Central banks get on the cutting edge.

Quarterly snapshot

- Global equity markets gained ground during the third quarter amid periods of volatility. Emerging markets outperformed their developed-market counterparts. Stocks rallied amid investors' optimism leading up to the Federal Reserve's (Fed) interest-rate cut in mid-September, as well as previous rate reductions by several other major central banks.
- Global fixed-income assets posted gains for the quarter. U.S. Treasury yields moved significantly lower across the curve, resulting in a positively sloped yield curve for the first time in more than two years. (Bond prices move inversely to yields.)
- Given the near-term effects of early stimulus measures in the U.S. on an already healthy economy and the wide-ranging efforts from China to prompt a rebound, we see lower recession probabilities and a favourable environment for risk assets in the fourth quarter.

Global equity markets gained ground during the third quarter amid periods of volatility. Emerging markets outperformed their developed-market counterparts. Stocks rallied amid investors' optimism leading up to the Fed's interest-rate cut in mid-September, as well as previous rate reductions by several other major central banks. Stocks also benefited from generally favourable economic data and, late in the quarter, China's announcement of new economic stimulus measures. The U.S. broad-market S&P 500 Index posted its best performance for the first nine months of a calendar year since 1997, raising its aggregate market capitalization above $50 trillion for the first time.[1]

By an 11-1 margin, the Federal Open Market Committee (FOMC) voted to reduce the federal-funds rate by 50 basis points (0.50%) to a range of 4.75% to 5.00% following its meeting on September 17-18. Fed Governor Michelle Bowman favoured a 25-basis-point cut. According to a statement announcing the rate decision, the FOMC "has gained greater confidence that inflation is moving sustainably toward 2 percent, and judges that the risks to achieving its employment and inflation goals are roughly in balance…The Committee would be prepared to adjust the stance of monetary policy as appropriate if risks emerge that could impede the attainment of the [FOMC's] goals."

The Fed's so-called dot plot of economic projections indicated a median federal-funds rate of 4.4% at the end of 2024, down from its previous estimate of 5.1% issued in June, signaling that the central bank anticipates additional federal-funds rate cuts totaling roughly 50 basis points by the end of this year. The central bank also projected that the benchmark rate will drop another 100 basis points to 3.4% by the end of 2025. The Fed estimated that core inflation, as measured by the core personal-consumption-expenditures (PCE) price index, will end the year at an annual rate of 2.6%—modestly lower than the central bank's 2.8% forecast in March. The core personal-consumption-expenditures (PCE) price index is the Fed's preferred measure of inflation as it excludes volatile energy and food prices.

The Pacific ex. Japan region was the strongest performer among developed markets for the third quarter, led by Hong Kong and Singapore. Conversely, in a reversal of a recent trend, the Nordic countries were the weakest performers due largely to Denmark, which declined during the quarter. Additionally, Norway recorded a relatively smaller positive return. The Association of Southeast Asian Nations (ASEAN) led the emerging markets for the quarter due mainly to strength in Thailand and the Philippines. Europe was the most notable laggard among emerging markets attributable primarily to weakness in Turkey and Poland.[2]

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[1] According to Bloomberg. 30 September 2024.

[2] All equity market performance statements are based on the MSCI ACWI Index.

Key measures: Q3 2024

Equity		
Dow Jones Industrial Average	8.72%	↑
S&P 500 Index	5.89%	↑
NASDAQ Composite Index	2.76%	↑
MSCI ACWI Index (Net)	6.61%	↑
Bond		
Bloomberg Global Aggregate Index	6.98%	↑
Volatility		
Chicago Board Options Exchange Volatility Index **PRIOR QUARTERLY: 12.44**	16.73	↑
Oil		
WTI Cushing crude oil prices **PRIOR QUARTERLY: $81.54**	$68.17	↓
Currencies		
Sterling vs. U.S. dollar	$1.34	↑
Euro vs. U.S. dollar	$1.12	↑
U.S. dollar vs. yen	¥143.04	↓

Sources: Bloomberg, FactSet, Lipper

Towards the end of the quarter, authorities in China announced a raft of new stimulus measures, dubbed a "policy bazooka" by some market observers, in hopes of turning around the world's second-largest economy. On September 24, the People's Bank of China, the nation's central bank, announced reductions in key interest rates and reserve requirements for banks (among other policy actions), following up with a 20-basis-point decrease in the one-year policy loan lending rate the following day. Moreover, on September 26, China's political leaders, including President Xi Jinping, made a statement vowing fiscal support for China's economy. In the last week of September, stocks in Asia rallied on the news, with the Shanghai Shenzhen CSI 300 Index, a market capitalization-weighted index that includes the largest companies on the Shanghai and Shenzhen stock markets, to its best weekly performance since 2008.

