Monthly Market Review

Review of Markets over October 2024

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October was a volatile month for markets, with equities moving lower after a strong rally during the first nine months of the year. Growth risks remained the primary concern for investors, despite signs of resilience, particularly in the US economy. Uncertainty was also heightened by the upcoming US election and the potential implications of a policy shift on inflation and interest rates.

Developed market equities posted a negative return of 2.0%. Growth stocks outperformed their value counterparts, but fell 1.8% on the month. Small caps retraced by 2.7%, as slowing economic momentum continued to weigh on the segment.

Japanese stocks were the top performer despite concerns that the need for tighter policy and a stronger yen could impact export-oriented companies, as well as political uncertainty created by recent election results. Emerging markets declined by 4.3%, pressured by a strong US dollar (USD), profit taking in India and volatility in Chinese equity indexes due to uncertainty over the efficacy of the support measures announced in September.

Exhibit 1: Asset class and style returns

2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	YTD	Oct '24
Small cap 32.9%	Global REITS 22.9%	Growth 3.5%	Small cap 13.3%	MSCI EM 37.8%	Global Agg -1.2%	Growth 34.1%	Growth 34.2%	Global REITS 32.6%	Cmdty 16.1%	Growth 37.3%	Growth 19.3%	Growth -1.8%
Value 27.5%	Growth 6.5%	Global REITS 0.6%	Value 13.2%	Growth 28.5%	Global REITS -4.9%	DM Equities 28.4%	MSCI EM 18.7%	Cmdty 27.1%	Value -5.8%	DM Equities 24.4%	DM Equities 16.9%	Cmdty -1.9%
DM Equities 27.4%	DM Equities 5.5%	Small cap 0.1%	Cmdty 11.8%	Small cap 23.2%	Growth -6.4%	Small cap 26.8%	DM Equities 16.5%	Value 22.8%	Global Agg -16.2%	Small cap 16.3%	Value 14.5%	DM Equities -2.0%
Growth 27.2%	Value 4.4%	DM Equities -0.3%	MSCI EM 11.6%	DM Equities 23.1%	DM Equities -8.2%	Global REITs 24.4%	Small cap 16.5%	DM Equities 22.3%	DM Equities -17.7%	Value 12.4%	MSCI EM 12.2%	Value -2.1%
Global REITS 2.3%	Small cap 2.3%	Global Agg -3.2%	DM Equities 8.2%	Value 18.0%	Value -10.1%	Value 22.7%	Global Agg 9.2%	Growth 21.4%	Small cap -18.4%	Global REITs 10.9%	Small cap 8.4%	Small cap -2.7%
MSCI EM -2.3%	Global Agg 0.6%	Value -4.1%	Global REITS 6.5%	Global REITS 8.0%	Cmdty -11.2%	MSCI EM 18.9%	Value -0.4%	Small cap 16.2%	MSCI EM -19.7%	MSCI EM 10.3%	Global REITs 7.7%	Global Agg -3.4%
Global Agg -2.6%	MSCI EM -1.8%	MSCI EM -14.6%	Growth 3.2%	Global Agg 7.4%	Small cap -13.5%	Cmdty 7.7%	Cmdty -3.1%	MSCI EM -2.2%	Global REITs -23.7%	Global Agg 5.7%	Cmdty 3.9%	MSCI EM -4.3%
Cmdty -9.5%	Cmdty -17.0%	Cmdty -24.7%	Global Agg 2.1%	Cmdty 1.7%	MSCI EM -14.2%	Global Agg 6.8%	Global REITs -10.4%	Global Agg -4.7%	Growth -29.1%	Cmdty -7.9%	Global Agg 0.1%	Global REITs -4.5%

Source: Bloomberg, FTSE, LSEG Datastream, MSCI, J.P. Morgan Asset Management. DM Equities: MSCI World; REITs: FTSE NAREIT Global Real Estate Investment Trusts; Cmdty: Bloomberg Commodity Index; Global Agg: Bloomberg Global Aggregate; Growth: MSCI World Growth; Value: MSCI World Value; Small cap: MSCI World Small Cap. All indices are total return in US dollars. Past performance is not a reliable indicator of current and future results. Data as of 31 October 2024.

