Alpha Beta
PARTNERS

INVESTMENT UPDATE

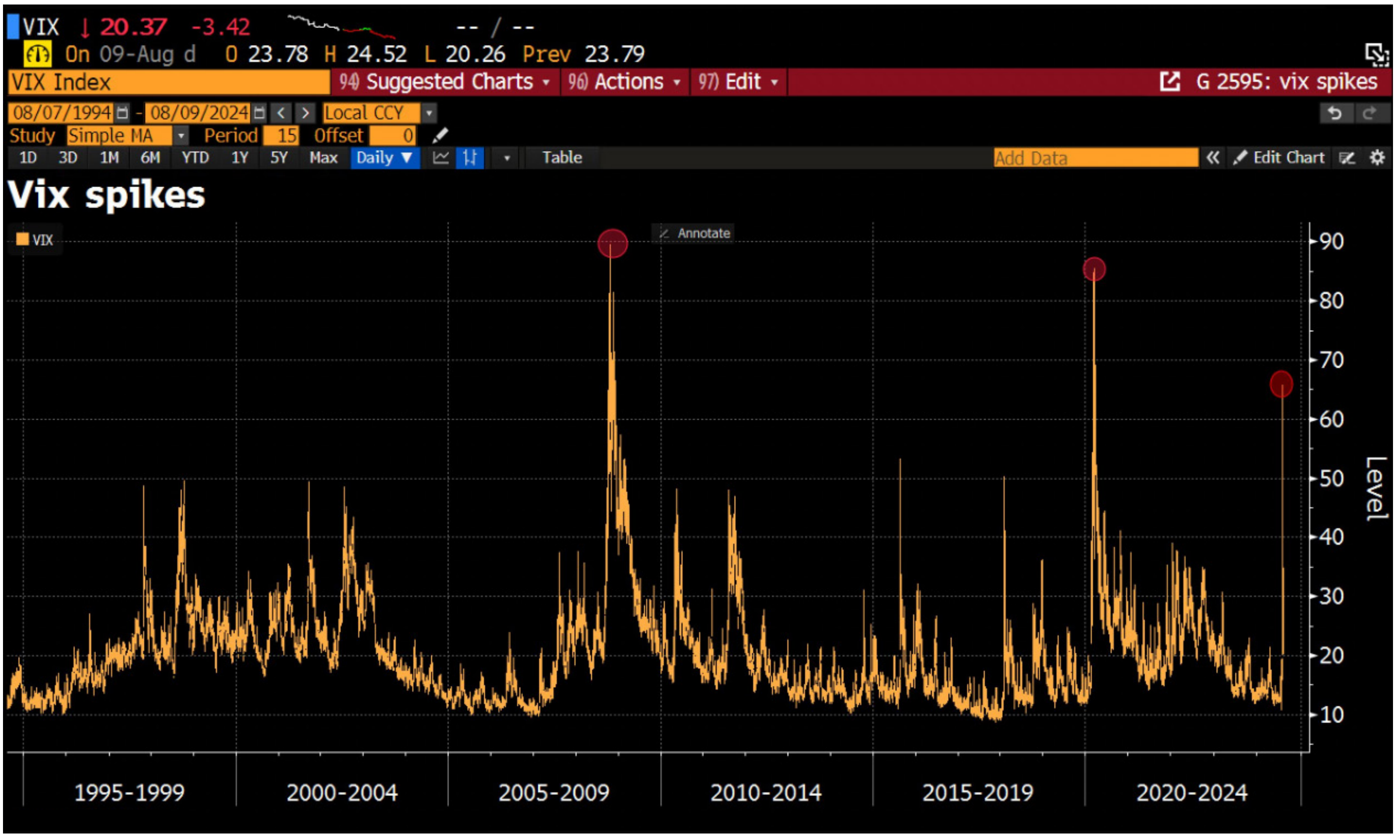
SEPTEMBER 2024

FOR PROFESSIONAL INVESTORS ONLY

www.alphabetapartners.co.uk

Gone are the days of a gentle August it seems. During the month, for a short period, equity market volatility denoted by the VIX Index spiked to its highest point since the onset of the pandemic and the 2008 banking crisis, before normalising back to lower levels. We investigate exactly what caused this and any knock-on implications alongside our regular update that follows.

The Yen has devalued significantly reaching its weakest point in decades.



Source: Bloomberg

Japan has undergone something of an economic renaissance with an important but subtle change to policy, allowing for bond yields to nudge higher and for inflation to rise to (so far) controlled levels.

