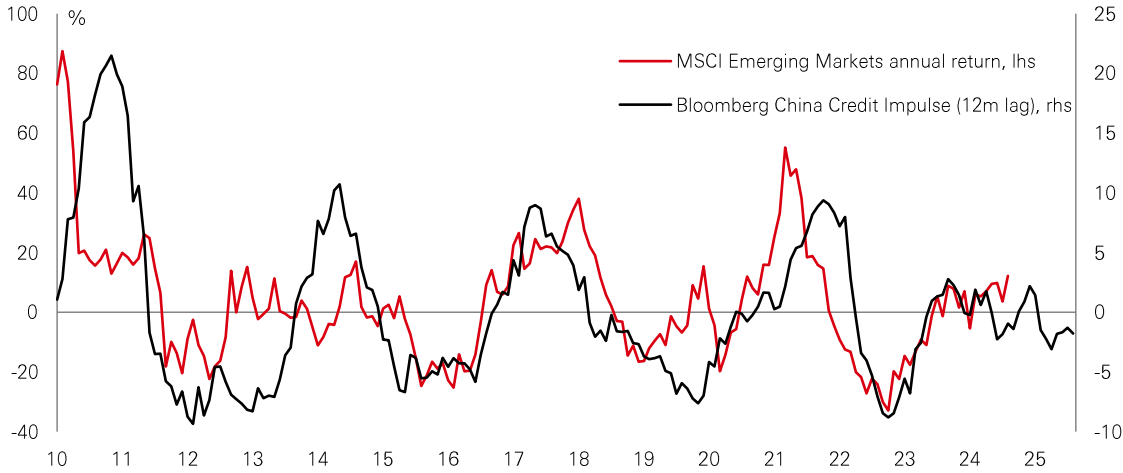


Investment Weekly

30 September 2024

Chart of the week – China’s policy push



Chinese policymakers have unveiled a raft of new measures aimed at reviving the stock market, together with an easing of monetary policy and more efforts to stabilise the property sector. **The move is a co-ordinated policy push to boost economic confidence and asset markets.**

For markets, new measures include facilities to give eligible financial institutions liquidity to buy stocks, support share buybacks, and help major shareholders raise holdings. A national stabilisation fund is also under consideration. The securities regulator also issued guidelines to promote M&A and restructuring to help boost the value of listed firms.

On monetary policy, the 7-day reverse repo rate was cut by -0.20% to 1.5%, and the reserve requirement ratio for large banks was lowered, boosting liquidity. For the property sector, supportive measures include lower rates for existing mortgages, a lower downpayment ratio for second homes, and more funding for the property destocking scheme.

The moves follow the previous week’s US rate cut, which eased pressure on the yuan and gave China’s central bank room to cut rates as it seeks to reflate the economy. **The near-term effect on stocks is clearly positive – with China’s Shanghai Composite index rising nearly 13% last week, and EM markets enjoying a broad pick-up in sentiment (see chart).** Chinese leaders have also vowed to intensify fiscal support, and further improve the focus and effectiveness of policy measures. This is welcome, given that a sustainable recovery in Chinese stocks is likely to hinge on clear signs of macro reflation and a corporate earnings recovery.

Market Spotlight

‘Hyper-sensitive’ markets

Investment markets are ‘hyper-sensitive’ to macro news. But with inflation in retreat, and faster labour market cooling now the top risk for investors, the source of hyper-sensitivity has shifted. It’s the jobs data that move markets now.

A new report by researchers at the Bank for International Settlements documents this idea well. The authors find that market hyper-sensitivity has become more acute in recent years because of an increasingly data dependent US Fed, which has focused on the next few months rather than longer run policy anchors.

This has fostered a **‘data point dependency’ in investment markets.** This summer’s bouts of volatility caused by surprises in non-farm payroll data and core CPI inflation were good examples. It showed how short-term data can be noisy, and why it’s not healthy when the data cycle controls market trends.

It means **the surprisingly-low stock market volatility seen earlier this year is unlikely to return.** Hyper-sensitive markets, the risk of faster growth cooling, election uncertainty, geopolitical tensions, plus an interest rate market already expecting the Fed funds rate to be 3% by next summer, **all point to a more volatile environment in Q4.**

The value of investments and any income from them can go down as well as up and investors may not get back the amount originally invested. Past performance does not predict future returns. The level of yield is not guaranteed and may rise or fall in the future.

