S&P500	-24.3%	25.8%	-42.5%	68.6%
	Volatility index Nasdaq	-21.3%	30.2%	-41.3%	33.6%
	Volatility index Eurostoxx 50	67.5%	-17.6%	-29.5%	55.5%

Source - Bloomberg, United Capital WM Research

United Capital

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