

## Month Overview

Most stock markets have shown positive results this month, as have bond markets. This positive performance coincides with many central banks worldwide lowering their interest rates. The U.S. Federal Reserve has finally joined this movement by effectively ending its restrictive monetary policy. The U. S. is displaying promising economic results, leading to the belief that a soft landing could be achievable. In contrast, other major economic areas, such as Europe and China, do not seem to be on the same trajectory. Indeed, China, aware that it will not meet its growth objectives, announced a significant stimulus plan.

For several months, a divergence in economic growth between countries has been noticeable, particularly in the aftermath of the inflation period. It is therefore not surprising to expect revisions of economic growth forecasts, both nationally and globally. However, this divergence does not seem to be disturbing financial markets, at least for now

## Economic Environment

Long anticipated, the Federal Reserve has finally reduced its federal funds rate, which had been maintained at the same level for nearly a year, by 50 basis points to 5.00%, exceeding the initially considered 25 basis points. With strong confidence in the economy, the U.S. central bank highlighted its robustness—real gross domestic product (GDP) increased at an annual rate of 3.0 percent in the second quarter of 2024—and acknowledged significant progress in combating inflation while sustaining favorable labor market conditions, which have softened recently but remain low by historical standards. While the 50 basis point cut was proposed, it still came as a surprise. Just a few days after the rate decision, Fed Chairman Powell indicated that the Fed's baseline expectation is now for two additional quarter-percentage-point reductions by the year-end. Most likely, as a prudent move, the bank intends to mitigate the potential risk of an economic slowdown by implementing a total rate reduction of one percent before the start of next year.

The European Central Bank (ECB) has cut its deposit rate by 25 basis points to 3.50% and lowered its refinancing operations rate from 4.25% to 3.65%, resulting in a 15 basis point spread with the deposit rate, as announced back in March 2024. This refinancing rate reflects the cost for banks to borrow from the ECB, akin the U.S. federal funds rate. Additionally, the Swiss National Bank has also reduced its policy rate by 25 basis points, while the Bank of England has chosen to maintain its current rate.

In response to its slowing economy, China has unveiled a major stimulus package including at least 800 billion yuan (\$113 billion) in liquidity support from the central bank. Key measures include interest rate cuts, lower reserve requirements, and funding for local governments to purchase

unsold homes. The government aims to achieve its 5% growth target through these efforts.

## Equity market

Excluding European markets, which underperformed relative to other regions, equity markets including most emerging markets, maintained their momentum and recorded respectable gains. A highlight of the month was the remarkable rebound in the Chinese equity markets, following the announcement of the central government's stimulus plan. In a speculative move, the Shenzhen equity market soared by over 20% within just a few days of trading.

## Fixed Income Market

Following recent rate cuts by various central banks, short-term government rates have fallen significantly. In the U.S., the 10-year rate has risen above the 2-year rate after more than two years of inversion. While the spread between the 10-year and 3-month rates is generally considered a more reliable indicator of an impending recession, the re-steepening of the 10-year and 2-year yield curve—where the spread shifts from negative to positive—is noteworthy. This change often signals improving sentiment or shifting expectations regarding monetary policy, with the latter likely driving the current shift. However, re-steepening does not necessarily indicate that the risk of recession has diminished; in fact, historically, recessions have often followed such shifts in the yield curve. A similar re-steepening has been observed in the Euro and Sterling yield curves, though it has not yet occurred in the Swiss curve, despite the spread between the 10 and 2-year rates narrowing significantly.

