Rothschild & Co
Asset Management

Monthly Macro Insights — October 2024

Marc-Antoine Collard
Chief Economist – Director of macroeconomic research

The global economy grapples with a faltering goods sector and higher geopolitical risks. Nonetheless, investors remain confident that an accelerated policy easing would interact with supportive financial conditions to safeguard the resilience of the global economy, especially since China recently announced a coordinated set of monetary and fiscal measures.

Momentum fades through Q3-24…

According to the latest S&P Global PMI, the rate of global economic expansion slowed to an eight-month low in September. In the services sector, the PMI fell -0.9 pts to 52.9[1], its lowest reading since April. The sub-categories were rather unfriendly for central banks. Price pressures increased, with rates of increase in both input costs and output charges accelerating, while the future output sub-index dipped to a near two-year low. In the manufacturing sector, the PMI[2] fell -0.8 pts to 48.8[1], thus in contraction territory for a third month, and approaching a level rarely seen outside of recessions. Among the major economies, the eurozone saw the steepest rate of decline, led by Germany.

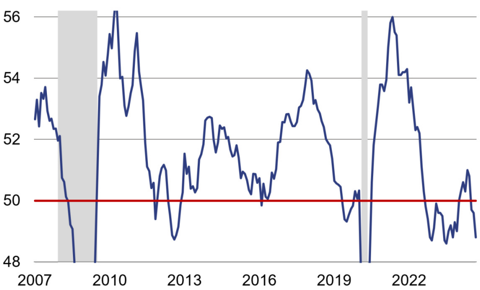
Overall, the composite PMI (52) suggests the global economy remains resilient, yet the index has tumbled almost -2 pts since May[1]. Four-month declines of this magnitude do happen during extended expansions, although not often, and the broader message of momentum loss could upset investors' optimism.

Furthermore, geopolitical risks have been rising recently. The war in Ukraine is at a standstill, but the conflict between Israel and Hamas in the Middle East – further complicated by Houthi missile attacks on ships in the Red Sea – have worsened and could have an adverse impact on the economy, namely through its impact on oil prices.

In the US, the November presidential election remains a toss-up, and the return of former president Donald Trump could affect the global economy in many ways. For instance, his proposed policy of imposing 10 per cent tariffs on all imported goods could further disrupt supply chains and have a significant impact on economic activity, particularly if trade partners retaliate.

World - Business confidence

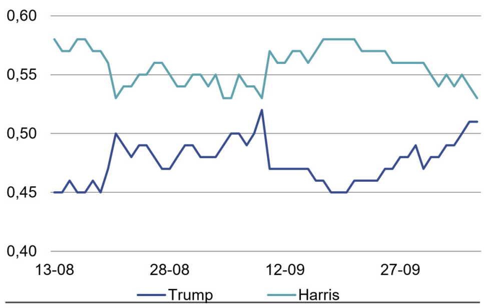
S&P Global, manufacturing



Sources : Macrobond, Rothschild & Co Asset Management, October 2024.

US - 2024 presidential election

in USD, PredictIt betting



Sources : Macrobond, Rothschild & Co Asset Management, October 2024.

… but monetary easing preserves optimism

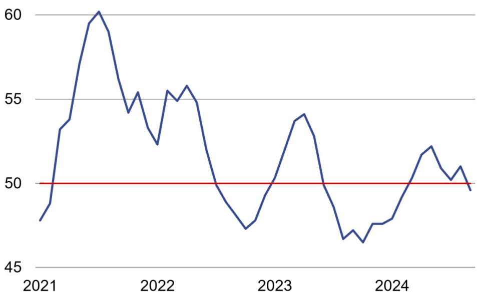
Eurozone inflation slowed to 1.8 per cent[3] in September according to the flash estimates, below the ECB's 2 per cent target for the first time since 2021 amid falling energy costs. However, core inflation remained elevated at 2.7 per cent[3], as services inflation declined marginally to 4 per cent, suggesting domestic price pressures are strong. That said, concerns about the economy are on the rise. The PMI fell -1.4 pts[3] in September to 49.6[3], with manufacturing particularly weak at 45 pts[3]. ECB board member Isabel Schnabel, a policy hawk, recently highlighted signs of softening in the labour demand, headwinds to growth, and further progress in disinflation as factors to consider in the conduct of monetary policy. This has boosted rate cut bets at the next ECB meeting on 17 October, especially since inflation will likely pick up in the coming months due to base effects, thus making a rate cut a more challenging communication operation by then.

