AS AT 31.10.2024

Market Review

Global equities, which had ended August on a record high, fell significantly in the first week of September on concerns over US growth. They then saw a rebound. The confirmation of a slowdown in inflation, the affirmation of the global monetary policy easing cycle – in particular with a first larger-than-expected cut in US policy rates – and the announcements of ambitious monetary and fiscal measures to support activity in China helped the MSCI AC World index in US dollar terms to rise by 2.2% in September, ending the month at an all-time high.

Beijing’s initiatives to address ‘new problems that require a sense of responsibility and urgency’ were quicker and deeper than expected – significant multiple rate cuts, direct help to consumers, support for the property market. In response, Chinese equities soared (+23.6% for the MSCI China index, back to its highest level since early February 2023), leading to a strong outperformance of emerging markets (+6.4% for the MSCI Emerging Markets index in US dollar terms). The performance of the MSCI China and MSCI Hong Kong indices explained the solid rise of the MSCI AC Asia ex Japan index (+8.2%) despite the decline in South Korean equities and limited gains in Taiwan and India.

Within developed markets, US equities were boosted by the cut in key rates on 18 September. The extent of the cut, which could have reflected authorities' fears about growth, first worried investors, but the Fed's commitment to ensure a soft landing for the economy quickly reassured. The S&P 500 index ended the month at a record high, up by 2.0% from the end of August and by 20.8% year to date. The monthly rise in the Nasdaq composite was 2.7%, as tech stocks took advantage of the fall in bond yields. Eurozone equity markets posted a more modest rise (+0.9% for the EURO STOXX 50; +1.0% for the MSCI EMU), penalised by poor economic indicators pointing to the likely stagnation of third quarter GDP in the eurozone. Furthermore, equity investors seemed less sensitive to the ECB cutting its main policy rate by 25bp in September than they were to the ‘Fed pivot’ theme. In Japan, equity indices ended down (-1.9% for the Nikkei 225; -2.5% for the Topix). The appreciation of the yen, which in mid-September reached a year-to-date high against the US dollar, was one explanation, but we should not ignore the sharp decline in indices on Monday 30 September in reaction to the election on 27 September, after the market closed, of Shigeru Ishiba as the leader of the LDP (Liberal Democratic Party). Before his election, which was not wholly expected, the new Prime Minister had repeatedly spoken in favour of normalising monetary policy. Finally, after the Japanese market having benefited in recent months from the disaffection for Chinese equities, the opposite sentiment may have been at work in September.

Globally, the consumer discretionary sector posted the largest increase, followed by materials, especially in emerging markets for the latter. The energy sector saw the biggest drop. Doubts about global demand and worsening geopolitical tensions led to erratic oil prices, which ended the month down. At the end of the month, rumours of an upcoming rise in Saudi Arabia's production weighed further on prices. Brent ended the month down by 8.9% at USD 72 per barrel and WTI down by 7.3% at USD 68/bbl.

In September, the growth style (+2.5% for the MSCI AC World Growth) modestly outperformed the value style (+1.9% for the MSCI AC World Value).

Source: BNP Paribas Asset Management as at 31 October 2024. Past performance is not indicative of current or future performance. The above views represent our judgement as at the date of this report and may be subject to change without notice. Any economic and market trends/forecasts are not a guide to future performance of the fund. The funds/securities mentioned above are for illustration only and shall not constitute any investment advice. Calendar year performance: 2023: 6.63%, 2022: -14.53%,. Classic RH SGD, Capitalisation shareclass, net of fees, NAV-to-NAV with dividends reinvested, in SGD.

Fund Performance & Portfolio Activity

Fund Performance

The fund BNP Paribas Sustainable Multi-Asset Growth detracted by -0.85% in October underperformed the benchmark which returned 0.18% (Classic RH SGD, Capitalisation share class, net of fees, NAV-to-NAV with dividends reinvested, in SGD).

The effect from asset allocation was slightly positive this month.

The effect from stock selection however was rather neutral this month.

The fixed income position had a rather neutral effect on selection.

Portfolio Activity

The reason for the negative selection effect is coming from the thematic equity bucket. Almost all thematic equity funds suffered this month. The only fund who stood out positively was Pictet Digital. Templeton Global Climate Change, BNP Paribas Funds Global Environment and BNP Paribas Easy ECPI Circular Economy Leaders suffered the most in October.

The fixed income position had a slightly positive effect on selection.

During the month of October, we did the following meaningful movements in the portfolio:

1) We opened a long position in UK Gilts of about 3% (via futures)
2) We closed our long position in NOK versus EURO

We ended the month with an overweight equity position (0.83% to 0.92 % depending on the profile) and hold about 1.2% in European Real Estate. We keep on running an overweight duration position.

Fund Outlook and Positioning

This year, investors have spent a long time waiting. They waited, among other things, for the first Fed's rate cut, meaningful stimulus measures in China, the result of the November US presidential election. After November, things should (hopefully) become a little clearer. The Fed began easing monetary policy in September and will likely continue at a moderate pace, assuming still solid growth. Beijing should clarify its intentions and set out the practical modalities of its initiatives to support consumption and the property sector. The US ballot box will deliver its verdict. It will then be time to return to fundamentals.

In its latest report, the International Monetary Fund noted that 'global growth is expected to remain stable yet underwhelming'. This outlook is not inspiring but should allow the further normalisation of monetary policies without central banks needing to accelerate easing to counter a recession risk. This environment is a priori favourable to business activity.

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We still think a slight overexposure to equities is appropriate. Our position is currently mainly in US tech stocks but could be broadened to other markets or sectors based on valuation criteria and visibility on corporate earnings. On the government bond side, the picture is more complex: Policy rate cuts normally have an effect across the yield curve. However, this easing cycle was widely anticipated well before it started. Over the months, the adjustment in investors' (sometimes excessive) expectations has caused significant changes in bond yields.

In addition, the theme of ballooning public debt, which has not been a campaign theme in the US, could return to the forefront and lead to a sustained rise in term premiums. It is not possible to conclude whether the sharp rises in US long-term bond yields in October were due to this phenomenon or when this mechanism could be put in place. At the same time, the levels reached by long-term bond yields at the end of October were attractive thresholds, particularly in the eurozone given the poor growth outlook and the ECB's dovish speech.

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