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QUARTERLY MARKET COMMENTARY

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Quarterly Market Commentary December 2024

Key economies showcasing varied growth trajectories

Welcome to the December 2024 issue of *Quarterly Market Commentary* from ARIA Private Clients.

Global equity markets showed varied performance in late 2024, shaped by macroeconomic challenges and political events. The re-election of Donald Trump in the 5 November presidential vote brought political clarity to the United States, though economic uncertainty persisted. US equities fell in October due to lacklustre corporate earnings and concerns over Federal Reserve policy. Sharp declines in healthcare, materials, and real estate overshadowed strong gains in the financial and communication services sectors. The US economy, however, demonstrated resilience with an annualised Q3 growth rate of 3.1% and inflation easing to 2.2% in November from 2.4% in October.

European equity markets suffered losses amidst growth concerns and external uncertainties. Weak earnings in technology, consumer staples, and luxury goods weighed on sentiment.

While Germany and France faced softening industrial activity, Spain and Portugal stood out as regional growth leaders. Eurozone Q3 economic growth rose to 0.5%, while inflation settled at 1.9% in November. The ECB maintained a cautious stance amid continued business contraction, as reflected by the composite PMI remaining below 50.

UK equity markets also struggled, with small and mid-cap stocks particularly affected. Concerns over the government's fiscal policies dampened investor outlook, with sterling weakening against the dollar. Despite this, according to recent figures (15th January 2025) inflation rate eased to 2.5% in December 2024 from 2.6% in November. Healthier labour data offered some optimism, but structural economic challenges persisted.

Japanese equities performed well, driven by export-focused large caps in technology, machinery, and autos, aided by a weaker yen. Political stability returned after Prime Minister Ishiba's reforms gained favour with investors. The TOPIX

Total Return Index rose 2.5% over October and November, supported by strong corporate earnings. The BOJ maintained its accommodative monetary stance with hints of potential adjustments in December.

Elsewhere in Asia, markets faltered due to regional tensions and China's ongoing struggles. India's equities suffered from rising oil prices linked to Middle Eastern conflicts, while South Korea and Malaysia were also weak performers. Conversely, Taiwan saw gains led by semiconductor stocks, bolstered by improved demand forecasts for 2025.

Looking ahead, global markets face both opportunities and challenges in 2025. Donald Trump's re-election may bring policy clarity in the US, while China is expected to implement further growth-boosting measures. Inflation, monetary policy changes, and geopolitical tensions will remain critical factors shaping investor sentiment, though resilience in certain regions and sectors offers a degree of optimism for the year ahead.

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Global equity markets showed varied performance in late 2024, shaped by macroeconomic challenges and political events.



Quarterly Market Review

Navigating a landscape defined by both resilience and volatility

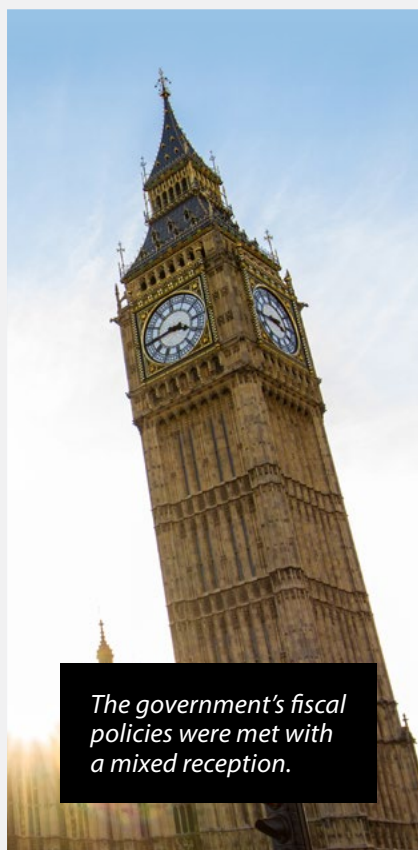
The past quarter has been marked by significant shifts across global financial markets, spurred by a complex mix of economic trends, geopolitical developments, and sector-specific dynamics. Investors and market analysts alike have navigated a landscape defined by both resilience and volatility, with key economies showcasing varied growth trajectories amidst persistent inflationary pressures and evolving monetary policies.

On the political stage, the re-election of Donald Trump in the United States has introduced a degree of policy clarity, yet uncertainties around fiscal and monetary direction remain. Meanwhile, Europe has grappled with slowing industrial activity in key markets, offset by more robust growth in

select regions. The UK, facing structural economic challenges, saw mixed market performance despite an easing inflationary environment.

Asia offered a fragmented picture, with China's economic slowdown contrasting sharply with pockets of strength, such as Taiwan's semiconductor sector. Japan emerged as a highlight, supported by a weaker yen and strong corporate earnings, underscoring sectoral divergence as a key market theme.

Against this multifaceted backdrop, the upcoming analysis will unravel the complexities of recent global market conditions, examining the interplay of economic performance, political developments, and sector trends to equip investors with valuable insights as they plan for the months ahead.



The government's fiscal policies were met with a mixed reception.

UK

Over the course of October, UK equities experienced widespread declines, with small- and mid-cap (SMID) equities notably underperforming their larger counterparts. The performance of both SMIDs and large-cap stocks was dampened by a complicated macroeconomic picture, marked by ongoing uncertainty in global economic conditions. Sectors with significant exposure to international industrial markets bore the brunt of these challenges, reflecting the pressures of subdued industrial demand and tightening global financial conditions.