The Yen has devalued significantly reaching its weakest point in decades. This has stimulated export activity, and stocks have rallied strongly. The weaker Yen has allowed the so-called carry trade to reestablish itself where investors borrow in a cheap currency and reinvest (sometimes with gearing) in a higher yielding asset. So, when the Bank of Japan raised rates marginally in August to slow the Yen devaluation, the carry trade became less profitable for global investors.

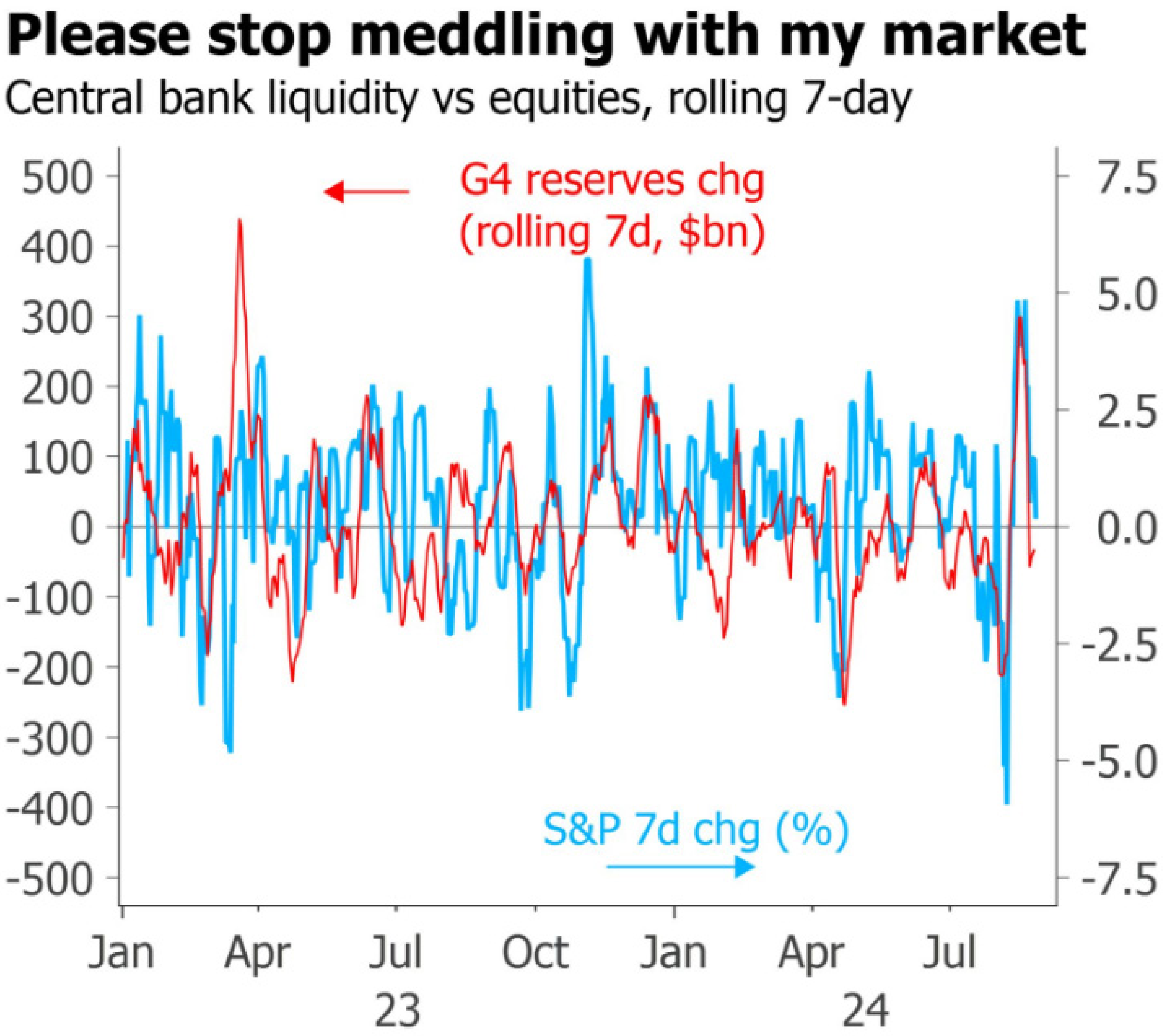
The sudden unwind of complex trades gave rise to a spike in equity market volatility which soon normalised when Mr Yueda, the bank of Japan Governor stated, “disorderly markets are not Japan’s goal”. Coincident weaker economic data from America added fuel to volatility which soon normalised.