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European Stocks →

Why European equities have seen a performance pick-up

Asian High Yield →

Factors driving the strong performance of Asian credit

European Bonds →

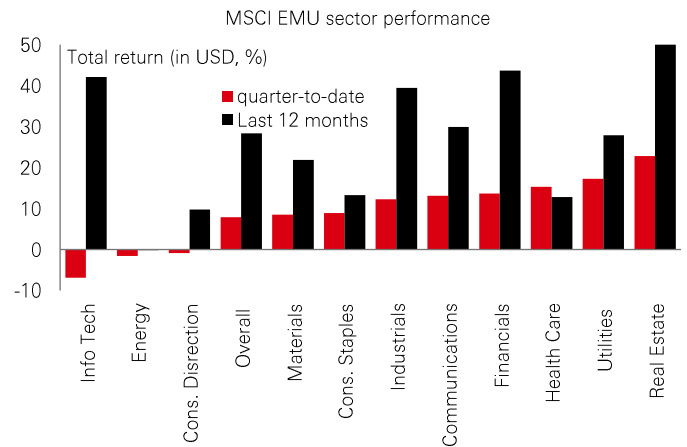
Exploring converging yields in French and Spanish bonds

China policy boosts European stocks

China’s new package of economic stimulus helped drive European stock markets higher last week. European firms have relatively high exposure to China, so new policy support and robust signalling of more measures to come have been welcomed. It’s particularly good news for countries like Germany, which continues to labour under an industrial downturn.

Market gains have come amid a broadening out of performance across sectors in Q3. The bloc’s relatively modest exposure to the technology sector compared to the US has played in its favour. And despite some weakness in recent macro and company news, investors have remained risk-on. Expectations of a soft landing have been particularly helpful to left behind, rate-sensitive sectors, with real estate, healthcare, and utilities in top spot during the quarter.

European stocks currently trade on a 5% discount to their long run average 12-month forward price-earnings ratio of 13x. Earnings have lagged but are expected to rise to 10.2% in 2025. **That could present selective value opportunities, but earnings could also be sensitive to a more pronounced global slowdown** – so some caution is warranted.

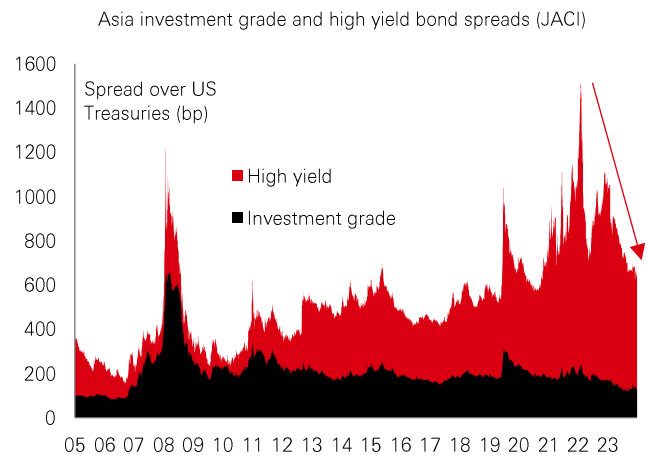


Asian high yield’s blistering run

A quick glance at the returns of major credit markets this year shows Asian high yield as a standout performer. Spreads – as measured by the benchmark JP Morgan Asia Credit Index (JACI) – have collapsed, continuing the strong recovery from late 2022’s yield spike as a number of China’s beleaguered property developers defaulted.

Last week’s China stimulus package is good news for the asset class. Not only does it boost cyclically sensitive names in the region but also helps provide a floor for China’s property names – the most volatile part of the universe. And with this sector now a much smaller component of the overall index, default rates should continue to moderate. Exposure to non-China names is also increasing, including in growth superstars such as India and ASEAN economies. **The trend of increasing country and sector diversification implies significantly less volatility over time.**

Spreads remain high versus their 10-year historical range, implying room for further gains. But tactically, some caution is warranted following the blistering run and macro and geopolitical risks.

