CAPITAL GROUP®

# World markets review — October 2024

## Equities

**Global equities fell** against a rise in global bond yields as interest rate expectations ticked up. Investors priced in a slower pace of interest rate cuts from the Federal Reserve (Fed) amid generally strong U.S. economic data and rising speculation of a Republican win in November's U.S. presidential election. European stocks were additionally pressured by worries on the eurozone's economic outlook. Overall, emerging markets trailed developed markets. The October CBOE Volatility Index (VIX) closed at 19.3, up 2.5% from the prior month. (A VIX reading below 20 is widely viewed as an indicator of market stability.)

**Most sectors of the MSCI All Country World Index (ACWI) were lower**. Materials, consumer staples and health care led the losses, while financials and communication services held up the best.

| | October 2024 | | YTD 2024 | |
|---|---|---|---|---|
| **Equity index returns (%)** | **U.S. dollar** | **Local currency** | **U.S. dollar** | **Local currency** |
| S&P 500 | -0.9 | -0.9 | 21.0 | 21.0 |
| MSCI ACWI | -2.2 | -1.1 | 16.0 | 17.4 |
| MSCI ACWI ex USA | -4.9 | -1.8 | 8.6 | 12.1 |
| MSCI World | -2.0 | -0.9 | 16.5 | 17.7 |
| MSCI Emerging Markets | -4.4 | -2.9 | 11.7 | 14.9 |
| MSCI EAFE | -5.4 | -1.6 | 6.8 | 10.2 |
| MSCI Europe | -5.9 | -2.8 | 6.1 | 7.8 |
| MSCI Pacific | -4.7 | 0.8 | 7.9 | 14.7 |

Source: RIMES

## Fixed income

**Global bonds slid** as investors dialed back the pace of U.S. rate cuts. The U.S. 10-year Treasury yield climbed 51 basis points (bps) to a four-month high of 4.29% while German 10-year bond yields moved up 27 bps to a three-month high of 2.39%. Japan's 10-year bond yield rose 9 bps to 0.94%. Global credit held up better than government bonds, with high-yield debt faring the best.

**In foreign exchange markets**, the U.S. Dollar Index surged 3.2%, marking its best month in more than two years. The Japanese yen slid 6.1% against the dollar while the euro and British pound were down 2.7% and 4.2% versus the dollar, respectively. Emerging markets currencies were broadly weaker against the dollar.

| Fixed income index returns (%) | Oct 2024 | YTD 2024 |
|---|---|---|
| Bloomberg U.S. Aggregate | -2.5 | 1.9 |
| Bloomberg Global Aggregate | -3.4 | 0.1 |
| Bloomberg U.S. Corp IG | -2.4 | 2.8 |
| Bloomberg U.S. Corp HY | -0.5 | 7.4 |
| JPM EMBI Global Diversified | -1.7 | 6.8 |
| JPM GBI-EM Global Diversified | -4.6 | 0.1 |

| Exchange rates (% change vs. USD) | Oct 2024 | YTD 2024 |
|---|---|---|
| Euro | -2.7 | -1.7 |
| Japanese yen | -6.1 | -7.4 |
| British pound | -4.2 | 0.9 |
| Canadian dollar | -3.1 | -5.4 |
| Australian dollar | -5.6 | -4.0 |
| Swiss franc | -2.4 | -2.7 |

Source: RIMES. Returns are in USD.

**North America**

**U.S. equities closed modestly lower.** Shares initially made gains, led by a rebound in mega-cap technology stocks, with the Nasdaq Composite Index touching a fresh high. However, U.S. equities closed the month on a weaker note on concerns that technology earnings may not match elevated expectations and uncertainty ahead of the U.S. presidential election, with polls broadly showing Kamala Harris and Donald Trump as running neck and neck. The S&P 500 Index and Nasdaq Composite Index eased 0.9% and 0.5%, respectively, over October.

**Most S&P 500 sectors fell**, with health care, materials and real estate leading the losses. Shares of **Eli Lilly** lost ground after it posted disappointing third-quarter results and cut its full-year earnings guidance. Alongside continuing supply chain challenges as it struggled to keep up with soaring demand for obesity drug Zepbound and diabetes treatment Mounjaro, the bottom line was hit by a significant one-off charge related to the recent acquisition of biotechnology firm Morphic.