Global fixed-income assets, as measured by the Bloomberg Global Aggregate Bond Index, advanced 7.0% for the quarter. Investment-grade corporate bonds were the strongest performers within the U.S. fixed-income market, followed by mortgage-backed securities (MBS), high-yield bonds, and U.S. Treasury securities. Treasury yields moved significantly lower across the curve. Yields on 2-, 3-, 5- and 10-year Treasury notes fell by corresponding margins of 1.05%, 0.94%, 0.75%, and 0.55%, ending the quarter at 3.66%, 3.58%, 3.58%, and 3.81%, respectively.3 The spread between 10- and 2-year notes widened from -0.35% to +0.15% over the quarter, resulting in a positively sloped yield curve (in which longer-term yields are higher than shorter-term yields) for the first time in more than two years. A positively sloped yield curve generally indicates that the economy is expected to grow in the future.

Global commodity prices, as measured by the Bloomberg Commodity Total Return Index, saw an uptick of 0.7% during the quarter. The West Texas Intermediate (WTI) and Brent crude oil prices fell 16.4% and 15.6%, respectively, amid concerns that China's slowing economy could hamper demand for oil. The New York Mercantile Exchange (NYMEX) natural gas price climbed 12.5% for the quarter amid an increase in demand for natural gas-generated electricity spurred by unusually hot weather in much of the U.S. The gold spot price was up 13.7% during the quarter, benefiting from investors' growing optimism leading up to the Fed's interest-rate cut in September, as well as weakness in the U.S. dollar. (The gold price generally moves inversely to the U.S. dollar.) After declining in July due to relatively strong harvests (increasing supply) in the U.S., as well as a decline in exports from the country, wheat prices rallied to end the quarter up 1.8% amid increased demand.

Economic data

U.S.

The Department of Labor reported that the consumer-price index (CPI) rose 0.2% in August, matching the upturn in July. The 2.5% year-over-year advance in the index was down from the 2.9% annual rise in July, and represented the smallest annual increase since February 2021. Housing costs were up 0.5% and 5.2% in August and year-over-year, respectively. Transportation increased 0.9% for the month and 7.9% versus the same period in 2023. Conversely, prices for fuel oil declined 1.9% for the month and 12.1% year-over-year, while gasoline prices fell 0.6% and 10.3% for the respective periods. The 3.2% rolling 12-month rise in core inflation in August, as measured by the CPI for all items less food and energy, was unchanged from the annual rise in July, which was the smallest year-over-year increase since April 2021.

[3] According to the U.S. Department of the Treasury. As of 30 September 2024.

According to the third estimate from the Department of Commerce, U.S. gross domestic product (GDP) increased at an annualised rate of 3.0% in the second quarter of 2024—unchanged from the government's second estimate and more than doubling the 1.6% rise in the first quarter of the year. The largest contributors to GDP growth for the second quarter included consumer spending, private inventory investment (a measure of the changes in values of inventories from one time period to the next), and nonresidential fixed investment (purchases of both nonresidential structures and equipment and software). Imports, which are subtracted from GDP, increased over the quarter.

U.K.

