

Easing inflation sparks rate cuts across global central banks



Quarter in brief

The Fed and ECB both cut rates just a month after the Bank of England lowered the Bank rate

Equity market volatility picks up

Consumer confidence falls as warning that a painful budget is required to fill an inherited 'fiscal black hole'

Sharp declines in oil prices are hinting at an economic slowdown in some major economies

Despite market volatility in early August, the main charity indices posted positive returns

The Federal Reserve (Fed) lowered its key lending rate by 0.5% to a target range of 4.75%-5.0%, a reduction that was greater than anticipated. The move sees the first rate reduction for the Fed in four years. The European Central Bank (ECB) also lowered its main lending rate from 3.75% to 3.50%, but the Bank of England (BoE) opted to hold interest rates steady in September after its August rate cut.

The Federal Reserve, European Central Bank and Bank of England all announced rate cuts over the third quarter of 2024. The BoE were the first to cut rates, reducing the Bank rate by 25 bps to 5.0% in August, amidst a reduction in inflationary pressures. The ECB and Fed followed suit as both eurozone and US inflation fell. The inflation rate in the US fell to its lowest level in three years, whilst the unemployment rate climbed from 3.7% at the start of 2024 to 4.2% in September. Meanwhile weak inflation data in Spain and France has led to speculation that the ECB will continue to cut rates further in October. The BoE were more cautious in their September meeting, as the UK CPI inflation rate remains at 2.2% compared to the monetary policy committee's target of 2%.

Oil prices declined rapidly over the quarter as oil saw the weakest growth in demand since the pandemic with Brent Crude Oil having fallen 13% since late August. The main driver of weak oil demand was sluggish growth of the Chinese economy, one of the largest economies on the demand for oil. The escalation in the middle east has concerning implications but its effect on global markets has been modest, some upward pressure on oil prices may result.

The AI tech boom that has been driving equity markets this year, appears to be slowing as the leading stock NVIDIA witnessed its share price fall despite revenue doubling, as the chipmaker failed to meet growth expectations in its August earnings report. Global equity performance ended the quarter slightly up following some significant dips mid quarter, buoyed by September's Fed rate reduction.



Joe Howley
Investment Consultant



Click to watch Joe's three-minute video.

The UK is preparing for the first Labour budget expected at the end of October. The Labour Party have warned that this budget will be painful owing to a claimed inherited £22bn fiscal black hole and UK growth figures suggesting that the UK economy failed to grow in July after flatlining in June. As a result, it is increasingly apparent that the UK will face tight fiscal policy. Subsequently consumer confidence has taken a considerable hit amidst the austere landscape.

The third quarter of 2024 saw strong returns across most asset classes. UK corporate bonds posted positive returns in response to falling rates. Emerging market equities established itself as the standout

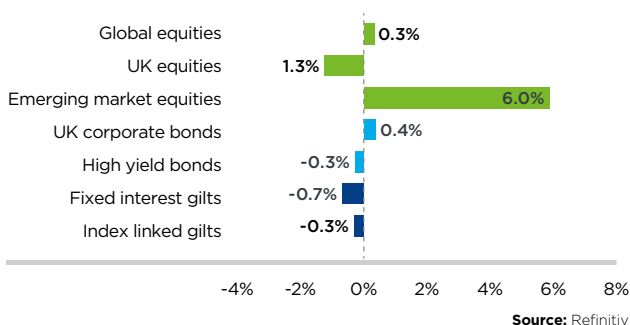
asset class over the quarter, Chinese equities posted their best day since the 2008 global financial crisis at quarter end, extending a historic rally triggered by Beijing's bumper stimulus package. Despite a sharp pick up in yields during late September, the steady decline in yields over the prior months has led to fixed interest gilts and index linked gilts posting positive returns over the quarter.

All main charity indices had similar and positive returns over the quarter with all four ARC Charity Indices returning between 1.7%-1.8%. Returns for a typical charity are likely to be high single digits for the year to date.