The United States retains its status as global economic powerhouse with economic growth more robust than elsewhere in the world supported by the dollar, which remains the global reserve currency. During August we witnessed inflation’s ongoing cooling enroute towards the 2% objective. Unhelpfully, we also witnessed notably weaker jobs data sufficient to create concerns around an economic slowdown, which has been under discussion for some time.

Federal Reserve minutes supported by comments from Jerome Powell, Federal Reserve Chair, at the annual Jackson Hole global central bank gathering in the beautiful Wyoming countryside, highlighted 2 key deliverables: a focus on the labour market with an ambition of rectifying any weakness, and a journey towards lower interest rates, no doubt commencing later this month. Good news for the economy and long term positive for risk assets. We note the inaugural rate cuts in a new cycle are not always a stimulus for equity market celebration.

The provision of fiscal support for the economy, and indirectly for risk assets remains in place with the Reverse Repo and Treasury General Account providing ongoing liquidity, which appears to be gathering momentum into the second half of 2024 as we have forecast here in recent months. We note US money supply went from -4.50% to +1.26% - a material change.

The chart shows how liquidity drives markets.



Source: National central banks, Macrobond, Satori Insights. Excludes FX effects.

Companies delivered positively during the latest earnings season with overall growth of around 9% and consumer sentiment remains warmly disposed to "keep on spending", despite the weaker jobs data.

The knock-on broader implications for weaker jobs, should the trend continue in the United States, is very evident. Meanwhile, US short duration treasuries benefited from interest rate cutting prospects and the yield curve shape has begun to normalise. Portfolio positioning is important.

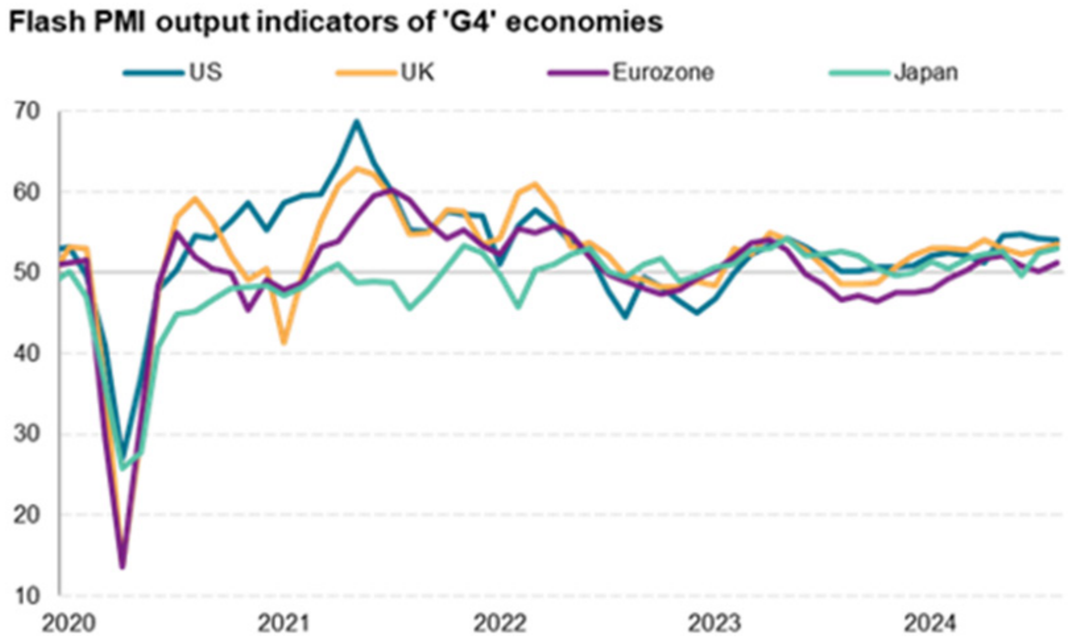
Notwithstanding a sudden geopolitical flare up, our predicted turn lower in the US dollar appears to be unfolding. Not only has the gold price soared to all-time highs, but the Dollar Index has fallen near -5% against other currencies over recent weeks. Curiously, this should be a sign for optimism, not pessimism. It will spur increased lending across world markets and underpin global economic recovery. A weaker dollar will of course stimulate emerging economies, making their dollar borrowings more affordable to fund.