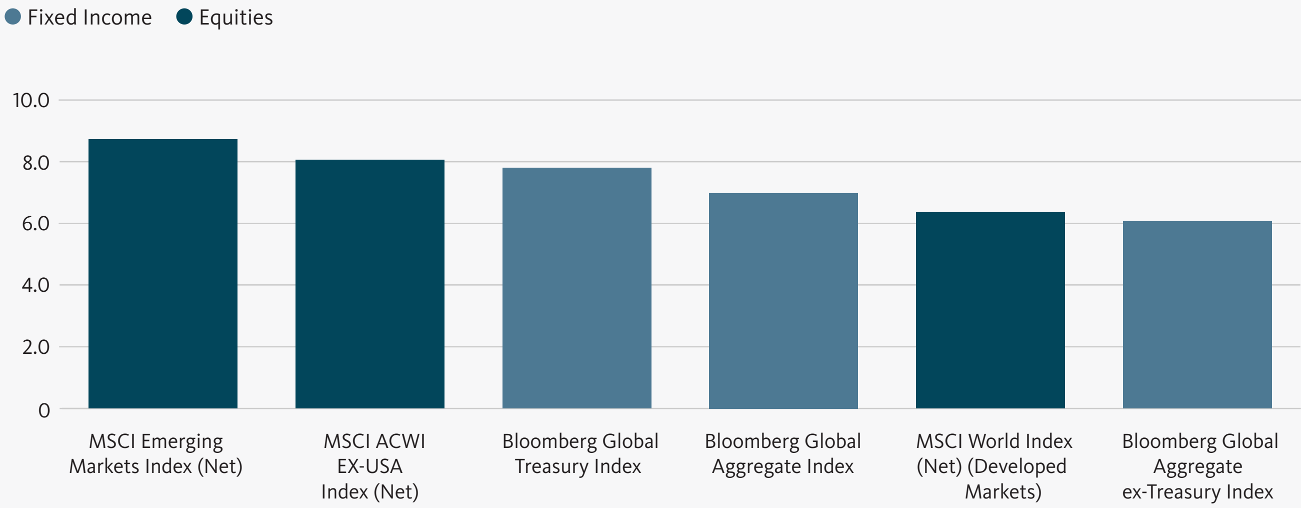
The Office for National Statistics (ONS) reported that inflation in the U.K., as measured by the CPI increased 0.3% in August, up from the 0.2% decline in July. The CPI rose at an annual rate of 2.2%, matching the 12-month upturn for the previous month. The largest contributor to the year-over-year rise in inflation included alcohol and tobacco, and health care, which more than offset declines in costs for housing and household services, as well as furniture and household goods . Core inflation, which excludes volatile food prices, rose by an annual rate of 3.6% in August, up from the 3.3% year-over-year increase in June.[4]

According to the second estimate of the ONS, U.K. GDP expanded by 0.5% in the second quarter, slightly lower than both the government's initial estimate of 0.6% and the 0.7% growth rate in the first quarter of this year. Output in the services sector rose 0.6% over the three-month period, while production and construction output fell 0.3% and 0.2%, respectively.[5]

[4] According to the ONS. 18 September 2024.

[5] According to the ONS. 30 September 2024.

Major Index Performance in Q3 2024 (Percent Return)



Sources: FactSet, Lipper

Eurozone

Eurostat pegged the inflation rate for the eurozone at 1.8% for the 12-month period ending in September, a decline from the 2.2% annual increase in August. Costs in the services sector rose 4.0% for the period, down slightly from the 4.1% annual gain in August. Prices for food, alcohol and tobacco increased 2.4% year-over-year in August, marginally higher than the 2.3% annual rate for the previous month. Non-energy industrial goods increased 0.4% over the previous 12 months, unchanged from the annual rise in August, while energy prices fell 6.0% following a 3.0% year-over-year downturn in August. Core inflation, which excludes volatile energy and food prices, increased at an annual rate of 2.7% in September, slightly lower than the 2.8% year-over-year upturn for the previous month.[6]

Eurostat also reported that eurozone GDP edged up 0.2% in the second quarter of 2024, down marginally from the 0.3% increase in the first quarter, and grew 0.6% year-over-year. The economies of Iceland and Norway were the strongest performers for the second quarter, expanding 1.7% and 1.4%, respectively. In contrast, GDP in Ireland and Latvia declined by corresponding margins of 1.0% and 0.9% during the quarter.[7]