Adding to the difficulties faced by SMID equities was a late-month sell-off in UK-focused assets. This downturn predominantly affected companies operating in domestically oriented sectors. The sell-off was driven by concerns about the UK budget announcement, which raised questions over the longer-term trajectory of the country's economic and monetary landscape.

While the Chancellor's spending plans elicited near-term upgrades to the UK growth and inflation forecasts, scepticism emerged regarding their ability to enhance the country's long-term productive capacity—often referred to as the “supply side” of the economy. This scepticism manifested in re-evaluating the fiscal landscape, with investors bracing for the possibility of higher and more persistent inflation, which could require prolonged monetary tightening by the Bank of England.

The government's fiscal policies were met with a mixed reception. On the one hand, the prospect of increased public spending and investment temporarily boosted short-term confidence in the economy. On the other hand, these measures were seen as insufficient in addressing structural economic issues, such as low productivity growth and regulatory inefficiencies. The lack of substantial reforms to improve the supply side led markets to anticipate tighter monetary policy.

This dynamic was evident in the repricing of long-term UK government bonds, as investors adjusted their expectations for higher interest rates over an extended period. The rise in yields reflected concerns that inflationary pressures could linger, making it necessary for the Bank of England to maintain restrictive policy measures to ensure price stability. By late October, many market participants began to factor in potential rate hikes extending well into 2024, despite evidence of inflation moderation earlier in the month.

Sterling also faced downward pressure during this period, exacerbated by the divergence between UK and US economic fundamentals. Although the pound's weakness partly stemmed from the strength of the dollar, it highlighted broader concerns about the UK's macroeconomic stability. These currency movements further eroded investor confidence at a time when global risk sentiment remained fragile.

Importantly, this negative turn in sentiment contrasted with relatively upbeat near-term economic indicators

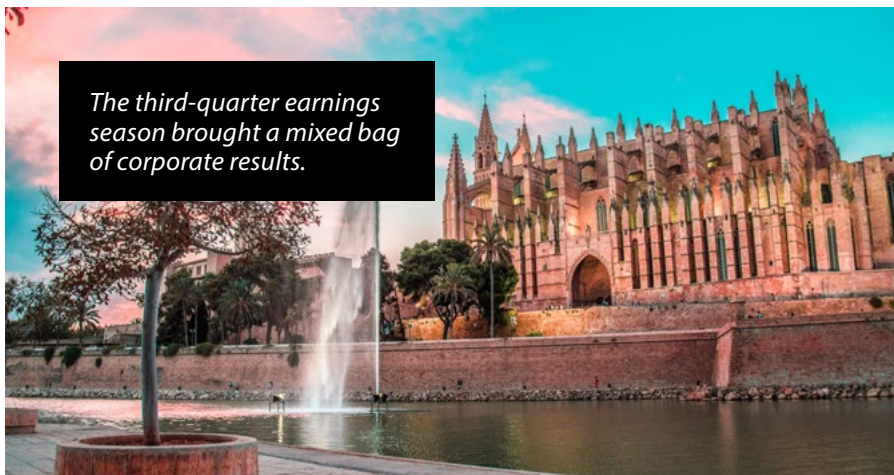
for the UK. Inflation had fallen below the Bank of England's 2% target, providing evidence that earlier rate hikes were beginning to take effect. Despite this, the improving inflation dynamics were overshadowed by broader structural worries, particularly those tied to fiscal sustainability and economic competitiveness.

During November 2024, these challenges persisted, with additional data pointing to limited progress in addressing the structural headwinds identified. Reports suggested that business investment—seen as a crucial driver of productivity growth—remains subdued amid continued borrowing cost pressures. Meanwhile, anecdotal evidence from surveyed firms indicates caution in light of uncertain regulatory and fiscal clarity.

On the inflation front, updates show that while headline rates remain relatively contained, core inflation (excluding volatile items such as energy) has proven more stubborn. This dynamic keeps the Bank of England in a difficult position, as it balances the risks of further tightening with the potential to stifle economic growth.

Against this backdrop, the outlook for UK equities, particularly SMIDs, remains uncertain. The combination of global economic volatility, domestic fiscal rebalancing, and the prospect of a prolonged period of higher interest rates continues to weigh on investor sentiment. Sectors with greater exposure to discretionary spending or financial services may find themselves particularly vulnerable in the months ahead.

However, opportunities may arise for more resilient or globally diversified firms, especially those capable of navigating supply chain pressures and capitalising on demand in less affected markets. Investors are advised to remain cautious yet vigilant for signs of economic stabilisation or policy clarity that could provide a more favourable environment for equities moving forward.



EUROZONE

Eurozone equities faced significant headwinds in October as market participants grappled with concerns about economic growth and uncertainty surrounding the outcome of the US presidential election. These factors weighed heavily on investor sentiment, resulting in declines across several key sectors. Information technology, consumer staples, and real estate were among the weakest performers during the month. Conversely, industrials and communication services were the only sectors to post positive returns, offering some measure of resilience amid the broader market downturn.

The third-quarter earnings season, which unfolded through October, brought a mixed bag of corporate results. Weaker earnings from major players in the information technology sector underscored the challenges facing this industry. Additionally, updates within the consumer discretionary sector disappointed, particularly those from several car manufacturers and some luxury goods companies, which reported underwhelming results. These trends contributed to the muted market performance and raised questions about the strength of consumer demand.

Despite market challenges, data from Eurostat highlighted a modest acceleration in eurozone economic growth during the third quarter. GDP expanded by 0.4% quarter-on-quarter, up from 0.2% in the second quarter.