As we have discussed here over several months, the economic outlook for China remains poor. Take retail sales, for instance, which are 9% weaker than their pre-pandemic trend. The Chinese are ramping up exports from state-subsidised enterprises to compensate, and their inexpensive goods are causing disinflationary pressures in the west. The Chinese currency has weakened to assist exports but over capacity remains a problem with western tariffs creating headwinds to progress. Of course, the duo of structural problems remains unresolved, a burgeoning debt problem linked to a bankrupt property sector once responsible for as much as much as 25% of GDP and a shrinking and ageing population making economic expansion difficult, but simultaneously explaining heavy investment in technology and notably artificial intelligence. Further stimulus is undoubtedly required by the People's Bank of China. America, Canada, Europe, and the UK are imposing trade tariffs on Chinese electric vehicle (EV) and solar imports, creating significant export challenges for China. In response to these tariffs, China may look to offload its surplus EV and solar inventory in Asia and Africa at lower costs. While short-term deflationary pressures may benefit consumers, there could be long-term economic implications.

Europe and the Eurozone has benefited from lower interest rates although Germany, once the economic strong man of Europe, is struggling particularly at a manufacturing level. Larger European based companies with globally diversified earnings continue to trade profitably making sensible contributions to portfolio returns. However, economically the bloc is less robust than in previous years.

At home in the UK, we cannot help feeling the new Government has set about their tasks in curious fashion. Inflation busting pay awards for low productivity old industries in the public sector have helped push borrowing to higher than budgeted levels.

Sir Kier Starmer has stated the Budget later this autumn will be tough indeed and things will likely "get worse before getting better". Mr Andrew Bailey, the Bank of England Governor spoke at the global central bankers annual get together stating caution around current lower levels of inflation, as "we are not back to target on a sustained basis". That said, UK GDP is comparatively well positioned alongside G4 peers except for the United States. Government bonds remain stable, and sterling has appreciated alongside GDP. UK equities are up around 12% over one year. Is this the dreadful economic legacy recently inherited?



Data compiled August 22, 2024.
PMI covers manufacturing and services 50 = no change on prior month.
Sources: S&P Global PMI with HCOB (Eurozone) and au Jibun Bank (Japan).

As we enter the seasonally "wobbly" time of year for stock markets, we remain focused on geopolitical concerns with no resolution in the Middle East, and the Russo Ukraine conflict taking a new and even more unpredictable twist with western-supplied Ukrainian troops pushing into part of Russia. India's President Modi, an active buyer of sanctioned Russian oil, has tried to mediate, which is on the face of it a positive development. The American election remains on track for November but remains unpredictable in terms of outcome and random events.

At portfolio level, we held firm in the face of short-lived volatility as set out above. This proved to be sensible as market levels and volatility has broadly normalised since.

Performance remained on course during the month, with positive attribution to falling short-dated bond yields and liquidity in the US. Our dollar hedge on US equities is now coming into its own as the dollar weakens finally on expected rate cuts. Our unhedged portion will act as a buoyancy aid should geopolitics resurface and trigger the dollar higher. In Japan, we are considering the option to trim back further our position and to take more profits into portfolio valuations. We will update on our deliberations.

All other positions remain in situ for now as we head towards an autumn season of likely falling interest rates and higher liquidity, and we hope a clear-cut conclusion to the US Presidential election. We thank clients for their ongoing support and would be very pleased to field questions.

Written by the Alpha Beta Partners Investment Team.

All sources Bloomberg unless otherwise stated.

CONTACT

Andrew Thompson

Tel: 020 8152 5117

Email: at@alphabetapartners.co.uk

Address: Northgate House, Upper Borough Walls, Bath BA1 1RG.

Important Information

This is a marketing communication from Alpha Beta Partners, which is a trading name of AB Investment Solutions Limited, which is registered in England (no. 09138865), and regulated and authorised by the Financial Conduct Authority. Alpha Beta Partners Limited is the parent company of AB Investment Solutions Limited, registered in England and Wales (no. 10963905). The registered office for both entities is Northgate House, Upper Borough Walls, Bath, BA1 1RG.

Alpha Beta Partners use all reasonable skill and care when compiling the information in this communication and in ensuring its accuracy, but no assurances or warranties are given. You should not rely upon the information in this communication in making investment decisions. Nothing in this communication constitutes advice or personal recommendation. Past performance is not a guide to future return and may not be repeated. Investment involves risk. The value of investments and the income from them may go down as well as up and investors may not get back the amount originally invested.

Financial advisers can find further information at www.alphabetapartners.co.uk or via telephone at 020 8152 5120. We ask clients to please go to their financial adviser with any queries or information requests.

defaqto DFM MPS on Platform 2024 EXPERT RATED

defaqto DFM MPS (Platform) Family 2024 EXPERT RATED

The Defaqto Five Diamond Rating awarded on Alpha Beta's Core and Core Plus range

Scan here to visit our website

Alpha Beta PARTNERS