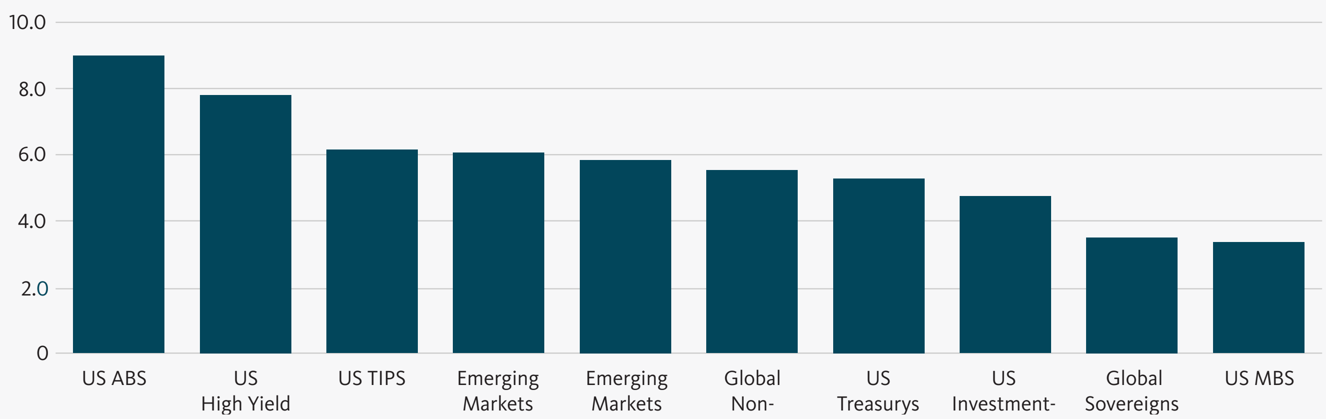
Central banks

At a news conference following the FOMC meeting on September 18, Fed Chair Powell noted that the central bank does not feel the urgency to implement more aggressive interest-rate reductions. “There is nothing in the [dot plot] that suggests the [FOMC] is in a rush,” he said. Powell added that the Fed is “moving at a pace we think is appropriate.” He also commented that the central bank is “committed to maintaining our economy’s strength. This decision reflects our growing confidence that with an appropriate recalibration of our policy stance, strength in the labour market can be maintained.” When asked if the larger rate cut was an effort by the central bank to compensate for not easing monetary policy sooner, Powell replied, “We don’t think we are behind. We think this is timely but you can take this as a sign of our commitment not to get behind.”

[6] According to Eurostat. 1 October 2024.

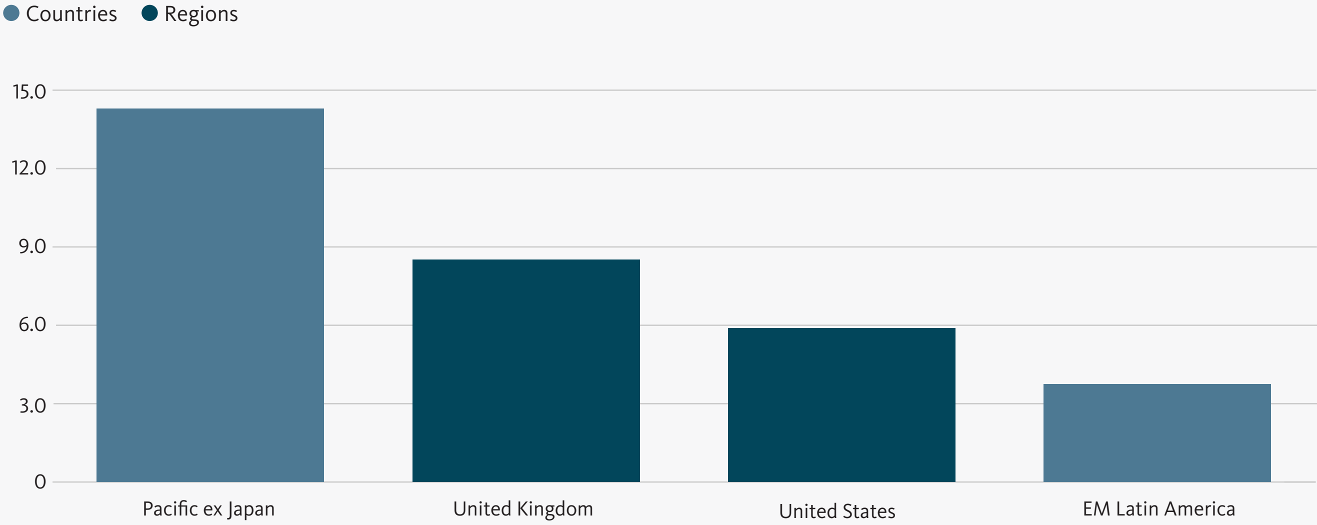
[7] According to Eurostat. 6 September 2024.