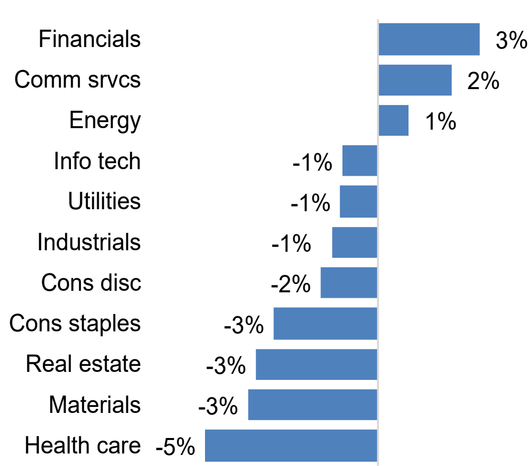
**Financials, communication services and energy** were the only sectors to finish in positive territory. Shares of **JPMorgan Chase** rose on better-than-anticipated third-quarter earnings and after the banking giant hiked full-year net interest income guidance. It reported strong growth in fees from investment banking and payments.

**Nonfarm payrolls beat estimates in September but slumped in October**. The September jobs report showed 254,000 positions were created versus 140,000 for August, but October's report showed just 12,000 positions were added as data was distorted by strikes action and the impact of two major hurricanes. Nevertheless, the U.S. unemployment rate held steady at 4.1% in October.

**The U.S. economy remained generally robust**, expanding by an annualized 2.8% in the third quarter versus the prior quarter's 3%. While private inventories and fixed investment declined, there were notable improvements in consumer and government spending. Separately, business survey data suggested activity ticked up in October, with the S&P Global U.S. Composite Purchasing Managers' Index (PMI) firming to 54.3 from September's 54. U.S. headline inflation slowed for a sixth successive month, down to 2.4% from August's 2.5% as energy costs continued to decline.

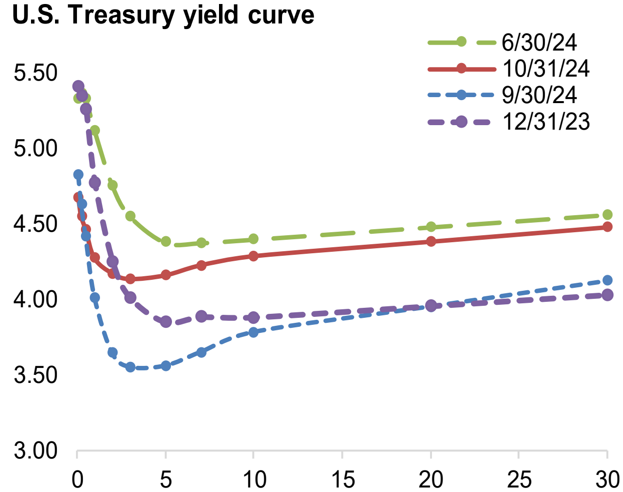
**U.S. bonds fell sharply**, with the Bloomberg U.S. Aggregate Index losing 2.5%. U.S. 2-year and 10-year Treasury yields rose by 53 bps to 4.17% and 51 bps to 4.29%, respectively. U.S. credit markets also suffered losses, although high-yield bonds held up substantially better than their investment-grade (rated BBB/Baa and above) counterparts. Spreads to Treasuries hit historical lows as investors increasingly anticipated a soft landing for the U.S. economy, narrowing by 5 bps for investment-grade bonds and 13 bps for high-yield debt.

**S&P 500 total returns (Oct 2024)**




Source: RIMES

**U.S. Treasury yield curve**




Source: Bloomberg. The x-axis represents Treasury maturities (years). The y-axis represents the U.S. Treasury yield (%).

## Europe

**European equities lost ground**, suffering from a rise in global bond yields and concerns over higher tariffs if Donald Trump regains the White House. The European Central Bank (ECB) nevertheless continued to reduce eurozone interest rates, while monthly business survey data pointed to a second consecutive contraction in private sector eurozone activity. At a sector level, information technology, real estate and materials led the losses in the MSCI Europe Index, while energy fared the best.

**The ECB cut its key deposit rate** by 25 bps to 3.25% in October, following on from the rate reductions of its June and September meetings given continuing worries about the eurozone's growth outlook. ECB President Christine Lagarde signaled further rate cuts were highly likely as inflationary pressures continue to abate. Eurozone inflation edged up to 2% in October from September's 1.7%, though this was largely due to base effects.

