

Market update

October 2024

October 2024: No 'Oktoberfest' in the financial markets

Sadly, there was no 'Oktoberfest' in the financial markets, as many asset classes showed negative returns. Only US equities and high yield corporate bonds managed to escape the downturn to some extent.

Real estate was the worst performing asset class, down more than 8% in October. This was partly caused by the rise in capital market rates, which also hurt bonds. Government bond prices fell by 1% in October, and corporate bonds lost 0.3%. Slightly higher-risk corporate bonds outperformed with a yield of 0.6%.

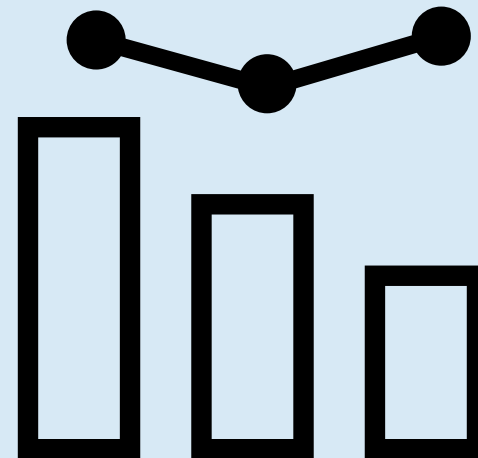
Global stock markets had a moderate month in October. European stocks lost more than 3% in value, Asian stocks gave up almost 2.5% and emerging markets equities also lagged, losing more than 2% in value. This last development was partly due to China, where markets have reacted to earlier announced stimulus measures with disappointment. In regional terms, US equities again performed best, with a return of 1.5% in euro terms. This was mainly due to an appreciation of the US dollar of more than 2% against the euro in October.



The returns on the various asset classes were as follows:

Rendementen (total return, in euro's)	October	Q4	2024	12 mths
Bloomberg Barclays Eurozone Staatsobligaties	-1.0%	-1.0%	1.0%	7.8%
Bloomberg Barclays Euro Bedrijfsobligaties	-0.3%	-0.3%	3.5%	8.8%
Bloomberg Barclays Euro High Yield Bedrijfsobligaties	0.6%	0.6%	6.9%	13.1%
FTSE/EPRA Europe Onroerend Goed	-8.3%	-8.3%	-2.7%	22.1%
MSCI Europe Aandelen	-3.3%	-3.3%	8.0%	19.2%
MSCI North America Aandelen	1.5%	1.5%	21.7%	33.6%
MSCI Asia Pacific Aandelen	-2.4%	-2.4%	13.6%	22.7%
MSCI World Developed Markets Aandelen	0.2%	0.2%	16.7%	28.0%
MSCI Emerging Markets Aandelen	-2.2%	-2.2%	13.3%	21.8%
EUR/USD	-2.3%	-2.3%	-1.4%	2.9%

Source: Bloomberg



Economic growth accelerates in the eurozone and remains strong in the US

The eurozone economy grew by 0.9% year-on-year in the third quarter. This was quite a positive development, as it is an acceleration compared to the second quarter, when the economy grew by 0.6%. It is also the highest growth rate in the eurozone since the second quarter of 2023. But the underlying picture shows that things are not going well everywhere in the eurozone. Germany, the eurozone's largest economy, contracted by 0.2% year-on-year. Southern countries such as Spain and Portugal are doing much better with year-on-year growth of 3.4% and 1.9% respectively. The French economy has also shown reasonable growth of 1.3%, but this was influenced by the one-off effect of the Olympic Games in France. Furthermore, forward-looking indicators such as purchasing manager indices show that growth in the eurozone is not broadly supported. While services are growing, industry is contracting. The Services Purchasing Managers' Index (the "Services PMI") stands at 51.2, but the Manufacturing Purchasing Managers' Index (the "Manufacturing PMI") is at 45.9 (a figure below 50 indicates contraction). So, while the eurozone economy does appear to be improving somewhat, the recent acceleration in growth should be viewed with caution.

Contrary to the eurozone, the US economy grew quite strongly, at 2.8% (annualised quarter-on-quarter growth) in the third quarter. This is slightly less than the 3% growth in the second quarter, but still above average for the US. The growth was driven mainly by an increase in consumption (the total of goods and services that households buy) of 3.7%. American consumers, it seems, are still willing to spend money. This is important because consumption accounts for 70% of the US economy.



