FE Investments

WEEKLY MARKET COMMENTARY BY ROB GLEESON
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BONDS UNMOVED BY A LARGER FED RATE CUT BUT EQUITIES APPEAR MORE POSITIVE

This week the Federal Reserve sprang a slight surprise by kicking off this cycle of interest rate cuts with a bumper 0.5% reduction. This has done little to change expectations for the pace and size of rate cuts to come and government bond markets experienced very little movement. The news was warmly welcomed by equity markets. The S&P 500 capped a good week with a new record high and Japanese markets made big gains.

In the UK, the decision by the Bank of England to keep rates unchanged was no surprise. More interesting was the big decline in consumer confidence and the decline in sentiment has erased all the steady improvement seen this year. However, retail sales figures appear to contradict this decline as sales in August were much stronger than expected. Some of the gloom has been attributed to the government doing too good a job of paving the way for belt-tightening at next month's budget. But, with the Bank of England expecting GDP growth to resume this quarter, wages still rising faster than inflation and a rate cut on the horizon, a less severe budget from the chancellor may reverse some of the negativity.

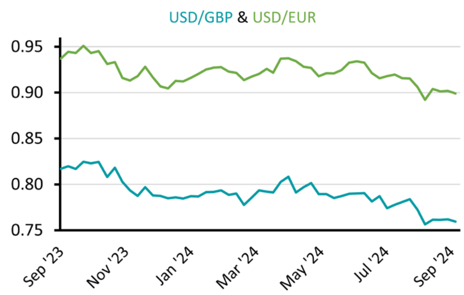
THE MARKETS THIS WEEK

FTSE 100	S&P 500	Nikkei 225	MSCI Europe	Hang Seng	US 10 Yr	UK 10 Yr	Brent Crude	Gold	Iron Ore	GBP USD
+0.68%	+2.84%	+4.54%	+0.87%	+5.19%	+0.07%	+0.11%	+3.08%	+0.45%	-1.11%	+1.22%

RATES: MUTED REACTION TO BUMPER 0.5% CUT BY THE FEDERAL RESERVE

The Federal Reserve cut interest rates for the first time in four years as it reduced the Federal Funds rate by 0.5%. The cut was larger than many commentators expected as most had settled on a 0.25% cut. However, Fed chair Jerome Powell indicated that the central bank's focus is shifting from cutting inflation to supporting employment. The Fed updated its forecast for the path for interest rates and members of the rate-setting Federal Open Market Committee now expect rates to come down by another 0.5% this year with a further 0.75% of cuts in 2025.

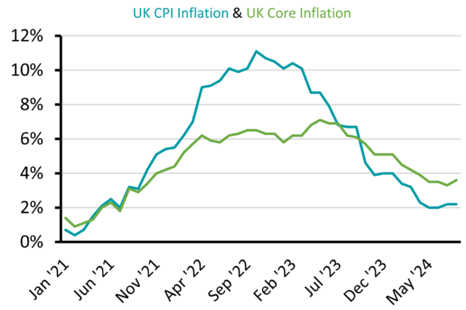
Bond markets were unmoved by the decision, but equity markets were boosted by the larger reduction. US equities gained as the technology-focused Nasdaq index rose more than the broad S&P 500 index. Japanese equities rallied strongly as the Nikkei 225 index gained 3.3%. The dollar extended its recent weakness against the euro and the pound.



UK: BANK OF ENGLAND HOLDS RATES AS INFLATION REMAINS UNCHANGED

The Bank of England left interest rates at 5% as expected. However, this was not a unanimous decision as one member of the Monetary Policy Committee voted for a cut of 0.25%. The annual inflation rate was unchanged in August as CPI came in at 2.2% and core inflation (excluding variable energy and food prices) increased by 0.2% last month. The bank is wary of price inflation remaining above its 2% target and of wage inflation remaining strong. However, the bank's forecasts now see inflation rising slightly to 2.5% by the end of the year, and for GDP growth to return to 0.3% a quarter and it indicated a gradual reduction in interest rates should follow if these forecasts are delivered.

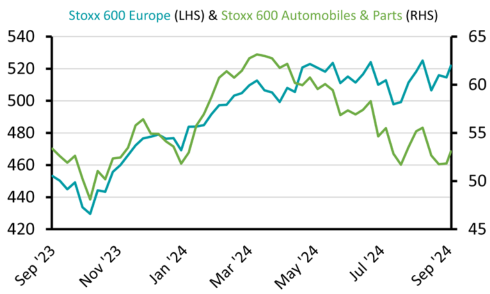
The potential for a rate cut at the next meeting in November gave a boost to UK equities as markets extended gains from the last two weeks. Government bonds declined slightly as investors have trimmed their expectations for total rate cuts by the end of the year, and the pound rose to its highest value against the dollar in more than two years.



EQUITIES: AUTOMAKER WOES HERALD GERMAN LETHARGY

German industry continues to struggle and this is most apparent in the troubles of its automakers. VW is shutting a plant in its hometown of Wolfsburg, a first in 87 years, plans to cut 15,000 jobs to reduce costs, and is poised to set aside €4bn to do so in the coming quarter. Demand for new cars in Europe has tanked, with new registrations plummeting 18% in August, and automakers are facing a double whammy of fierce competition from China. BMW's operating margin is also reeling from low Chinese demand and a warning on faulty brakes, though overall sales have grown in the first eight months of the year. Europe's listed car makers have lagged the broad index significantly this year.

The German economy has shrunk year to date and the outlook remains poor. The ZEW Indicator of economic sentiment has dropped from a bullish 47.5 to 3.6 since June as economists cool their expectations for production from Europe's leading manufacturer.



Data sourced from Yahoo Finance and Trading Economics

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