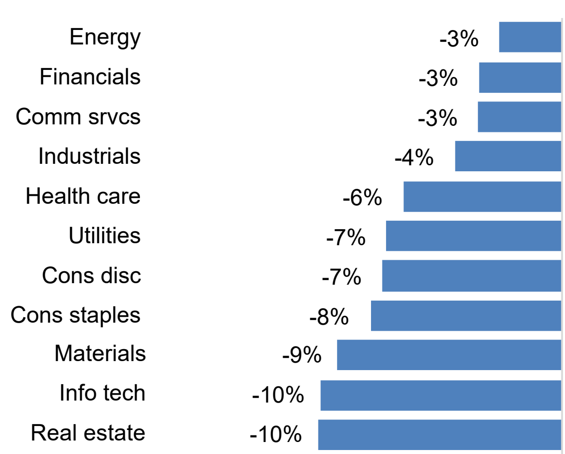
**Eurozone private sector activity remained weak** for a second consecutive month in October, with the HCOB Eurozone Composite PMI at 49.7 versus September's 49.6. However, official data showed eurozone growth strengthened to 0.4% in the third quarter from the prior quarter's 0.2%, marking the strongest rate of expansion in two years. Germany's economy grew 0.2% following the 0.3% contraction of the prior quarter, unexpectedly avoiding a recession as it was helped by a rebound in government and household spending. French GDP expanded 0.4% in the third quarter, buoyed by the Paris Olympics.

**Germany's government forecast its economy to shrink** by 0.2% in 2024 versus the prior estimate of 0.3% growth against a continuing slump in the manufacturing sector. Meanwhile, the HCOB Germany Composite PMI showed private sector activity shrank for a fourth consecutive month in October, albeit with the gauge firming to 48.4 from September's 47.5. Separately, German economic morale improved in October, with the ZEW index rebounding to 13.1 from September's 3.6 as the prospect of further ECB rate cuts boosted sentiment on the outlook.

**U.K. equities slid**. U.K. interest rate expectations rose after the government used its October budget to increase public spending and borrowing while also raising taxes by the most since 1993. Private sector activity hit an 11-month low in October as services and manufacturing momentum slowed, with the S&P Global U.K. Composite PMI easing to 51.8 from September's 52.6. Headline inflation dropped to its lowest level since April 2021, at 1.7% for September versus 2.2% in each of the prior two months.

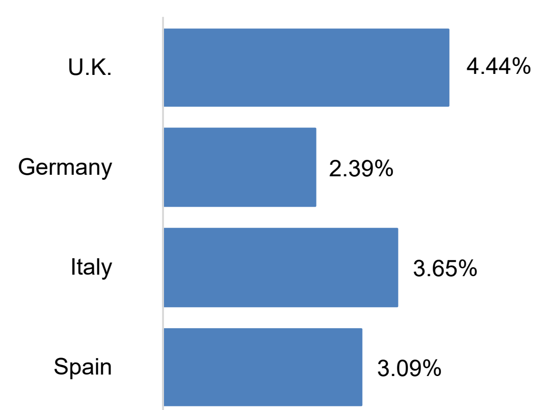
**European government bonds were down**. German 10-year bond yields rose 27 bps to a three-month high of 2.39% while France's equivalent yield ended 20 bps higher at 3.12%. Spanish and Italian 10-year yields increased by 17 bps and 20 bps to 3.09% and 3.65%, respectively. 10-year U.K. yields touched their highest levels in a year following the U.K. budget, closing the month up 44 bps at 4.44%.

**MSCI Europe total returns (Oct 2024)**




Source: RIMES. Returns are in USD

**10-year government bond yields**




Source: Bloomberg. As of 10/31/24.

## Asia-Pacific

**Japanese equities were down** in U.S. dollar terms, though were higher in local currency terms during a month that witnessed further pronounced yen weakness as the interest rate differential with the U.S. widened. Japan's political outlook appeared more uncertain after the ruling Liberal Democratic party led by recently installed Prime Minister Shigeru Ishiba lost its parliamentary majority in the country's general election. At a sector level, materials, consumer staples and real estate were the weakest, while financials, health care and communication services were the strongest. The yen slumped 6.1% versus the dollar.

**The Bank of Japan (BoJ) signaled its rate hiking cycle remained on track** despite domestic political uncertainty. While the BoJ left its key target rate at 0.25% following its October meeting, it indicated further rate increases were likely. Headline Japanese inflation dipped to its lowest level since April, at 2.5% for September versus August's 3%, as electricity prices increased at a slower pace and food price inflation eased. Core consumer inflation remained above the BoJ's 2% target, though moderated to 2.4% in September from 2.8% the prior month.