Fixed-Income Performance in Q3 2024 (Percent Return)



Sources: FactSet, Lipper. See “Corresponding Indexes for Fixed-Income Performance Exhibit” in the Index descriptions section for more information.

Regional Equity Performance in Q3 2024 (Percent Return)



Sources: FactSet, Lipper. See "Corresponding Indexes for Regional Equity Performance Exhibit" in the Index descriptions section for more information.

The Bank of England (BOE) maintained the Bank Rate at 5.00% at its meeting on September 19. One BOE Monetary Policy Committee (MPC) member voted to reduce the benchmark interest rate by 25 basis point (0.25%) to 4.75%. In its announcement of the rate decision, the MPC commented, "In the absence of material developments, a gradual approach to removing policy restraint remains appropriate. Monetary policy will need to continue to remain restrictive for sufficiently long until the risks to inflation returning sustainably to the 2% target in the medium term have dissipated further. The Committee continues to monitor closely the risks of inflation persistence and will decide the appropriate degree of monetary policy restrictiveness at each meeting."

For the second time over its past three meetings, the ECB reduced its benchmark interest rate by 0.25% points to 4.00% on September 12. The ECB had cut its benchmark rate by 0.25% in early June—its first cut since 2019. In a statement announcing the rate decision, the ECB's Governing Council noted that "the dynamics of underlying inflation and the strength of monetary policy transmission, it is now appropriate to take another step in moderating the degree of monetary policy restriction." The central bank projects that the eurozone economy will grow 0.8% for the 2024 calendar year—down marginally from its previous estimate of 0.9%, due to 'a weaker contribution from domestic demand over the next few quarters."

The Bank of Japan (BOJ) left its benchmark interest rate unchanged at 0.25% following its meeting on September 19-20. In a statement announcing the rate decision, the BOJ commented, "Japan's economy is likely to keep growing at a pace above its potential growth rate, with overseas economies continuing to grow moderately and as a virtuous cycle from income to spending gradually intensifies against the background of factors such as accommodative financial conditions."

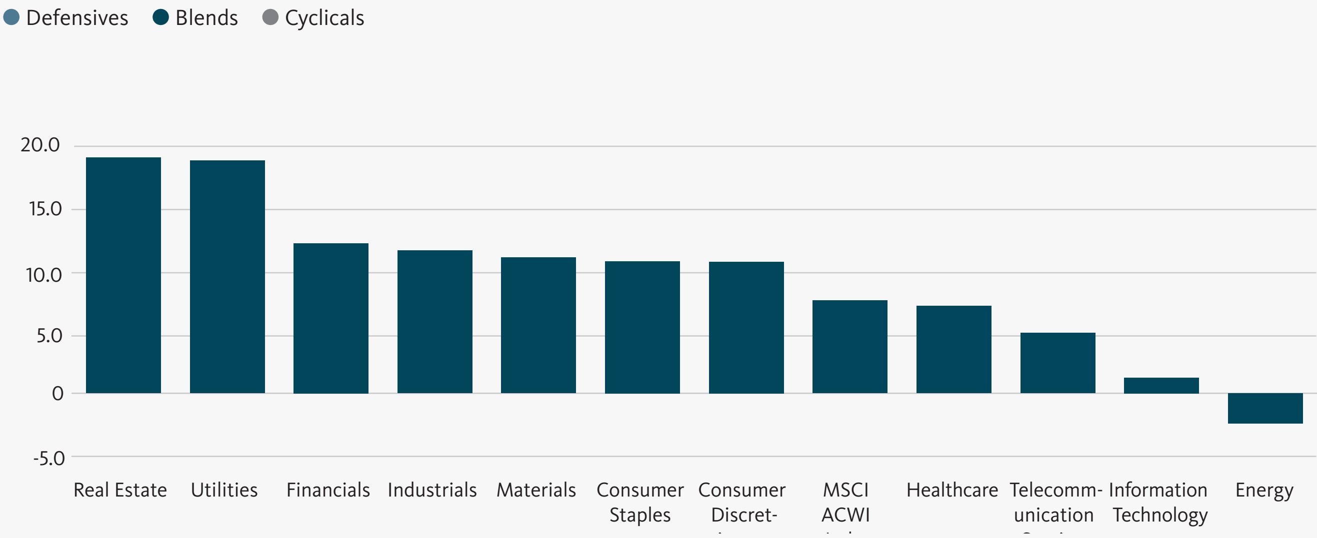
The central bank expects inflation to increase gradually and that "medium- to long-term inflation expectations will rise with a virtuous cycle between wages and prices continuing to intensify." During a news conference following the meeting, BOJ Governor Kazuo Ueda noted that there is some uncertainty regarding the ability of the U.S. economy to achieve a soft landing; consequently, the BOJ must take more time to determine if more interest-rate hikes are needed. "The outlook for overseas economic development is highly uncertain. Markets remain unstable. We need to scrutinise such developments carefully for the time being," he said.