Meanwhile, in lowering rates 50bp and signalling further moves at the next meetings, the Fed marked a material shift in its perception of macroeconomic risk, with the labour market now being at the centre of its attention. That said, recent data have been mixed, and it is unclear how much the bond market will have to revise down its expectations regarding monetary easing.

In the manufacturing sector, the ISM index unexpectedly remained at a low 47.2[1] in September, in contraction territory for a sixth month period. In contrast, the ISM services jumped 3.4 pts to 54.9[1], the highest level since February 2023, suggesting the economy was on solid footing at the end of Q3-24. Meanwhile, nonfarm payrolls rose 254 thousand in September[5] vs. August's 159 thousand, and a consensus estimate of 150 thousand. The unemployment rate fell from 4.2 per cent to 4.1 per cent[5] while wage growth accelerated, with the average hourly earnings increasing more than expected, up 0.4 per cent m/m from an upward revised 0.5 per cent in the prior month. Combined with the rise in job openings in August, these data suggest the labour market remains somewhat on solid ground, and alleviated concerns that the economy is deteriorating swiftly. Expectations of rate cuts for the next months have been revised down accordingly.

Eurozone - Business confidence

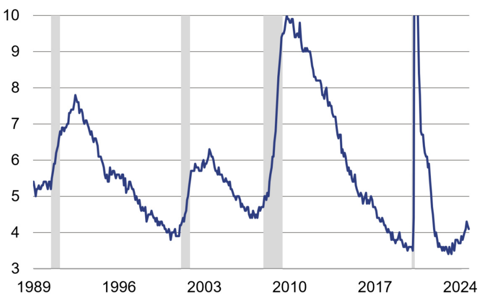
S&P Global



Sources : Macrobond, Rothschild & Co Asset Management, October 2024.

US - Unemployment rate

in %



Sources : Macrobond, FOMC, Rothschild & Co Asset Management, October 2024.

China's policy mix astounds investors

China's August activity data have been weak. The only bright spot were exports that unexpectedly accelerated, reaching their highest value in nearly two years. However, the sector is facing significant headwinds after the US, Europe and Canada announced they would impose new border taxes on Chinese-made electric vehicles, steel and aluminium.

Meanwhile, industrial production growth slowed more than expected, retail sales were once again disappointing and the surveyed unemployment rate rose for a second month to 5.3 per cent from 5.2 per cent[6] in July, a six-month high. Housing prices continued to fall, both for new and existing segments at an accelerated rate compared to July. Core inflation cooled to 0.3 per cent[6], the weakest in more than three years while producer prices in manufacturing industries fell more sharply, suggesting heavier pressure on consumer goods inflation ahead. Overall, the deflationary pressure is becoming more entrenched and is denting China's chances of hitting its 2024 growth goal of about 5 per cent, as consumers delay purchases and businesses slash wages.

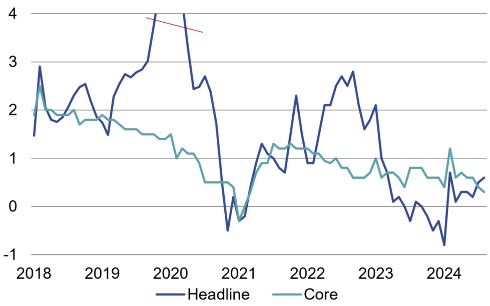
Against the backdrop of continued property downturn and subdued growth, China's government announced a set of additional policy support. The central bank (PBoC) cut the seven-day reverse repo rate by 20bps to 1.5 per cent[6], and also announced to cut the required reserve ratio for banks by 50bps. On the property front, the PBoC cut down payment requirement of second mortgages to 15 per cent from 25 per cent, following the previous cut in May (from 30 per cent to 25 per cent), and asked banks to lower interest rates on existing mortgages by roughly 50bps[6].