Spain and Portugal emerged as key drivers of this growth, showcasing the strongest performances within the region. However, annual inflation in the eurozone ticked higher to 2.0% in October, up from 1.7% in the prior month, posing challenges for policymakers attempting to balance growth stimulation with inflation control.

The European Central Bank (ECB) took action in October, cutting interest rates by 25 basis points to support the faltering economy. However, the rise in inflation and signs of accelerating economic growth created a complex outlook for future monetary policy. While rate cuts remain on the table, the ECB's ability to act aggressively may be limited, particularly as underlying inflation pressures persist.

November brought further economic challenges for the eurozone, deepening concerns about the region's outlook. Inflation rose again, climbing to 2.3%, significantly above the ECB's 2% target. This increase was partly attributed to a statistical base effect, as the prior year's exceptionally low figures were replaced by slightly higher data points. Underlying inflation, a key focus for the ECB, held steady at 2.7%, indicating persistent price pressures within the economy.

Business activity across the eurozone deteriorated sharply in November, with the composite Purchasing Managers' Index (PMI) falling to 48.1, down

from 49.7 in October and marking a 10-month low. This contraction was broad-based, affecting both the services and manufacturing sectors. Weak new business trends and a pronounced decline in export orders highlighted the region's ongoing struggle with subdued demand, domestically and abroad.

Political uncertainty in two of the eurozone's largest economies compounded the economic malaise. Germany, facing a collapsed coalition government, heads toward snap elections in February 2025. Meanwhile, France contends with instability as a far-right party threatens to topple the current administration over budget disputes. Adding to this uncertainty, the potential impact of proposed US trade tariffs looms large, casting a shadow over the region's economic prospects.

Against this backdrop, the ECB is widely expected to continue easing monetary policy. Market expectations point to another 25 basis point rate cut at the December meeting. While some policymakers argue this measured approach is prudent given the modest progress in reining in inflation, others contend that more aggressive action may be required to stave off further economic deterioration. Markets are currently pricing in a series of gradual rate cuts through 2025, with the deposit rate projected to fall to 1.75% by the end of that year.

The eurozone remains at a delicate juncture. On one hand, faster economic growth in certain member states such as Spain and Portugal provides a glimmer of hope. On the other hand, the broader region continues to face challenges, including high inflation, political turbulence, and weak business activity.

The market will now turn its focus to the ECB's December meeting, where policymakers will have to weigh conflicting indicators to chart a path forward. Investors will also monitor the evolving political landscape and its potential implications for economic stability in 2025. For now, risks remain tilted to the downside, with persistent uncertainties likely to keep markets on edge in the months ahead.

US

US equity markets faced renewed pressure in October, with shares ending the month lower as investor sentiment remained clouded by uncertainty. Much of the focus rested on the approaching presidential election, coupled with ongoing apprehensions regarding the future trajectory of interest rates. Furthermore, disappointing quarterly earnings from a handful of major corporations added to the downward momentum, weighing heavily on overall market performance.

From a sector perspective, healthcare, materials, and real estate suffered the most pronounced declines during the month. Conversely, the financial sector emerged as a bright spot, buoyed by better-than-expected earnings from several key banks. Communication services also posted notable gains, reflecting solid investor confidence within the sector.

The preliminary reading from the Bureau of Economic Analysis indicated that US GDP expanded at

an annualised rate of 2.8% quarter-on-quarter during Q3, marking a slight deceleration from the 3.0% growth recorded in Q2.

On the inflation front, the consumer price index (CPI) registered an annual increase of 2.4%, a marginal decrease from the 2.5% seen in August. The Federal Reserve's preferred gauge of inflation, the personal consumption expenditures (PCE) index, remained steady at 2.1%, close to the central bank's target. However, the core PCE measure rose to 2.7%, underlining persistent inflationary pressures in certain areas of the economy.

Labour market data showed strong momentum, with non-farm payrolls registering a sharp rise of 254,000 jobs in September, up from a revised 159,000 in August. However, disruptions caused by hurricanes and a port workers' strike led to some irregularities in October's higher-frequency employment figures, adding noise to the broader trend.

Monetary policy remained a focal point for investors, with the Federal Reserve opting to reduce interest

rates by 25 basis points at its October meeting, following a more aggressive 50 basis-point cut the previous month. The dual mandate of balancing growth while taming inflation left markets uncertain about the trajectory of policy heading into year-end.

November brought clarity to at least one source of uncertainty as the US presidential election concluded with Donald Trump reclaiming the presidency in a decisive victory.

Markets reacted swiftly to the verdict, as investors weighed the potential implications of a Trump administration on fiscal policy, trade relations, and regulatory frameworks. Early signals pointed towards possible market optimism, particularly in sectors such as energy and defence, which are historically aligned with Republican-led administrations.

Adding to the economic narrative, updated data for November revealed that consumer confidence edged higher, bolstered by robust labour market conditions. Retail sales data also hinted at a solid start to the holiday shopping season, indicative of resilient consumer spending despite broader macroeconomic concerns.

Meanwhile, global markets reflected a mixed picture in November. A slowdown in China's industrial output and subdued export growth remained a drag on sentiment, while Europe continued to grapple with stubbornly high inflation and tepid economic growth. Central banks worldwide remained vigilant, with policymakers reiterating the need for careful calibration in the face of fragile post-pandemic recoveries.