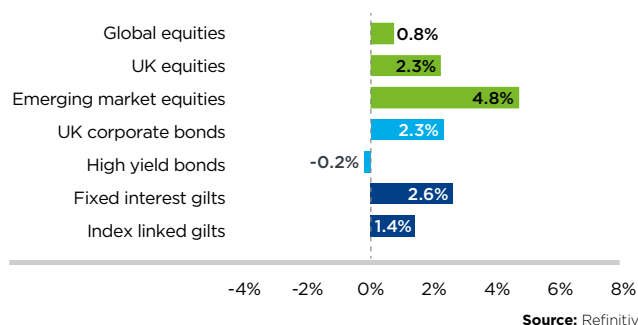
Market returns

Growth assets performed strongly over the quarter but were accompanied with a rise in liability values.

1 month to 30 September 2024



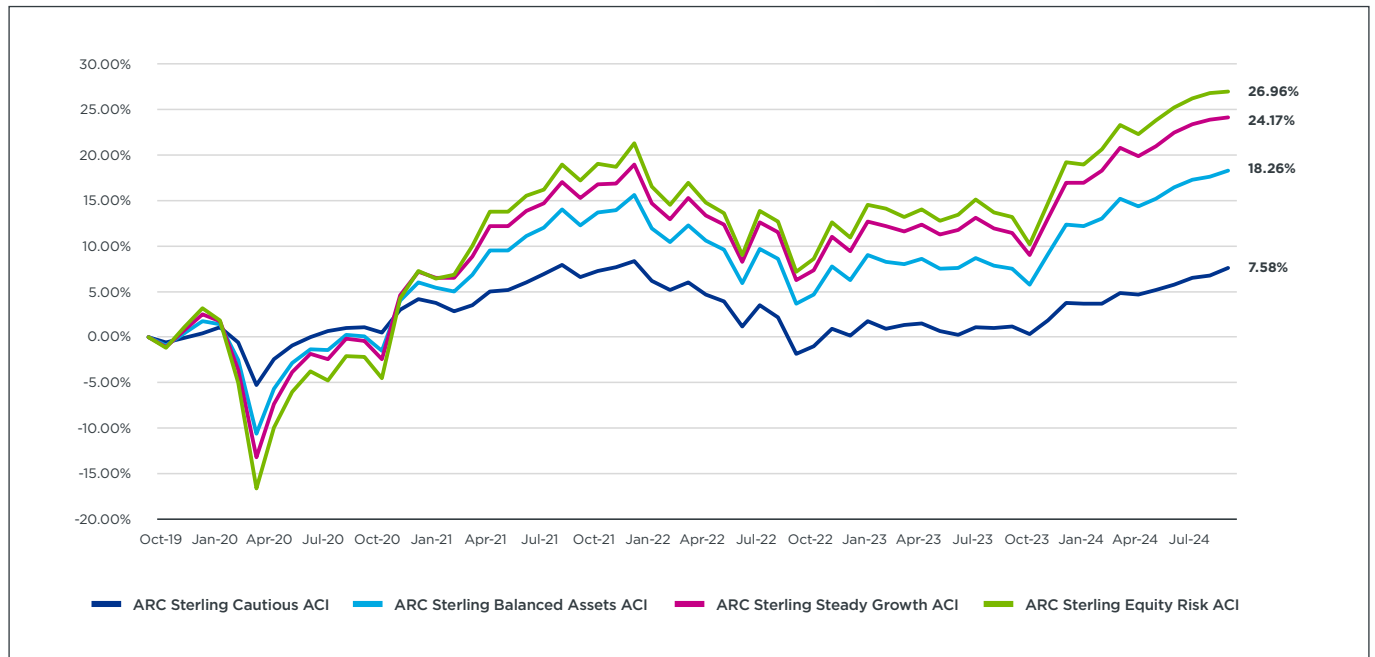
3 months to 30 September 2024



Global equity performance ended the quarter slightly up, buoyed by September's Fed rate reduction following some significant dips mid quarter.