Although similar measures have been put in place in the past few years with limited impacts on the economy, the fact that they were announced on the same day boosted investor confidence. Furthermore, fiscal policy is likely to play an increasingly important role to support the economy.

For the past few years, the Politburo's[7] practice has been to focus on structural and ideological issues. Yet, the main message from the latest meeting was dissimilar, instead reiterating policy support for growth and asset prices that was announced days earlier by the PBoC. While the Politburo did not offer many details about upcoming stimulus, the change in tone reflects a new sense of urgency from political leadership to jumpstart the economy and shore up asset prices and market confidence.

China - Inflation rate

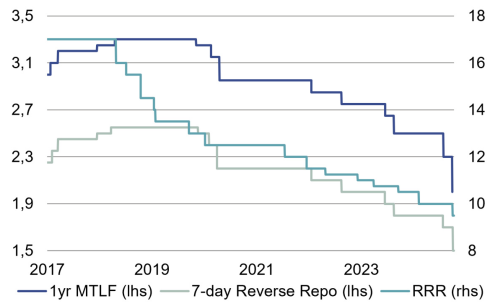
in %



Sources : Macrobond, Rothschild & Co Asset Management, October 2024.

China – Rates

in %



Sources : Macrobond, Rothschild & Co Asset Management, October 2024.

Performance of the indices and interest rate levels

	Price as of 07/10/2024	1 month % change	2024 % change
Equity markets			
CAC 40	7 574	-0.8%	0.4%
Euro Stoxx 50	4 968	-0.6%	9.9%
S&P 500	5 734	-0.5%	20.2%
Nikkei 225	39 333	3.7%	17.5%
Currencies			
EUR/USD	1.10	-1.5%	-0.6%
EUR/JPY	162.53	1.6%	4.4%

Interest rates	Price as of 07/10/2024	1 month bp(1)	2024 bp(1)
3 month			
Eurozone	3.19%	-10	-43
United States	4.64%	2	-70
10 years			
Eurozone	2.26%	13	23
United States	4.02%	24	14

(1) Basis point.
Source: Bloomberg. data as of 07/10/2024. Performances in local currency.
Past performance is not a reliable indicator of future performance and is not constant over time. Index's performance is calculated on the basis of net dividend reinvested

Completed writing on 07 October 2024.

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(1) Source: S&P Global, October 2024.
(2) Purchasing Managers' Index, an indicator reflecting the confidence of purchasing managers in an industry sector. Above 50, it indicates an expansion in activity, below 50, a contraction.
(3) Source: Eurostat, October 2024.
(4) Source: Bloomberg, October 2024.
(5) Source: US Bureau of Labor Statistics, October 2024.
(6) Source: National Bureau of Statistics of China, October 2024.
(7) Political Bureau of the Communist Party of China

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Our development is focused on a range of open-ended funds, marketed under five strong brands: Conviction, Valor, Thematic, 4Change and OPAL, leveraging our long-term expertise in active management with conviction as well as in delegated management. Based in Paris and established in 9 European countries, we manage more than 38billion euros and employ nearly 170 people.

More information at: www.am.eu.rothschildandco.com

France

29, Avenue de Messine
75008 Paris
+33 1 40 74 40 74

Belgium – Netherlands – Luxembourg

Rue de la Régence 52
1000 Bruxelles
+32 2 627 77 30

Switzerland

Rothschild & Co Bank AG
Rue de la Corraterie 6
1204 Genève
+41 22 818 59 00

Italy

Passaggio Centrale 3
20 123 Milano
+39 02 7244 31

Germany - Austria

Börsenstraße 2 - 4
Frankfurt am Main 60313
+49 69 299 8840

Spain

Paseo de la Castellana 40 bis
28046 Madrid
+39 02 7244 31

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