Looking ahead, market participants are likely to grapple with the implications of shifting political and economic dynamics in the US. With a new administration set to assume office in January 2025 and the Federal Reserve maintaining a cautious approach to policymaking, uncertainty will remain a key theme as we move into the new year.



Disappointing quarterly earnings from a handful of major corporations added to the downward momentum.

JAPAN

The Japanese equity market displayed notable volatility but closed with a positive performance. The TOPIX Total Return Index rose 1.9% in yen terms, while the Nikkei 225 climbed more robustly, advancing by 3.1%. This indicates that the market's recovery primarily benefited from large-cap stocks. A weak yen provided substantial support for major exporters, particularly in technology, automotive, and machinery sectors. Financial stocks also staged a recovery following summer setbacks.

Japan's political landscape played a mixed role in shaping financial market dynamics. The unexpected victory of Mr Ishiba in the Liberal Democratic Party's (LDP) leadership election initially unsettled markets. Ishiba's immediate call for a snap general election raised concerns about further political unpredictability. The election, held on 27 October, resulted in the LDP and its coalition partners losing their parliamentary majority — an outcome that added to investor wariness at the time.

Despite these initial jitters, markets regained confidence by the end of the month. The prospect of expansionary policies under the new administration helped restore momentum. While the loss of a parliamentary majority poses potential challenges for Ishiba's government, investor sentiment has shifted towards cautious optimism about his policy direction and its implications for economic growth.

Macroeconomic conditions remain solid, with the Bank of Japan (BOJ) maintaining a steady course. At its meeting on 31 October, the BOJ elected to leave policies unchanged, although its statement suggested potential action at the December meeting, contingent on further market and economic developments. This stability was complemented by the release of semi-annual corporate earnings results, which started later in October. Initial figures were encouraging, though exchange rate fluctuations could become a

significant variable as the fiscal year-end in March approaches.

During November 2024, the situation remained nuanced. While Japan's economy continues to exhibit resilience, external factors such as global monetary policy shifts, geopolitical tensions, and fluctuations in commodity prices influenced market performance. Early reports from corporate sectors in November suggested a continued emphasis on investment in technology and innovation, buoyed by a weaker yen that benefits export-driven industries.

Investors should closely monitor developments in the political and monetary policy landscape. The forthcoming BOJ meeting in December will be particularly pivotal as markets assess the central bank's response to evolving economic conditions. Additionally, the trajectory of the yen and its impact on corporate earnings will remain a focal point for analysts and market participants alike.

Although uncertainties remain, Japan's fundamental economic health and the strategic positioning of key export sectors place the equity market on stable footing. Analysts are cautiously optimistic about moderate growth in the months ahead, underpinned by consistent corporate performance and expectations of policy measures to support broader economic recovery.



Global monetary policy shifts, geopolitical tensions, and fluctuations in commodity prices influenced market performance.

ASIA (EX JAPAN)

Asia ex Japan equities experienced a challenging period, registering declines in both October and November. The markets faced a combination of geopolitical tensions, economic imbalances, and global trade concerns, which overshadowed growth prospects across the region. Notably, the MSCI AC Asia ex Japan Index revealed stark disparities in performance among its constituents over these two months.

October saw Indian, Malaysian, and South Korean equities emerge as the worst performers within the MSCI AC Asia ex Japan Index, while Taiwan was the only market to end the month on a positive note. Indian equities suffered significant losses as market sentiment was rattled by fears of an escalation in conflict in the Middle East, raising concerns over potential disruptions in oil supply—a critical import for India's economy. The impact of such fears on investor confidence highlighted the sensitivity of commodity-dependent economies to geopolitical instability.

Mainland China and Hong Kong also faced substantial declines during October. Despite the Chinese government's introduction of stimulus measures aimed at revitalising its slowing economy, investor sentiment remained subdued. Challenges such as a weak property sector, persistently high youth unemployment, and sectoral overproduction, particularly in steel and manufacturing, continued to weigh on the world's second-largest economy. Additionally, some technology companies have actively shifted production to Southeast Asia, drawn by lower costs and fewer geopolitical risks, further compounding economic pressures in China.

South Korea saw its equities drop significantly in October due to foreign investor sell-offs, amidst heightened currency volatility and a weakening won. Conversely, Taiwan bucked the trend by delivering modest gains, with



The MSCI AC Asia ex Japan Index revealed stark disparities in performance among its constituents.

semiconductor and construction stocks leading the rise. Taiwan's performance illustrated the resilience of growth-oriented sectors against a challenging macroeconomic backdrop.

The decline in Asia ex Japan equities extended into November, driven by heightened concerns over global trade due to Donald Trump's re-election as US President. Investor fears surrounding the potential implementation of steep tariffs—part of Trump's proposed policy agenda—added significant downward pressure. China, Hong Kong, and Taiwan were particularly impacted, given their prominent roles in the global supply chain. The potential imposition of tariffs of up to 60% on Chinese manufactured goods exacerbated existing economic woes in the region.

Singapore, however, emerged as the only bright spot within the MSCI AC Asia ex Japan Index during November. The country benefitted from its political stability and relative neutrality amid escalating trade tensions between the US and China. Overseas investors increasingly sought safer alternatives in the region, boosting Singapore's equity market.

China braced for further economic challenges in November as the impact of proposed US tariffs compounded its existing internal struggles.