In fixed income markets, the resilience of the US economy and uncertainty surrounding potential post-election policy changes prompted a more gradual re-pricing of the anticipated Federal Reserve (Fed) rate cuts. The Barclays Global Aggregate Index returned -3.4%. Credit markets also exhibited some weakness, despite solid underlying fundamentals. Global REITs declined by 4.5% due to expectations of a slower path for Fed rate cuts. Emerging Market Debt (EMD) closed with a -1.8% return, pressured by a strong USD.

Oil prices were choppy, as macroeconomic concerns and risks of falling demand were weighed against the geopolitical tensions in the Middle East. Overall, the commodity index fell by 1.9% in October.

The global government bond index fell 3.7%, highlighting uncertainty over the trajectory of global interest rate cutting cycles. This trend also reflects the impact of a strong US dollar. However, investors should remember that historically, the start of rate cutting cycles has often resulted in significant returns for government bond markets in the subsequent years.

In the US, the September CPI (consumer price index) report indicated that inflation eased by less than expected. Headline CPI rose by 0.2% month-over-month and 2.4% year-over-year, marking the slowest annual increase since early 2021. However, core inflation remained elevated at 3.3%, driven by rising costs in medical care, auto insurance and airline fares.

Following the Fed's 50 basis point (bp) interest rate cut in September, the sticky core inflation reading highlighted the challenge facing US policymakers if they are to achieve their dual mandate of maintaining a solid labour market alongside price stability. Rate cuts are still expected in November and potentially December, but a strong labour market and resilient inflation has reduced the likelihood of a 50 bp cut at either of these meetings.

The cooling in rate cut expectations, alongside election uncertainty, pushed 2-year and 10-year Treasury yields above 4.0%. In aggregate, US Treasuries returned -2.4% for the month.

In Europe, September headline inflation was revised down to 1.7% year-over-year (from the preliminary 1.8%). The October reading however picked up to 2.0% year-over-year, although this was mainly driven by energy base effects. The European Central Bank (ECB) acknowledged signs of weakening economic momentum in Europe, particularly in the manufacturing sector, while the service sector continued to see signs of solid demand. Consequently, the ECB announced a third 25 bp rate cut of the year, taking the deposit facility rate to 3.25%. This was in line with expectations and highlights the relatively more predictable path of European rate cuts relative to the US.

President Lagarde expressed confidence in the disinflation process but reinforced the message that future moves will be data dependent. Despite the new rate cut and dovish messages, European sovereign bonds were hit by the global weakness in fixed income markets, returning -1.0% for the month.

In Japan, Tokyo core inflation came in at 1.8% year-over-year in October, supported by positive wage momentum. At its October meeting, the Bank of Japan (BoJ) stayed on hold, as widely expected, but struck a hawkish tone overall. Japanese government bonds sold off resulting in a -0.6% return.

In the UK, the labour market remains tight, with the unemployment rate falling to 4.0% and pay growth remaining high at 4.9% year-over-year in August. Despite this, September's headline inflation declined significantly to 1.7% year-over-year, with core inflation at 3.2%. Later in October, the UK budget announcement put pressure on the UK Gilt market due to stronger-than-expected levels of spending now planned for 2025. Gilts were an underperformer on the month, ending the month with a return of -2.8%.