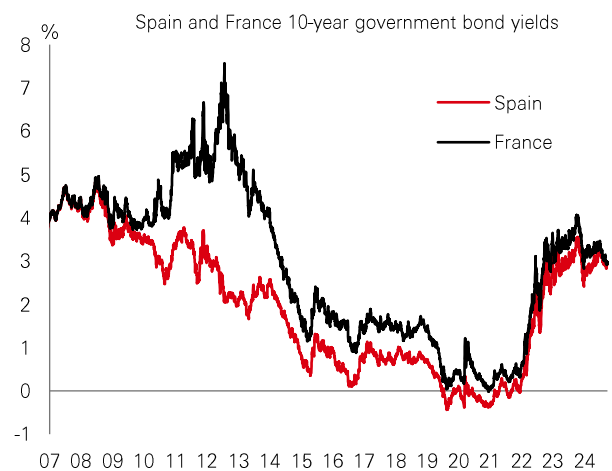


Eurozone’s blurred lines

Yields on 10-year French bonds rose above their Spanish equivalents last week for the first time since 2007. The yield gap between the two has tightened in recent months, after trading as wide as 0.45% earlier in 2024.

Eurozone peripheral country bonds, including Spain’s, have been in particular demand since the ECB began cutting rates in June. Investors have been attracted by their relatively high yields, as well as positive signs of fiscal consolidation and improving debt ratios. Italy, Portugal, and Greece have also captured attention. By comparison, there has been growing unease over France’s deteriorating public finances and political uncertainty, which has put pressure on its bond spreads.

Recent market pricing offers evidence of a blurring of lines between the eurozone’s traditional core bond markets (Germany and France) and its riskier periphery.



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Key Events and Data Releases

Last week

Date	Country	Indicator	Data as of	Actual	Prior
Mon. 23 September	US	Composite PMI (Flash)	Sep	54.4	54.6
	EZ	Composite PMI (Flash)	Sep	48.9	51.0
	IN	S&P Global Manufacturing PMI (Flash)	Sep	56.7	57.5
	UK	S&P Global Composite PMI (Flash)	Sep	52.9	53.8
Tue. 24 September	CN	7-day Reverse Repo Rate	Sep	1.50%	1.70%
	US	Consumer Confidence Index, Conference Board	Sep	98.7	105.6
	AU	RBA Cash Target Rate	Sep	4.35%	4.35%
	GE	IFO Business Confidence Index	Sep	85.4	86.6
	US	S&P Case-Shiller 20 House Prices (mom)	Jul	0.3%	0.5%
Wed. 25 September	SW	Riksbank Policy Rate	Oct	3.25%	3.50%
Thu. 26 September	US	GDP, Final (qoq)	Q2	3.0%	3.0%
	MX	Banxico de Mexico, Overnight Lending Rate	Sep	10.50%	10.75%
Fri. 27 September	JP	Tokyo CPI excluding food and energy (yoy)	Sep	1.2%	1.2%
	US	PCE Price Index (yoy)	Aug	-	2.5%

US - United States, EZ - Eurozone, IN - India, UK - United Kingdom, CN - China, AU - Australia, GE - Germany, SW - Sweden, MX - Mexico, JP - Japan

The week ahead

Date	Country	Indicator	Data as of	Survey	Prior
Mon. 30 September	CN	Manufacturing PMI	Sep	49.3	49.1
Tue. 01 October	JP	Unemployment Rate	Aug	2.6%	2.7%
	JP	Tankan Business Conditions Manufacturing Index	Q3	13.0	13.0
	US	ISM Manufacturing Index	Sep	47.7	47.2
	US	JOLTS Job Openings	Aug	-	7.67mn
	BR	S&P Global Manufacturing PMI	Sep	-	50.4
	KO	S&P Global Manufacturing PMI	Sep	-	51.9
	EZ	HICP, Flash (yoy)	Sep	2.0%	2.2%
Wed. 02 October	MX	S&P Global Manufacturing PMI	Sep	-	48.5
Thu. 03 October	US	ISM Services Index	Sep	51.6	51.5
Fri. 04 October	US	Change in Non-Farm Payrolls	Sep	140.0k	142.0k

CN - China, JP - Japan, US - United States, BR - Brazil, KO - South Korea, EZ - Eurozone, MX - Mexico

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Market review

Risk assets rallied on details of a comprehensive stimulus package to support the Chinese economy, with China's Politburo pledging further fiscal action to come. Core government bonds softened with Treasuries underperforming Bunds ahead of key US employment data. Global equities were broadly positive, led by a rally across emerging markets. China's Shanghai Composite and Hong Kong's Hang Seng indices surged, with Chinese stocks enjoying their strongest week since 2008. Korea's Kospi and India's Sensex posted modest gains. In developed markets, the Euro Stoxx 600 touched new highs, outperforming the S&P 500, with China-exposed luxury goods stocks recording notable gains. Japan's Nikkei 225 also performed well, supported by a weaker yen. In commodities, oil prices retreated on rising supply worries. Copper and gold were both on course to close the week higher.

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