The Chinese government had introduced a substantial stimulus package starting in late September, comprising monetary and fiscal easing, housing support measures, and interventions to stabilise the stock market. While measures such as increased domestic liquidity and a marginal improvement in consumption data offered a glimmer of hope, overproduction in certain sectors and restricted demand recovery constrained progress. The imbalance between supply and demand remains a key concern for China's long-term economic trajectory. The housing market appears on course for a soft landing in 2025, yet analysts do not anticipate a return to the booming growth levels seen in the past.

Across Asia, the implications of global trade policy shifts and domestic economic vulnerabilities were evident. South Korea remained under pressure due to persistent equity outflows and a volatile currency. Meanwhile, Malaysia maintained its weak performance trend, largely in line with broader market conditions. Taiwan's gains from October, buoyed by semiconductors, were reversed in November, as technology-related stocks became increasingly exposed to US-China tensions.

The broader context paints a picture of mounting regional challenges in a time of ongoing global economic restructuring. While Singapore serves as an example of market resilience through political and economic stability, the prospects for other economies within Asia ex Japan remain uncertain, with near-term growth heavily reliant on mitigating geopolitical risks and addressing structural inefficiencies.

Looking ahead, any potential recovery in the region will likely depend on how governments balance internal reforms with external concerns, as well as the global market's reaction to evolving trade policies under the new US administration.

EMERGING MARKETS

Emerging market (EM) equities experienced a challenging period over the course of October amid a broad risk-off sentiment as investors awaited the outcome of the US presidential election on 5 November 2024. The rising yields on US bonds and a stronger US dollar exerted notable pressures on the asset class, reflecting broader global uncertainties and monetary policy dynamics.

Turkey emerged as the weakest-performing market, followed closely by Greece and Poland. Emerging European economies, particularly Poland, were pressured by investor concerns about the potential implications of a Trump victory in the US election. The market expressed increasing unease over potential changes in US foreign policy, specifically related to support for Ukraine, and possible tariff impositions intensifying trade tensions in the region. These geopolitical considerations amplified investor caution, culminating in significant market declines.

India underperformed during the month, weighed down by disappointing corporate earnings and early signs of slowing economic growth. The tepid results of a major domestic technology firm further dampened investor confidence. Meanwhile, in South Korea, the tech sector faced similar headwinds, as a key industry player reported weaker-than-expected earnings, leading to a sell-off within the broader market.

China also faced significant challenges. Profit-taking among investors, compounded by a lack of clarity regarding additional government stimulus measures, weighed heavily on Chinese equity markets. Despite some optimism earlier in the year regarding potential policy support, the absence of further actionable



detail during October left markets vulnerable to renewed pessimism.

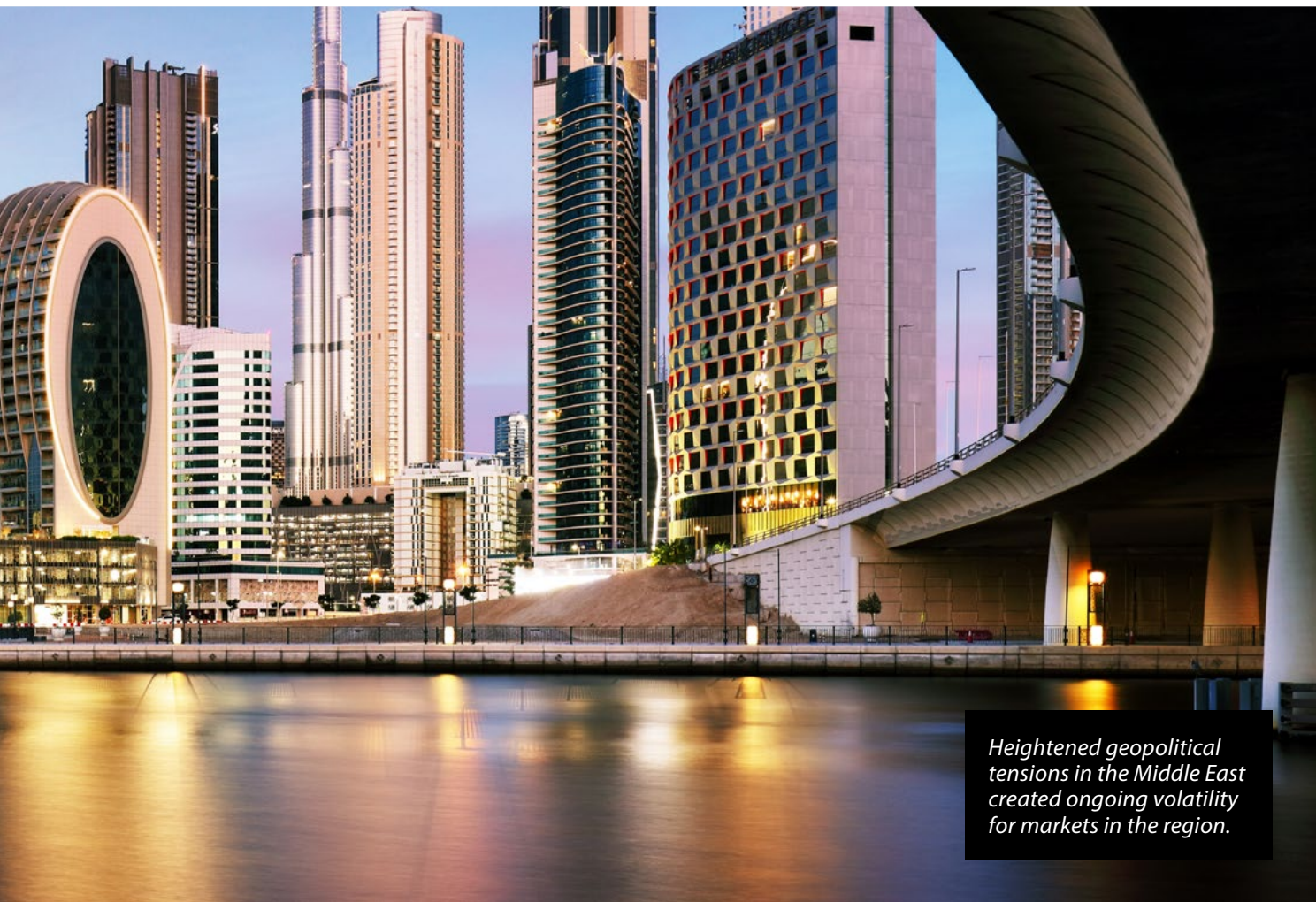
Brazil struggled to gain footing during the month as inflation expectations began to lose their anchor. Concerns over the central bank's ability to manage inflationary pressures effectively undermined market confidence. However, South Africa was a standout within the EM universe, posting relative outperformance. Stable commodity prices, coupled with improved domestic data, provided some respite for investors seeking opportunities.