SEI's view

Given the near-term effects of early stimulus measures in the U.S. on an already healthy economy and the wide-ranging efforts from China to prompt a rebound, we see lower recession probabilities and a favourable environment for risk assets in the fourth quarter. Broader participation in global equities is our key viewpoint, as performance should expand beyond a handful of names in a few sectors from one country. The rest of the world outperforming the U.S., emerging markets outperforming developed, small caps outperforming large, value stocks outperforming growth, and active management outperforming passive are all versions of the reflation theme we see potentially playing out for the remainder of 2024. Therefore, while we remain, as always, strategically diversified among profitable companies with strong earnings momentum at reasonable prices, we are particularly confident in global value and active management in the U.S. large-cap space. Value looks particularly attractive as the magnitude of the dispersion between cheap and expensive names has reached historically wide levels. Likewise, we favour active management in U.S. large caps given the unusually high amount of idiosyncratic risk in passive strategies from increased concentration in high-multiple, mega-tech names.

Our positive view on broad commodities has also been reinforced, in particular, by the Chinese stimulus efforts. Most complexes should benefit, including industrial and precious metals, despite the latter's strong performance this year. Energy is worth another look as rhetoric from Saudi Arabia regarding increased production levels raises concerns; however, elevated tensions in the Middle East are enough of an offset in the near term.

Global Equity Sector Performance in Q3 2024 (Percent Return)



Sources: FactSet, Lipper. MSCI ACWI Index Components (as defined by SEI).

One of the key events of the third quarter was the sharp drop in yields as investors priced in central bank pivots around the globe. In the U.S. for instance, the yield on the 10-year note started the quarter at just under 4.50%, reaching a low of 3.62% just before the September Fed meeting. Interestingly, after the Fed lowered overnight rates, the 10-year yield rose to close out the quarter at roughly 3.75%. This combination of lower short-term yields but higher longer-term yields finally reversed the two-year-long inversion of the U.S. yield curve. More importantly, we see this trend as the market beginning to question the effects of monetary stimulus and fiscal excess on longer-term yields. We couldn't agree more. We see upward pressure on longer-term rates in the U.S. even with additional interest rate cuts from policy-makers in 2024.

Speaking of fiscal excess, we would be remiss to not mention the upcoming U.S. presidential election. While differences are stark between the two major-party candidates, there are actually areas of common ground. Unfortunately, one of those areas is a lack of any interest in reigning in government spending. As we have noted before, government debt has reached the point where it must be addressed. Sadly, entitlement reform remains a "third rail" in U.S. politics, which should keep upward pressure on long-term interest rates. With regards to the election outcome, for what it's worth, our sense is that the most likely result in some combination of divided government, which tends to be the most favourable outcome for markets. We will not be positioning for anything specific, but will continue to emphasise truly diversified portfolios, which we believe remain the best approach in managing uncertainty.

We see lower recession probabilities and a favourable environment for risk assets in the fourth quarter.