Simeon Willis
Chief Investment Officer

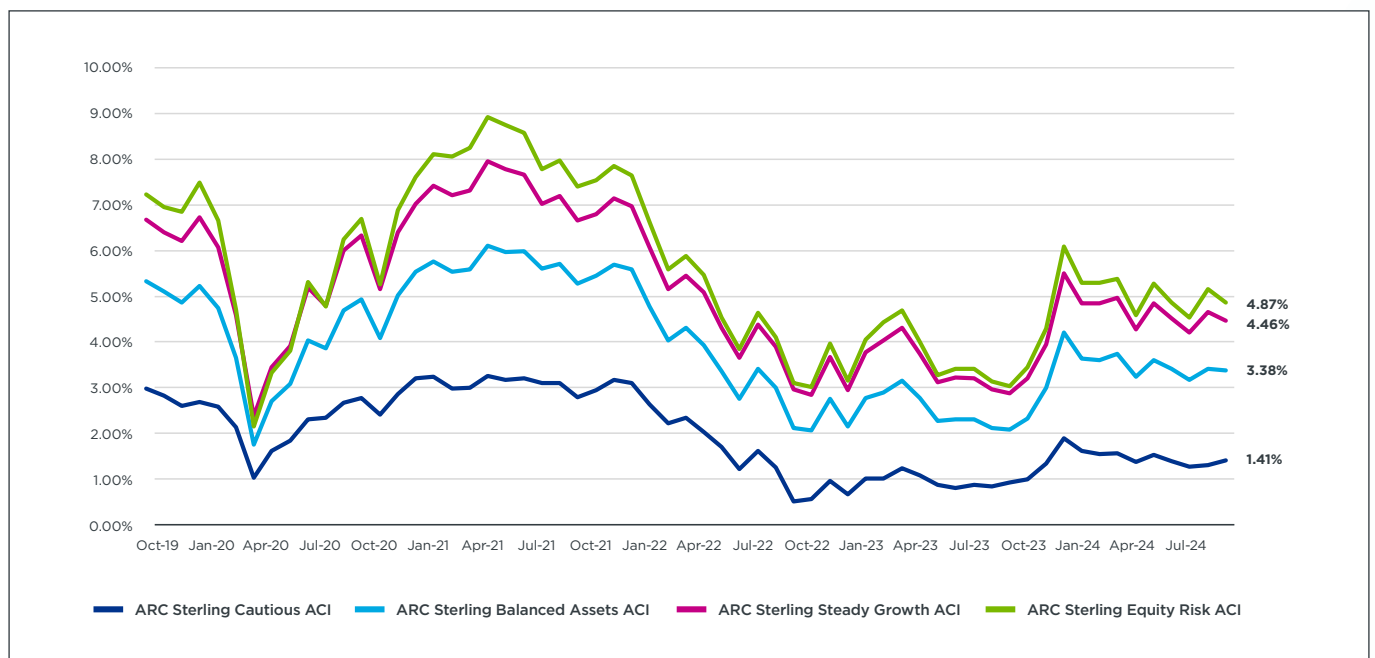
Cumulative Return 5 Year Period to 30 September 2024



Source: ARC Charity Indices

The chart above shows the cumulative performance of the ARC Charity Indices over the last 5 years. These indices reflect portfolio returns generated for charities investment portfolios by asset managers grouped into four risk segments relative to global equities.

5 Year p.a. Rolling Performance to 30 September 2024



Source: ARC Charity Indices

Over the longer term period of 5 years, only the ARC Sterling Steady Growth ACI and Equity Risk ACI are outperforming 5 year inflation which was running at 4.3% per annum over this period.

Private Markets

XPS has recently [published a paper](#) that considers the long-term case for charities and endowments investing in private markets. Although this can add some extra cost and complexity, there are many potential benefits including return enhancement, increased diversification, inflation-linked cashflows and the capability to have a more direct sustainability impact.

XPS Investment asset class views

Asset class	Favourable	Neutral	Unfavourable	Movement
Developed equities		●		
Emerging market equities		●		
Investment grade corporate bonds		●		
High yield bonds			●	
Senior secured direct lending		●		
Balanced property (UK)		●		
Diversified private markets	●			
Secure income		●		
Private equity		●		
Equity option strategies	●			
Cash		●		

Find out more

To discuss any of the issues covered in this edition, please get in touch with **Simeon Willis** or **Joe Howley**. Alternatively, please speak to your usual XPS contact.



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