The heightened geopolitical tensions in the Middle East created ongoing volatility for markets in the region. However, with no further major escalations recorded during the period, some of the EM countries in the region demonstrated resilience. The UAE, Kuwait, Saudi Arabia, and Qatar benefited from the

stabilisation of oil prices and broader risk sentiment, which supported their market performance.

One notable outlier among emerging markets in October was Taiwan. Taiwanese equities delivered a positive return driven by sustained investor enthusiasm for artificial intelligence (AI) linked demand. The country's semiconductor and technology sectors remained pivotal, benefiting from robust global interest in cutting-edge AI applications and infrastructure.

The challenging environment continued into November, as the market digested the results of the US presidential election, confirming Donald Trump as the victor. This development reinforced investor concerns over the implications for international trade, foreign policy, and geopolitical stability, particularly for regions like Eastern Europe and Asia.



Heightened geopolitical tensions in the Middle East created ongoing volatility for markets in the region.

US bond yields remained elevated during the month, while the US dollar retained its strength, further pressuring EM currencies and equities.

Emerging Asian markets faced renewed focus as China's government finally announced a targeted stimulus package aimed at revitalising key sectors such as real estate and consumer goods. While initial responses were cautiously optimistic, questions about implementation and long-term effectiveness tempered market reaction.

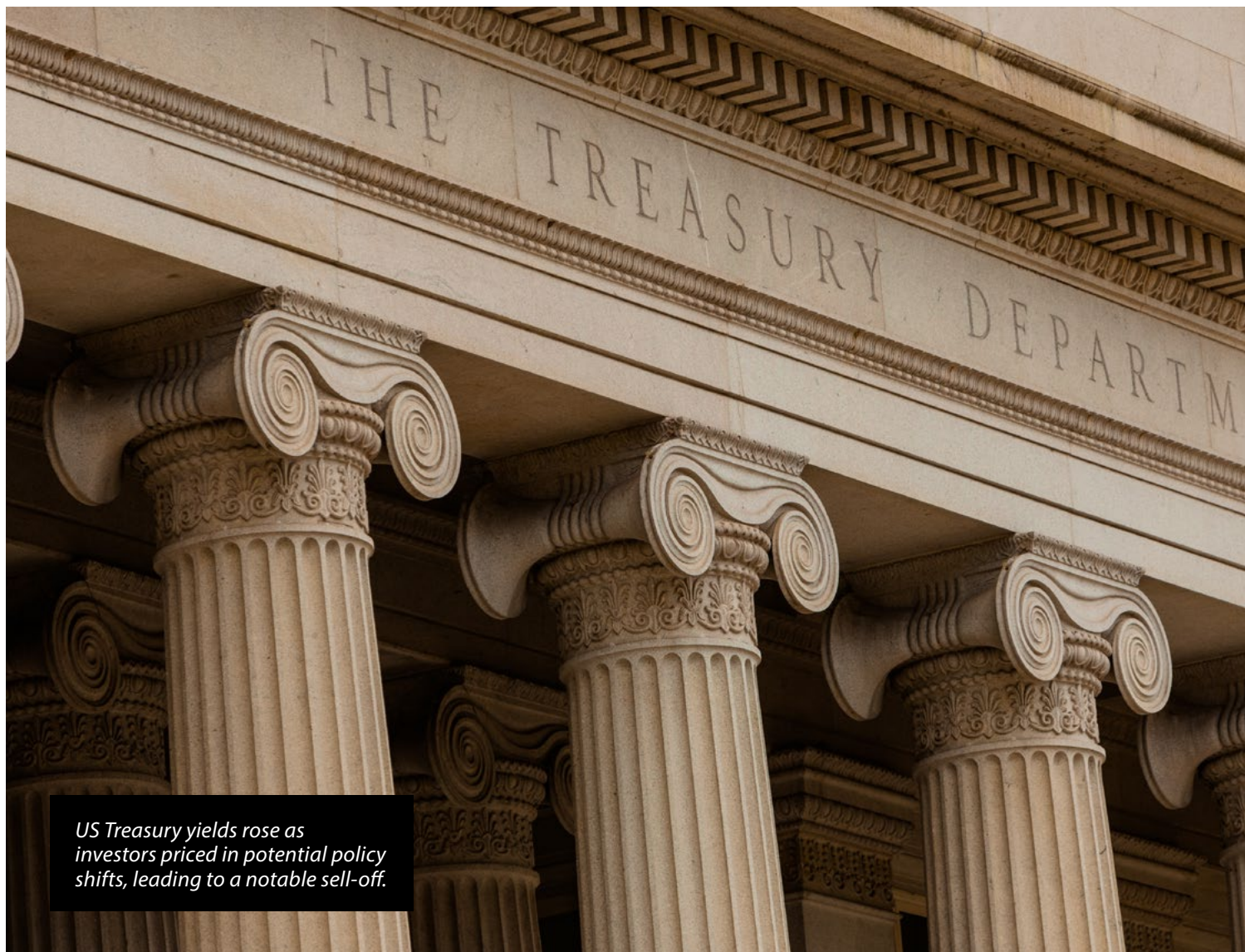
In Latin America, Brazil's central bank signalled a more aggressive approach to combating inflation,