How much economic growth will the eurozone and the US generate in 2025? According to economists polled by Bloomberg, the eurozone economy will grow by 1.2% in 2025, while the forecast for 2024 is 0.7%. So next year will be better than this year, albeit marginally. For the US, the forecast is 2.6% for 2024 and 1.9% for 2025. The IMF makes more or less the same forecast in its recent '[World Economic Outlook](#)'. So both the IMF and the economists polled by Bloomberg believe that US economic growth will continue to outpace growth in the eurozone in 2025, but the difference will be less significant as eurozone growth grows while US growth declines.

China's economy is struggling, will the government come to the rescue?

Unfortunately, the Chinese economy is still struggling, growing by only 4.6% year-on-year in the third quarter of 2024. It is thus more likely that China will fail to meet its 5% growth target this year. Growth in the first and second quarters of this year was 5.3% and 4.7% respectively, so year-on-year growth of 5.4% will be needed in the fourth quarter to achieve 5% for the full year. This is not impossible, but it is a challenge. Recent indicators for the health of the Chinese economy do not so far indicate that the economy is doing that well in the fourth quarter. While things seem to be going slightly better, there is no evidence of a growth spurt in the fourth quarter. Retail sales grew 3.2% year-on-year in September, hardly a strong figure compared to the 10-year average of 7%. The Manufacturing PMI rose slightly in October, from 49.8 to 50.1. This indicates growth in the manufacturing sector for the first time in half a year, albeit only marginal (a PMI of 50 indicates neither growth nor contraction). The Services PMI was also just above 50 for October (at 50.2). One bright spot, however, was industrial production, which was up 5.4% year-on-year in September, its strongest growth since April this year. Finally, there are still serious problems in real estate, one of the most important sectors in China. Prices of new-build homes fell by 5.7% in September. This is concerning, since new-build prices have fallen in every month this year, with larger declines in each successive month.

These signals have not gone unnoticed by the Chinese government, which has already indicated that it will stimulate the economy with a package of measures. The initial reaction in the Chinese stock market was very positive, although enthusiasm has waned somewhat due to uncertainties about the size of the stimulus. The Chinese government and the central bank (the PBoC) may well take further measures to stimulate growth in the coming months, as indicated by the PBoC's cut of two of its policy rates by 0.15% in October (the '1-year loan prime rate' and the '5-year loan prime rate'). Whether the stimulus will be enough to lift China's economy out of the doldrums remains to be seen.

The US election is a neck-and-neck race

The US presidential election is in full swing, and it appears to be a neck-and-neck race between Donald Trump and Kamala Harris. Whereas Harris first scored above Trump in both the polls (see, for example, [Yougov](#) and [FiveThirtyEight](#)) and in the betting markets, in this last category there now looks to have been a strong shift towards a Trump victory (see [RealClearPolling](#) for example). These indicators are questionable to some extent. For example, there may be selection effects in both the polls and the betting markets. The type of person who votes for Trump, for example, might be more likely to place a bet, making Trump's chances appear higher than they may be. And the polls have also not been particularly accurate in the past. It seems prudent to assume that the outcome is rather difficult to predict and therefore to think in terms of scenarios. In a [recent analysis](#), we did this by considering the possible effects of the election of Trump or Harris as president. In a nutshell, this is what follows.

Various calculations (e.g. from the [University of Pennsylvania](#) and the [CRFB](#)) show that the policies of both Trump and Harris will cause the US budget deficit and national debt to increase, the difference being that the increases will be greater under Trump than under Harris. The difference depends in part on who gets power in the US Congress, which consists of the House of Representatives and the Senate. The Democrats currently have a majority in the Senate and the Republicans have a majority in the House of Representatives. It seems more likely that after the presidential election, power in Congress will remain divided, although the Democrats could well win a majority in the House of Representatives and Republicans could gain a

majority in the Senate. This, for example, would make it harder for Trump to structure his plans to make the income tax cuts he enacted in 2018 (the “Tax Cuts and Jobs Act”) (which expires in 2025). For Harris, for example, it will be more difficult to implement her plan to increase tax on corporate profits from 21% to 28%. Both these plans would require congressional approval. A Trump victory could well boost inflation in the US because of the tariffs he wants to impose, for which he does not need congressional approval. But a stagflation scenario (with low economic growth and high inflation) in the US is becoming more likely under either presidential candidate. Stagflation would not be favourable for either US equities or bonds.