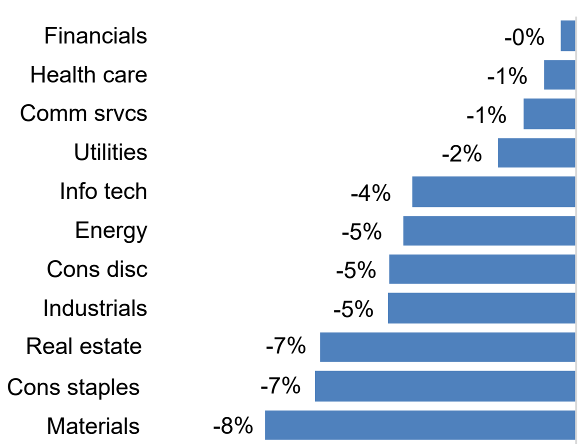
**Japan's private sector activity shrank** in October, marking the first decline since June, as the ongoing slump in manufacturing worsened and the services sector suffered a contraction. The au Jibun Bank Japan Composite PMI dropped to 49.4 from September's 52, marking the worst reading since November 2022. Separately, retail sales growth for September was significantly behind economists' estimates, at 0.5% year on year versus 3.1% in the prior month.

**Hong Kong stocks slid**. The Hong Kong economy contracted 1.1% in the third quarter versus the prior quarter's 0.3% expansion. Monthly business survey data nevertheless showed some improvement, with October's S&P Global Hong Kong SAR PMI strengthening to 52.2 from September's 50.0.

**Stocks in Singapore were lower**. Singaporean economic growth accelerated to 2.1% in the third quarter versus the 0.4% pace of the prior two quarters as it benefited from an upturn in manufacturing. Separate business survey data pointed to continuing robust expansion in private sector activity for September, though with some moderation versus August.

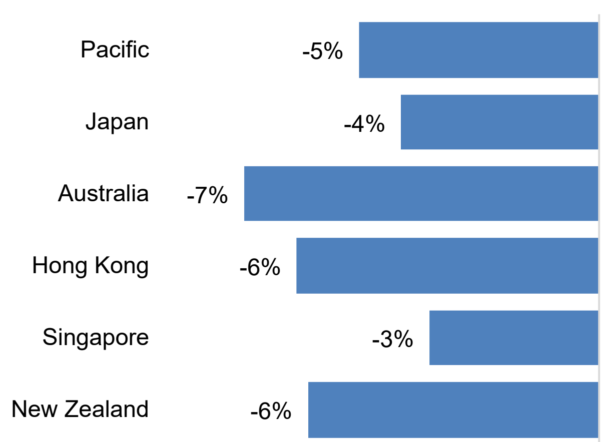
**Australian equities fell**. Private sector activity contracted slightly in October for a second consecutive month, with the Judo Bank Australia Composite PMI Output Index at 50.2 versus 49.6 in September. Australian inflation dropped to its lowest since the first quarter of 2021, down to 2.8% for the third quarter from the prior quarter's 3.8%. The Australian dollar lost 5.6% versus the U.S. dollar.

**MSCI Japan total returns (Oct 2024)**




Source: RIMES. Returns are in USD.

**MSCI Pacific total returns (Oct 2024)**




Source: RIMES. Returns are in USD.

## Emerging markets

**Emerging markets (EM) equities sold off**, lagging their developed counterparts against U.S. dollar strength and a rise in global bond yields. Chinese stocks gave up some of the strong gains of the prior month despite the People's Bank of China (PBoC) announcing fresh interest rate cuts. Indian equities were down more sharply amid selling by foreign investors following a strong run. Although closing only slightly lower in local terms, Brazilian stocks fell significantly in U.S. dollar terms given weakness for the Brazilian real against the dollar.

**Chinese stocks slid** amid some disappointment around a lack of detail on measures to increase fiscal spending. However, the PBoC unveiled substantial interest rate reductions as the government continued its efforts to boost growth, slashing the one-year loan prime rate by a record 25 bps to 3.1%. The corresponding five-year rate, which is used as a reference rate for mortgages, was cut to 3.6% from 3.85%. China's economy grew by 4.6% year over year during the third quarter versus 4.7% in the prior quarter. It marked the slowest annual rate of expansion since the first quarter of 2023 amid ongoing weakness in the property sector and overall domestic demand. Survey data showed factory activity expanded for the first time in six months in October, with the National Bureau of Statistics Manufacturing PMI firming to 50.1 from September's 49.8.

**Indian equities fell** amid selling by foreign investors following a strong run. Private sector activity ticked up in October given increased momentum in both the manufacturing and services sectors, with the HSBC India Composite PMI rising to 58.6 from 58.3 the prior month. Indian inflation accelerated to 5.49% for September from August's 3.65% as food price inflation picked up. The Reserve Bank of India left its benchmark repo rate at 6.5% following its October meeting.