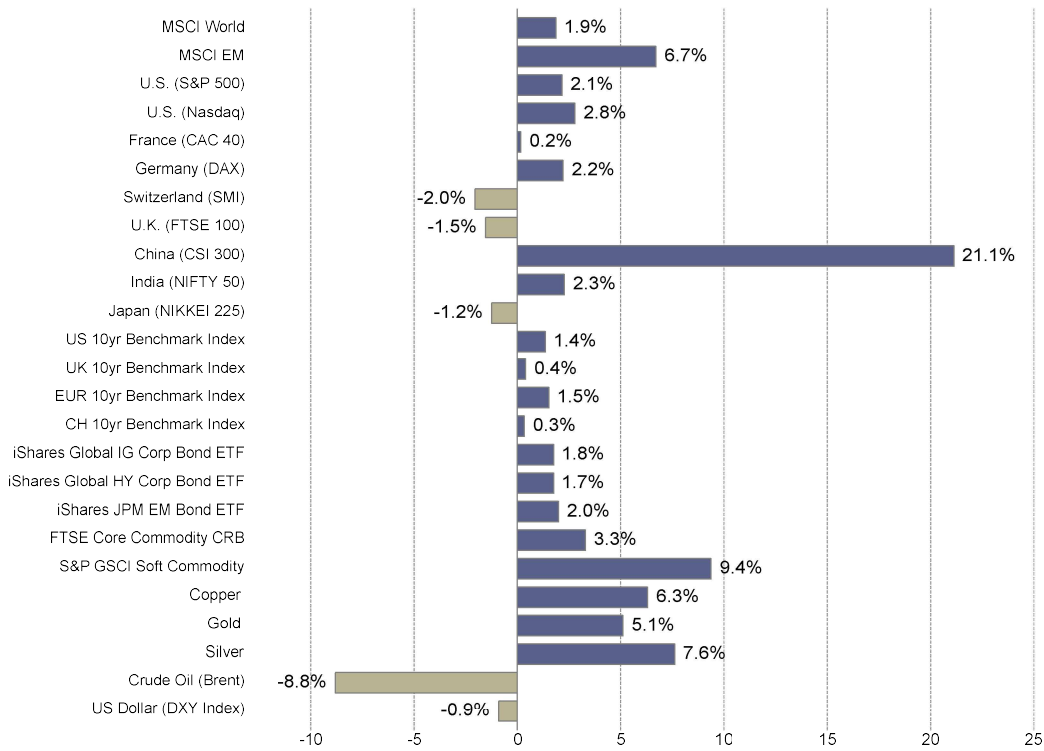
## Commodity

The trend of declining oil prices alongside rising gold prices continued throughout September. Oil is on track to decrease for the third consecutive month, despite escalating conflicts in the Middle East and the stimulus package announced by China's central government. This trend reflects weaker demand for oil driven by slowing economic growth. Meanwhile, the rise in precious metals likely indicates a potential weakening of the dollar, coupled with loose monetary policies aimed at supporting economic growth.

## Currency

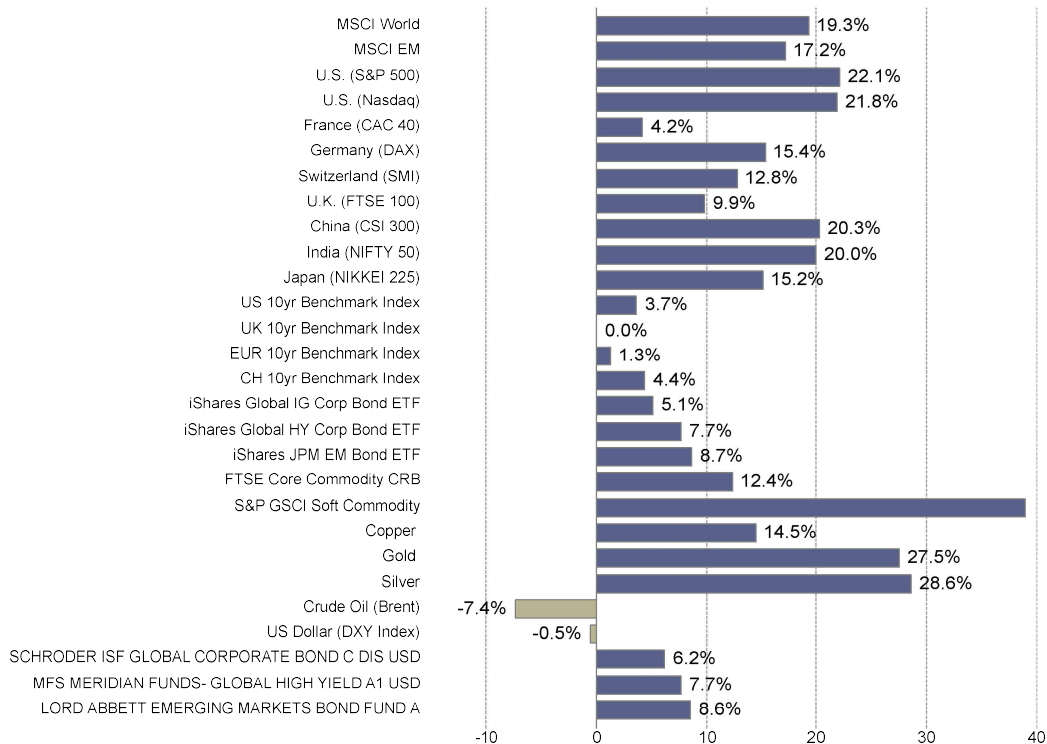
The U.S. dollar has been on a downward trajectory since July, and expectations of further policy rate cuts are likely to contribute to additional declines. Conversely, these rate cuts provide relief to many countries that have been anticipating the Fed's actions to facilitate their own monetary policy easing without incurring the adverse effects of a depreciating currency.

September 2024 Performance



Source: LSEG Datastream, Anarosa Asset Management AG

Year-To-Date Performance (until 30.09.2024)



Source: LSEG Datastream, Anarosa Asset Management AG

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