One implication of the above is that inflation in the US could be significantly higher than currently expected. Higher inflation could force the Fed to raise its policy rate again in 2025 rather than lower it further, and could be accompanied by shocks in the financial markets.



Core inflation remains persistent

Inflation in the eurozone accelerated slightly again, from 1.7% in September to 2% in October. At first glance, this looks like good news. After all, it is precisely the ECB's objective. But underlying this, there are important nuances. First of all, the low level of inflation is mostly due to a fall in energy prices, which fell by 4.6% in October. Secondly, services inflation has not fallen from the previous month's level of 3.9%. Services inflation is a significant factor in core inflation, which the ECB looks at in particular for determining monetary policy. Services inflation in turn depends on wage growth, which is still relatively high in the eurozone. According to data from the job site [Indeed](#), wage growth in the eurozone was 3.1% in September. This is considerably lower than the 4.1% in August, but higher than the inflation rate of 1.7%, which means that there has been a further increase in purchasing power. It should be said that part of this wage growth is due to a catch-up of the loss of purchasing power in the past two years. Wage growth is therefore likely to decline further over time. But unemployment in the eurozone is at an all-time low (6.3%, the lowest level since this figure was measured) and that decline could continue for a few months. If services inflation remains high, core inflation is unlikely to fall anytime soon.

Looking ahead, the development of oil prices will also be important for inflation. Currently, a barrel of oil costs 73 US dollars. That's down 16% from a year ago, when oil cost USD 87 a barrel. These kind of 'base effects' could cause headline inflation to remain low or even to fall further in the coming months. But oil prices are volatile and sensitive to geopolitical tensions. If, for example, tensions between Israel and Iran escalate further, the oil price could rise abruptly, which would in due course affect inflation.

There are parallels to be drawn with the eurozone as regards inflation in the US, where inflation is also now close to the central bank's target. US inflation stood at 2.4% in September, but here too, this rate is suppressed by falling energy prices, which fell by 6.8% in September. Services inflation is also high here as well (4.7% in September), while core inflation (3.3% in September) is falling only gradually. Furthermore, with an unemployment rate of 4.1% and wage growth of 4%, the US labour market is still tight. It should be noted here that the US jobs market is showing signs of cooling. The number of non-agricultural jobs in the US created in October was 12,000, much less than in the previous month (223,000). All in all, the decline in core inflation in both the eurozone and the US appears to be only gradual.

Further interest rate cuts are on the horizon, but how much is uncertain

The ECB cut its deposit rate by 0.25% to 3.25% on 17 October, its third rate cut this year. It looks likely that the ECB will continue to lower its policy rates in the coming year. By how much is still unclear. Based on the pricing of overnight index swaps, the financial markets expect the ECB's deposit rate to be 2% by June 2025. This implies five interest rate cuts of 0.25%, which seems a reasonable assumption. However, if the European economy does not collapse in 2025 and wage growth remains high, the ECB may be less inclined to cut its policy rate than the financial markets currently expect. Broadly speaking, the same applies to expectations of interest-rate cuts in the US. Here, financial markets currently expect four interest-rate cuts of 0.25% between now and June 2025. The risk here is that a Trump victory could change this path significantly.

Given the major uncertainty, no strong opinion is appropriate

We also have no strong opinion on any specific asset class for the coming month. Economic growth is going reasonably well, which could help stocks. Inflation is falling, which may be good for bonds. And policy rates are declining, which could help real estate. Lower short-term interest rates do not make safe short-term investments (in cash) attractive. But all these views are subject to qualification. The situation surrounding inflation (and hence policy rates) is highly uncertain, due to factors such as geopolitical tensions, tight labour markets and also the outcome of the US election. There is also a great deal of geopolitical uncertainty (such as in the Middle East) and policy uncertainty (such as in France). Stocks do not thrive on uncertainty, and bonds do not thrive on rising inflation and interest rates. Cash is not currently attractive with policy rate cuts in prospect, but if the rate cuts are disappointing and equities, real estate and bonds are all performing poorly, this is usually the only safe haven.

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