Exhibit 2: Fixed income government bond returns

2015	2016	2017	2018	2019	2020	2021	2022	2023	YTD	Oct '24
Italy 4.8%	UK 10.7%	Global 7.5%	Spain 2.5%	Italy 10.6%	Global 9.7%	Japan -0.2%	Japan -5.4%	Italy 9.3%	Italy 3.8%	Japan -0.6%
Spain 1.7%	Spain 4.1%	US 2.3%	Germany 1.9%	Spain 8.3%	UK 8.9%	US -2.3%	US -12.5%	Spain 6.9%	Spain 2.3%	Spain -0.7%
Japan 1.2%	Germany 3.4%	UK 2.0%	Japan 1.0%	UK 7.1%	US 8.0%	Germany -2.9%	Global -16.8%	Germany 5.7%	US 1.4%	Italy -0.9%
US 0.8%	Japan 3.2%	Spain 1.1%	US 0.9%	US 6.9%	Italy 7.9%	Italy -3.0%	Italy -17.2%	Global 4.3%	Germany 0.5%	Germany -1.1%
UK 0.5%	Global 1.7%	Italy 0.8%	UK 0.5%	Global 5.6%	Spain 4.3%	Spain -3.0%	Germany -17.4%	US 4.1%	Global -1.0%	US -2.4%
Germany 0.4%	US 1.0%	Japan 0.2%	Global -0.7%	Germany 3.1%	Germany 3.0%	UK -5.3%	Spain -17.5%	UK 3.6%	Japan -2.3%	UK -2.8%
Global -3.7%	Italy 0.8%	Germany -1.0%	Italy -1.3%	Japan 1.7%	Japan -0.8%	Global -5.8%	UK -25.1%	Japan 0.5%	UK -3.3%	Global -3.7%

Source: Bloomberg, LSEG Datastream, J.P. Morgan Asset Management. All indices are Bloomberg benchmark government indices. Total returns are shown in local currency, except for global, which is in US dollars. Past performance is not a reliable indicator of current and future results. Data as of 31 October 2024.

At the sector level, global investment grade bond prices declined, ending the month 2.7% lower. In Europe, high yield was a relative outperformer, supported by expectations that the ECB's easing cycle will be beneficial for a range of fixed income asset classes. A stronger US dollar weighed on Emerging Market Debt (EMD), with October's price decline taking year-to-date returns to 6.1%.

Exhibit 3: Fixed income sector returns

2015	2016	2017	2018	2019	2020	2021	2022	2023	YTD	Oct '24
Euro Gov. 1.6%	US HY 17.5%	EM Debt 9.3%	Euro Gov. 1.0%	EM Debt 14.4%	Global IL 12.7%	US HY 5.3%	US HY -11.2%	US HY 13.5%	US HY 7.5%	Euro HY 0.6%
EM Debt 1.2%	EM Debt 10.2%	Global IG 9.1%	US Treas. 0.9%	US HY 14.4%	Global IG 10.4%	Euro HY 3.4%	Euro HY -11.7%	Euro HY 11.9%	Euro HY 7.4%	US HY -0.6%
US Treas. 0.8%	Euro HY 10.1%	Global IL 8.7%	US HY -2.3%	Global IG 11.5%	US Treas. 8.0%	Global IL 2.7%	US Treas. -12.5%	EM Debt 10.5%	EM Debt 6.1%	Euro Gov. -1.0%
Euro HY 0.5%	Global IG 4.3%	US HY 7.5%	Global IG -3.6%	Euro HY 10.7%	US HY 6.1%	EM Debt -1.5%	EM Debt -16.5%	Global IG 9.6%	Global IG 2.5%	EM Debt -1.8%
Global IG -3.6%	Global IL 3.9%	Euro HY 6.1%	Euro HY -3.6%	Global IL 8.0%	EM Debt 5.9%	US Treas. -2.3%	Global IG -16.7%	Euro Gov. 7.1%	US Treas. 1.4%	US Treas. -2.4%
US HY -4.6%	Euro Gov. 3.2%	US Treas. 2.3%	Global IL -4.1%	US Treas. 6.9%	Euro Gov. 5.0%	Global IG -2.9%	Euro Gov. -18.5%	Global IL 5.8%	Euro Gov. 1.0%	Global IG -2.7%
Global IL -5.0%	US Treas. 1.0%	Euro Gov. 0.2%	EM Debt -4.6%	Euro Gov. 6.8%	Euro HY 2.7%	Euro Gov. -3.5%	Global IL -22.9%	US Treas. 4.1%	Global IL -0.5%	Global IL -3.5%

Source: Bloomberg, BofA/Merrill Lynch, J.P. Morgan Economic Research, LSEG Datastream, J.P. Morgan Asset Management. Global IL: Bloomberg Global Inflation-Linked; Euro Gov.: Bloomberg Euro Aggregate - Government; US Treas.: Bloomberg US Aggregate Government - Treasury; Global IG: Bloomberg Global Aggregate - Corporate; US HY: BofA/Merrill Lynch US HY Constrained; Euro HY: BofA/Merrill Lynch Euro Non-Financial HY Constrained; EM Debt: J.P. Morgan EMBIG. All indices are total return in local currency, except for EM and global indices, which are in US dollars. Past performance is not a reliable indicator of current and future results. Data as of 31 October 2024.