Standardised Performance

		1 year to 30-Sep-24	1 year to 30-Sep-23	1 year to 30-Sep-22	1 year to 30-Sep-21	1 year to 30-Sep-20
Key Measures						
Dow Jones Industrial Average		28.85%	19.18%	-13.40%	24.15%	5.70%
S&P 500 Index		36.35%	21.62%	-15.47%	30.00%	15.15%
NASDAQ Composite Index		38.64%	26.11%	-26.25%	30.26%	40.96%
MSCI ACWI Index (Net)		31.76%	20.80%	-20.66%	27.44%	10.44%
Bloomberg Barclays Global Aggregate Index		13.22%	3.62%	-18.59%	1.10%	6.64%
Major Index Performance						
Bloomberg Barclays Global Aggregate ex-Treasury Index		13.22%	3.62%	-18.59%	1.10%	6.64%
Bloomberg Barclays Global Aggregate Index		11.99%	2.24%	-20.43%	-0.91%	6.24%
Bloomberg Barclays Global Treasury Index		10.88%	1.01%	-22.05%	-2.66%	5.84%
MSCI ACWI ex-USA (Net)		25.35%	20.39%	-25.17%	23.92%	3.00%
MSCI Emerging Markets Index (Net)		26.05%	11.70%	-28.11%	18.20%	10.54%
MSCI World Index (Net)		32.43%	21.95%	-19.63%	28.82%	10.41%
Fixed-Income Performance						
US Treasury Inflation-Protected Securities (TIPS)	Bloomberg Barclays 1-10 Year U.S. TIPS Index	9.01%	2.11%	-7.44%	5.75%	7.75%
Global Non-Government	Bloomberg Barclays Global Aggregate ex-Treasury Index	13.22%	3.62%	-18.59%	1.10%	6.64%
Global Sovereigns	Bloomberg Barclays Global Treasury Index	10.88%	1.01%	-22.05%	-2.66%	5.84%
US Investment-Grade Corporates	Bloomberg Barclays U.S. Corporate Investment Grade Index	14.28%	3.65%	-18.53%	1.74%	7.90%
US Asset-Backed Securities (ABS)	Bloomberg Barclays U.S. Asset-Backed Securities Index	8.73%	2.81%	-5.61%	0.59%	4.55%
US Mortgage-Backed Securities (MBS)	Bloomberg Barclays U.S. Mortgage-Backed Securities Index	12.32%	-0.17%	-13.98%	-0.43%	4.36%
US Treasurys	Bloomberg Barclays U.S. Treasury Index	9.72%	-0.81%	-12.94%	-3.30%	8.04%
US High Yield	ICE BofAML US High Yield Constrained Index	15.67%	10.19%	-14.06%	11.46%	2.22%
Emerging Markets (External)	JPMorgan EMBI Global Diversified Index	18.60%	10.01%	-24.28%	4.36%	1.29%
Emerging Markets (Local)	JPMorgan GBI-EM Global Diversified Index	13.42%	13.10%	-20.63%	2.63%	-1.45%
Regional Equity Performance						
United Kingdom	FTSE All-Share Index	24.62%	24.47%	-20.52%	33.39%	-12.50%
EM Latin America	MSCI Emerging Markets Latin America Index (Net)	2.83%	19.37%	0.24%	27.34%	-29.36%
Pacific ex Japan	MSCI Pacific ex Japan Index (Net)	28.20%	10.58%	-18.79%	25.80%	-6.13%
United States	S&P 500 Index	36.35%	21.62%	-15.47%	30.00%	15.15%
Global Equity Sector Performance						
MSCI ACWI Index		31.76%	20.80%	-20.66%	27.44%	10.44%
MSCI ACWI Consumer Discretionary Index		25.32%	16.71%	-27.08%	17.65%	29.22%
MSCI ACWI Consumer Staples Index		18.11%	8.14%	-8.98%	10.17%	3.28%
MSCI ACWI Energy Index		3.09%	27.33%	16.23%	63.94%	-39.05%
MSCI ACWI Financials Index		36.21%	17.45%	-18.70%	49.62%	-15.50%
MSCI ACWI Healthcare Index		20.83%	10.65%	-11.47%	18.26%	21.62%
MSCI ACWI Industrials Index		33.68%	26.43%	-21.96%	27.32%	3.32%
MSCI ACWI Information Technology Index		48.35%	35.88%	-26.63%	30.26%	44.79%
MSCI ACWI Materials Index		20.71%	16.80%	-18.50%	26.81%	11.71%
MSCI ACWI Telecommunication Services Index		37.27%	29.06%	-38.02%	28.93%	16.45%
MSCI ACWI Utilities Index		35.73%	0.02%	-4.77%	10.10%	-3.69%
MSCI ACWI Real Estate Index		30.04%	-0.77%	-22.46%	22.21%	-11.16%