with analysts speculating about potential interest rate increases into 2025. This stance began to restore some confidence, though market volatility remained pronounced. Mexico, in contrast, saw modest improvements, with its export-driven economy benefitting from stronger-than-expected US industrial production data.

Middle Eastern markets continued to see steady performances into November, buoyed by oil prices that remained range-bound but stable. Meanwhile, Taiwan extended its winning streak, with the technology sector showing continued resilience amid global demand for AI-related innovations.

Looking ahead, the performance of emerging market equities will likely remain closely tied to global macroeconomic developments, particularly monetary policy in developed markets and geopolitical events. While risks persist, ranging from inflationary pressures to geopolitical tensions, select opportunities exist within regions and sectors poised to benefit from structural growth trends. Markets like Taiwan, with a robust position in the AI and semiconductor landscape, and resource-rich Middle Eastern economies, could remain bright spots amidst broader EM headwinds.

GLOBAL BONDS



US Treasury yields rose as investors priced in potential policy shifts, leading to a notable sell-off.

October was a testing period for fixed income markets, as major government bond markets experienced significant sell-offs. Investors adopted a risk-averse stance, prompted by uncertainty surrounding the tight US presidential election race. By the end of October, Donald Trump remained ahead in the polls, despite some fluctuations. This heightened the probability of a Republican victory, which many market participants interpreted as a precursor to more inflationary policies. Consequently,

US Treasury yields rose as investors priced in these potential policy shifts, leading to a notable sell-off.

The US labour market data provided an additional layer of complexity to the bond market's trajectory. Non-farm payroll figures for September exceeded expectations, pointing to a stronger-than-anticipated labour market. August's data was also revised higher, reinforcing this trend. Such robust employment statistics added further weight to the argument for a resilient US

economy, complicating expectations surrounding Federal Reserve policy. Inflation data, meanwhile, painted a nuanced picture.

The September inflation figure in the US fell to 2.4%, a slightly lower outcome than anticipated. However, this did little to alleviate the upward pressure on US bond yields. Following the release, predictions of a 50 basis point rate cut by the Federal Reserve in November were significantly scaled back, reflecting an environment characterised by cautious monetary policy reassessment.



The UK was not immune to the turbulent market dynamics. At the end of October, the newly appointed Labour government unveiled its first budget under Chancellor of the Exchequer Rachel Reeves. The centrepiece of the budget was a £40 billion tax increase, including plans to borrow an additional £28 billion annually. Concern over this heightened borrowing requirement exerted pressure on UK debt markets. The announcement drove a sell-off in 10-year gilts, with yields climbing as investors reassessed

the country's fiscal trajectory. Simultaneously, sterling fell to a two-month low against the US dollar, underscoring market apprehensions.

UK inflation figures for October offered a rare silver lining, recording a steeper-than-expected decline to 1.7%. This drop, led primarily by falling services inflation, briefly alleviated market concerns. However, expectations for interest rate cuts over the next year were revised lower. Instead of the previously forecasted four to five 25 basis point cuts, markets now anticipate three, reflecting a recalibration of monetary policy expectations.

Across the Channel, the picture in Europe was somewhat different. Inflation increased more sharply than expected in October, sparking concerns that price pressures could persist or even intensify in the near term. This backdrop reinforced a cautious stance from the European Central Bank (ECB), which enacted a 25 basis point rate cut mid-month. While this move was aimed at providing modest stimulus, it also reflected the ECB's balancing act between fostering economic growth and managing inflationary risks.

On the credit front, high-yield bonds proved their resilience during October. Euro high yield bonds delivered the strongest total returns among major credit categories, underscoring a relative preference for riskier credit in the face of more stable fundamentals. Meanwhile, convertible bonds emerged as a star performer amid lacklustre equity markets. They not only shielded investors during market setbacks but also delivered modest positive returns. The FTSE Global Focus index, hedged in US dollars, closed the month with a 0.3% gain, highlighting the

diversification benefits of this asset class during volatile market phases.

Events in November added new dimensions to the evolving market narrative. With Donald Trump now confirmed as the winner of the US presidential election, markets braced for potential policy shifts. Investor focus turned towards the implications of his victory, from trade policies to fiscal measures, which could further stoke inflationary concerns. US bond yields remained elevated, reflecting an increasingly entrenched cautious sentiment. The US dollar retained its strength, adding pressure on global bond markets and emerging market currencies alike.