In equities, Japan was the top performer despite the hawkish tone from the BoJ at its October meeting, and the ruling coalition's loss in the election potentially leading to a period of political instability. The TOPIX was up 1.9% on the month.

The S&P 500 Index fell 0.9% in October, despite stronger economic data . The September labour market report exceeded expectations, with nonfarm payrolls rising by 254,000 (versus expected 140,000). The unemployment rate fell to 4.1%, and wage growth picked up to 4% year-over-year.

The first estimate of US third quarter GDP growth came in at a healthy 2.8% quarter-on-quarter annualised, confirming that the economy continues to grow at an above trend pace. Third quarter earnings season began with strong results from the banking sector. Guidance was more mixed for tech companies, particularly on semiconductor demand, which added to market volatility. Generally, positive earnings surprises were among the lowest of recent quarters, highlighting some decline in earnings momentum.

In Europe, there was more evidence of a weakening economic backdrop, with Germany at the epicentre. Recent VDA data indicated continued declines in industrial and car production, with the manufacturing PMI output index remaining firmly in contractionary territory. This weakness in activity was reflected in the European equity market, which posted a decline of 3.2%.

China's recent support measures have renewed focus on the country's equity market. In October, policymakers introduced new initiatives which will allow local governments to use special local government bonds to purchase land from troubled developers alongside a planned debt ceiling hike for local governments. This indicated Beijing's commitment to managing the real estate bubble and boosting consumption. While it is too early to fully assess the impact of these measures, looser monetary and fiscal policy could potentially lead to improved growth in 2025.

Exhibit 4: World stock market returns

2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	YTD	Oct '24
Japan TOPIX 54.4%	US S&P 500 13.7%	Japan TOPIX 12.1%	UK FTSE All-Share 16.8%	MSCI Asia ex-Japan 42.1%	US S&P 500 -4.4%	US S&P 500 31.5%	MSCI Asia ex-Japan 25.4%	US S&P 500 28.7%	UK FTSE All-Share 0.3%	Japan TOPIX 28.3%	US S&P 500 21.0%	Japan TOPIX 1.9%
US S&P 500 32.4%	Japan TOPIX 10.3%	MSCI Europe ex-UK 9.1%	US S&P 500 12.0%	MSCI EM 37.8%	UK FTSE All-Share -9.5%	MSCI Europe ex-UK 27.5%	MSCI EM 18.7%	MSCI Europe ex-UK 24.4%	Japan TOPIX -2.5%	US S&P 500 26.3%	Japan TOPIX 16.4%	US S&P 500 -0.9%
MSCI Europe ex-UK 24.2%	MSCI Europe ex-UK 7.4%	US S&P 500 1.4%	MSCI EM 11.6%	Japan TOPIX 22.2%	MSCI Europe ex-UK -10.6%	UK FTSE All-Share 19.2%	US S&P 500 18.4%	UK FTSE All-Share 18.3%	MSCI Europe ex-UK -12.2%	MSCI Europe ex-UK 17.3%	MSCI Asia ex-Japan 16.1%	UK FTSE All-Share -1.6%
UK FTSE All-Share 20.8%	MSCI Asia ex-Japan 5.1%	UK FTSE All-Share 1.0%	MSCI Asia ex-Japan 5.8%	US S&P 500 21.8%	MSCI Asia ex-Japan -14.1%	MSCI EM 18.9%	Japan TOPIX 7.4%	Japan TOPIX 12.7%	US S&P 500 -18.1%	MSCI EM 10.3%	MSCI EM 12.2%	MSCI Europe ex-UK -3.2%
MSCI Asia ex-Japan 3.3%	UK FTSE All-Share 1.2%	MSCI Asia ex-Japan -8.9%	MSCI Europe ex-UK 3.2%	MSCI Europe ex-UK 14.5%	MSCI EM -14.2%	MSCI Asia ex-Japan 18.5%	MSCI Europe ex-UK 2.1%	MSCI EM -2.2%	MSCI Asia ex-Japan -19.4%	UK FTSE All-Share 7.9%	MSCI Europe ex-UK 8.5%	MSCI EM -4.3%
MSCI EM -2.3%	MSCI EM -1.8%	MSCI EM -14.6%	Japan TOPIX 0.3%	UK FTSE All-Share 13.1%	Japan TOPIX -16.0%	Japan TOPIX 18.1%	UK FTSE All-Share -9.8%	MSCI Asia ex-Japan -4.5%	MSCI EM -19.7%	MSCI Asia ex-Japan 6.3%	UK FTSE All-Share 8.1%	MSCI Asia ex-Japan -4.5%