Corresponding Indexes for Key Measures Exhibit

Dow Jones Industrial Average	The Dow Jones Industrial Average is a widely followed market indicator based on a price-weighted average of 30 blue-chip New York Stock Exchange stocks that are selected by editors of The Wall Street Journal.
NASDAQ Composite Index	The NASDAQ Composite Index is a market-value-weighted index of all common stocks listed on the National Association of Securities Dealers Automated Quotations (NASDAQ) system, representing a subset of the US equity market.
MSCI ACWI Index	The MSCI ACWI Index is a market-capitalisation-weighted index composed of over 2,000 companies, and is representative of the market structure of 46 developed- and emerging-market countries in North and South America, Europe, Africa and the Pacific Rim. The Index is calculated with net dividends reinvested in US dollars.
Bloomberg Global Aggregate Index	The Bloomberg Global Aggregate Index is an unmanaged market-capitalisation-weighted benchmark that tracks the performance of investment-grade fixed-income securities denominated in 13 currencies. The Index reflects reinvestment of all distributions and changes in market prices.
Chicago Board Options Exchange Volatility Index (VIX)	The Chicago Board Options Exchange Volatility Index (VIX) tracks the expected volatility in the S&P 500 Index over the next 30 days. A higher number indicates greater volatility.

Corresponding Indexes for Major Index Performance Exhibit

MSCI ACWI ex-USA Index	The MSCI ACWI ex-USA Index includes both developed- and emerging-market countries, excluding the US.
MSCI Emerging Markets Index	The MSCI Emerging Markets Index is a free float-adjusted market-capitalisation-weighted index designed to measure the performance of global emerging-market equities.
MSCI World Index	The MSCI World Index is a free float-adjusted market-capitalisation-weighted index that is designed to measure the equity market performance of developed markets.
Bloomberg Global Aggregate Index	The Bloomberg Global Aggregate Index is an unmanaged market-capitalisation-weighted benchmark that tracks the performance of investment-grade fixed-income securities denominated in 13 currencies. The Index reflects reinvestment of all distributions and changes in market prices.
Bloomberg Global Aggregate ex-Treasury Index	The Bloomberg Global Aggregate ex-Treasury Index is an unmanaged market index representative of the total return performance of ex-Treasury major world bond markets.
Bloomberg Global Treasury Index	The Bloomberg Global Treasury Index is composed of those securities included in the Bloomberg Global Aggregate Index that are Treasury securities.

Corresponding Indexes for Fixed-Income Performance Exhibit	
US High Yield	ICE BofA U.S. High Yield Constrained Index
Global Sovereigns	Bloomberg Global Treasury Index
Global Non-Government	Bloomberg Global Aggregate ex-Treasury Index
Emerging Markets (Local)	JPMorgan GBI-EM Global Diversified Index
Emerging Markets (External)	JPMorgan EMBI Global Diversified Index
US Mortgage-Backed Securities (MBS)	Bloomberg U.S. Mortgage Backed Securities Index
US Asset-Backed Securities (ABS)	Bloomberg U.S. Asset-Backed Securities Index
US Treasurys	Bloomberg U.S. Treasury Index
US Treasury Inflation-Protected Securities (TIPS)	Bloomberg 1-10 Year U.S. TIPS Index
US Investment-Grade Corporates	Bloomberg U.S. Corporate Bond Index

Corresponding Indexes for Regional Equity Performance Exhibit	
United States	S&P 500 Index
United Kingdom	FTSE All-Share Index
Pacific ex Japan	MSCI Pacific ex Japan Index (Net)
Japan	TOPIX, also known as the Tokyo Stock Price Index
Europe ex UK	MSCI Europe ex UK Index (Net)
EM Latin America	MSCI Emerging Markets Latin America Index (Net)

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Singapore

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