The UK experienced further market ripple effects as investors digested the implications of its fiscal policy changes. Gilt yields continued to reflect concerns around heightened borrowing, while the pound experienced persistent downward pressure against major currencies. However, the government's longer-term growth objectives have sparked debate over their efficacy in stabilising the economic landscape.

European inflation continued to be a focal point, with further data suggesting potential for an extended inflationary period. The ECB adopted a wait-and-see approach following its October rate cut, adding a tone of uncertainty that permeated regional markets.

Looking ahead, fixed income markets appear set for a prolonged period of recalibration as policymakers and investors respond to multifaceted challenges. From a global perspective, the combination of geopolitical developments, fiscal adjustments, and evolving inflation trends will likely maintain upward pressure on yields.

Summary

Persistent inflationary pressures and geopolitical risks

In conclusion, the past quarter's global market performance has underscored a complex interplay of economic challenges, political shifts, and sector-specific dynamics. UK equities faced notable declines, especially in small- and mid-cap stocks, which were hindered by unfavourable macroeconomic conditions and investor scepticism about the government's fiscal policies. While inflation moderated below the Bank of England's 2% target, concerns about persistent structural challenges and prolonged monetary tightening weighed on sentiment, leaving UK markets in a fragile state entering 2025.

Across the Eurozone, weak corporate earnings and political instability dampened equity performance. Sectors such as technology and consumer staples underwhelmed, while Spain and Portugal were rare bright spots for regional growth. Inflation pressures remained elevated, complicating the European Central Bank's ability to stimulate growth. Meanwhile, worsening business activity indicated continued economic malaise, leaving investors wary of further roadblocks ahead.

The US market saw mixed outcomes, with a decisive presidential election result providing political clarity while corporate earnings faltered.

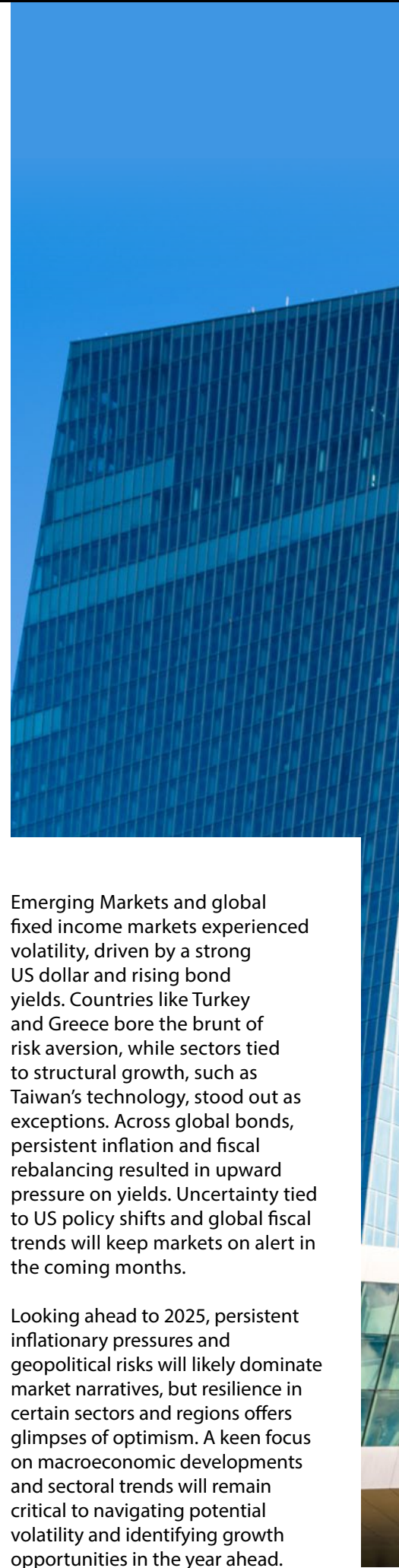
Resilient labour market data and moderate growth in GDP highlighted the economy's robustness, but inflation remained persistent. The Federal Reserve's cautious monetary approach continued to influence investor sentiment, with sectors like energy and defence emerging as potential beneficiaries of policy shifts under the re-elected administration.

Japan offered a more promising picture, supported by the yen's weakness, robust corporate earnings, and gains in export-oriented sectors such as technology and autos. Political stability following leadership changes and the Bank of Japan's accommodative policy stance bolstered confidence. Despite external risks, Japan's economic resilience and strategic industrial strengths positioned it well for continued steady growth.

Asia ex-Japan faced significant headwinds, particularly in China, as structural economic challenges and geopolitical risks weighed heavily on investor sentiment. Taiwan remained a standout performer, driven by demand for semiconductors, while other markets struggled under trade tensions and subdued regional growth. The outlook remains cautious, with governments' response to global economic pressures likely to shape recovery pathways.

Emerging Markets and global fixed income markets experienced volatility, driven by a strong US dollar and rising bond yields. Countries like Turkey and Greece bore the brunt of risk aversion, while sectors tied to structural growth, such as Taiwan's technology, stood out as exceptions. Across global bonds, persistent inflation and fiscal rebalancing resulted in upward pressure on yields. Uncertainty tied to US policy shifts and global fiscal trends will keep markets on alert in the coming months.

Looking ahead to 2025, persistent inflationary pressures and geopolitical risks will likely dominate market narratives, but resilience in certain sectors and regions offers glimpses of optimism. A keen focus on macroeconomic developments and sectoral trends will remain critical to navigating potential volatility and identifying growth opportunities in the year ahead.





The past quarter's global market performance has underscored a complex interplay of economic challenges, political shifts, and sector-specific dynamics.



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