LOM

Weekly Global Market Commentary

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Markets Deliver in Q3 Despite Softening Economy

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The global economic outlook continued to stabilize in Q3 despite increased uncertainty in the geopolitical landscape. Most economists expect the global economy to grow modestly over the next year while anticipating lower inflation levels which will allow the Federal Reserve to reduce the federal funds rate and support an ongoing economic expansion of around two percent for both the second half of 2024 and for 2025.

An easing of inflation and evidence of global commerce resilience are positive signs. However, policy-makers face the challenge of driving faster economic growth while also trying to influence its structural character. Furthermore, public debt burdens represent a challenge to macroeconomic stability in both advanced and developing economies.

The combination of elevated debt levels and higher interest rates has pushed interest payments into economically challenging territory for many countries. Rising debt-servicing costs have led to a fiscal squeeze in some markets. The U.S., which holds the world's reserve currency, remains the "best house in a rough neighborhood" and is most likely to lead the global economy out of its current malaise.

Global equity markets continued to move higher through Q3 with the loosening of central bank policy providing a catalyst for new highs achieved. The S&P 500 gained 5.53% through the quarter but the dispersion of market performance was highlighted with the S&P 500 Equal Weighted Index appreciating 9.09%. Rotation was further emphasized in sector performance, Utilities (+18.47%), Real Estate (+16.29%) and Industrials (+11.15%) led the way, recovering from respective underperformance versus the market in the first half.

The outperformance of traditionally higher yielding sectors drove the previously shunned Dow Jones Dividend Select Index up 13.13% across the quarter. Information Technology (+1.44%) was a laggard across the period but remains the top sector year-to-date, returning 29.63% against a market up 20.81%. Global markets were softer than the US in local currencies but weakness in the greenback meant they outperformed when rebased into local currencies. Stronger non-US markets included Japan's Nikkei 225 (+7.66%), the UK's FTSE100 (+6.96%) and the Eurostoxx 50 (+6.29%). Late in the quarter, China announced a massive stimulus package which caused the local stock market to rocket.

In the third quarter of 2024, the US Treasury yield curve shifted downward significantly. The move was most notable on the one and two-year maturities, which decreased by more than 110 basis points. The risk premium for investment-grade bonds ended the quarter at around the same level as the beginning of the quarter.

In the Federal Open Market Committee (FOMC)'s September meeting, policymakers voted for a 50 basis point rate cut, bringing the Fed Fund target rate to a range of 4.75% - 5.00%. An easing of inflation and a slightly higher unemployment rate drove Fed Reserve members to reduce rates for the first time since 2020. According to the FOMC dot plot, a survey of policymakers' rate projections, most FOMC members expect the Fed Funds rate to end the year at 4.37%. The Fed funds future market predicts the rate will end the year at 4.32%.

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