Source: FTSE, LSEG Datastream, MSCI, S&P Global, TOPIX, J.P. Morgan Asset Management. All indices are total return in local currency, except for MSCI Asia ex-Japan and MSCI EM, which are in US dollars. Past performance is not a reliable indicator of current and future results. Data as of 31 October 2024.

Despite this positive news, Emerging and Asian markets returned -4.3% and -4.5% respectively, hampered by a stronger dollar. Indian stocks have been a leader for much of 2024 but corrected sharply in October, falling 7.3% in local currency terms, mainly due to weak corporate results.

Recession risks remained a key concern in October. However, our base case of a soft landing scenario with falling inflation and rates is still in place. If this environment materialises, it could create opportunities across various asset classes. Equities may remain supported, but returns could shift from the concentration in Big Tech to other sectors and stocks.

Fixed income markets are likely to experience further volatility until the path for rate cuts becomes clearer, though historically, falling rates have boosted government bond returns. As the US presidential election approaches, potential policy changes are a source of uncertainty and have already contributed to the move higher in bond yields.

Balanced and diversified portfolios, combining equities with quality fixed income, can help navigate uncertainty. Adding alternatives may also provide a hedge against unpredictable inflation bumps.

Exhibit 5: Index returns for October 2024

Index	GBP	USD	JPY	EUR	LOC
Equities (MSCI)					
MSCI World Index	2.3	-2.0	4.4	0.8	-0.9
MSCI USA	3.6	-0.7	5.7	2.0	-0.7
MSCI Europe ex-UK	-1.9	-6.0	0.1	-3.4	-3.2
MSCI United Kingdom	-1.4	-5.5	0.6	-2.8	-1.4
MSCI Japan	0.3	-3.9	2.3	-1.2	2.3
MSCI AC Asia ex-JP	-0.3	-4.5	1.7	-1.8	-3.1
MSCI EM Latin America	-1.0	-5.1	1.0	-2.5	-0.9
MSCI EM (Emerging Markets)	-0.2	-4.3	1.9	-1.6	-2.7
Bonds					
Bloomberg Barclays Global Aggregate	0.8	-3.4	2.9	-0.6	
Bloomberg Barclays US Aggregate	1.7	-2.5	3.9	0.3	-2.5
Bloomberg Barclays Japan Aggregate	-2.4	-6.4	-0.3	-3.8	-0.3
Bloomberg Barclays UK Aggregate	-1.6	-5.7	0.4	-3.1	-1.6
Bloomberg Barclays Euro Aggregate	0.7	-3.5	2.8	-0.7	-0.7
Currencies					
Sterling		-4.2	2.1	-1.3	
US dollar	4.3		6.5	2.8	
Yen	-2.0	-6.1		-3.5	
Euro	1.4	-2.7	3.6		

Source: Bloomberg, LSEG Datastream, MSCI, J.P. Morgan Asset Management. Past performance is not a reliable indicator of current and future results. Data as of 31 October 2024.

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