**Latin American stocks were down**. Brazilian equities fell substantially in U.S. dollar terms though were only slightly lower in local terms. Business survey data suggested Brazil's economy strengthened in September with the S&P Global Composite PMI for Brazil rising to 55.2 from August's 52.9. Brazilian inflation edged up to 4.42% in September from 4.24% the prior month.

**Emerging markets debt (EMD) sold off** against rising U.S. Treasury yields and U.S. dollar strength. While both hard currency EMD and local currency EMD (returns in U.S. dollar terms) were down, the latter suffered the bigger losses as EM currencies fell against the dollar. Brazilian local currency EMD was among the worse affected as the Brazilian real lost 5.9% against the U.S. dollar over October.

**Chinese bonds outperformed** the broader EMD indexes. While local currency Chinese EMD rose slightly, the rally in the U.S. dollar meant returns in U.S. dollar terms were slightly negative. Bonds were supported by the PBoC's decision to cut the one- and five-year loan prime rate, as well as easing inflation. China's consumer price index rose at an annual rate of 0.4% in September, the slowest rate of inflation since June.

**October 2024 total returns (%)**

| Equity indexes (USD) | | Fixed income / currency | USD debt (USD) | Local debt (USD) | Local debt (Local) | Exchange rate (vs. USD) |
|---|---|---|---|---|---|---|
| MSCI Emerging Markets | -4.4 | JPM EMBI Global Div | -1.7 | – | – | – |
| MSCI Brazil | -5.5 | JPM GBI-EM Global Div | – | -4.6 | -1.1 | – |
| MSCI China | -5.9 | Brazil | -2.0 | -6.0 | -0.1 | -5.9 |
| MSCI India | -8.3 | China | -1.2 | -1.1 | 0.3 | -1.4 |
| MSCI Mexico | -5.0 | Indonesia | -2.6 | -4.6 | -1.1 | -3.5 |
| MSCI South Africa | -2.5 | Malaysia | -2.8 | -6.3 | -0.5 | -5.8 |
| MSCI Korea | -7.5 | Mexico | -2.2 | -4.6 | -2.5 | -2.2 |
| MSCI Saudi Arabia | -1.6 | Poland | -3.1 | -6.0 | -1.8 | -4.3 |
| MSCI Taiwan | 3.7 | South Africa | -2.9 | -4.7 | -2.2 | -2.5 |
| MSCI Thailand | -3.9 | Turkey | -1.5 | -2.7 | -2.5 | -0.3 |

Source: RIMES

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The CBOE Volatility Index is a calculation designed to produce a measure of constant, 30-day expected volatility of the U.S. stock market, derived from real-time mid-quote prices of S&P 500 Index call and put options.

S&P Global purchasing manager indexes (PMIs) track business trends across both manufacturing and service sectors for various countries. The indexes are based on data collected from companies and follow variables such as sales, new orders, employment, inventories and prices. The **S&P Global/CIPS Flash U.K. Composite PMI**, the **S&P Global U.S. Composite Purchasing Managers' Index**, the **S&P Global Eurozone PMI Composite Purchasing Managers' Index**, the **S&P Global Flash Australia Composite Purchasing Managers' Index**, the **S&P Global Hong Kong Purchasing Managers' Index**, the **S&P Global India Composite Purchasing Managers' Index** and the **S&P Global Brazil Composite Purchasing Managers' Index** provide similar information for the United Kingdom, the United States, the euro area, Australia, Hong Kong, India and Brazil, respectively. The **au Jibun Bank Japan Composite PMI**, also compiled by S&P Global, provides similar information about Japan.

**J.P. Morgan Emerging Markets Bond Index (EMBI)** Global Diversified and related country-specific indexes track total returns for U.S. dollar-denominated debt instruments issued by emerging market sovereign and quasi-sovereign entities: Brady bonds, loans, eurobonds. **J.P. Morgan Government Bond Index** – Emerging Markets (GBI-EM) Global Diversified and related country-specific indexes cover the universe of regularly traded, liquid fixed-rate, domestic currency emerging market government bonds to which international investors can gain exposure.

MSCI indexes are free-float-adjusted, market-capitalization weighted indexes. Developed market index results reflect dividends net of withholding taxes. Emerging market index results reflect dividends gross of withholding taxes through December 31, 2000, and dividends net of withholding taxes thereafter. Each index is unmanaged, and its results include reinvested dividends and/or distributions but do not reflect the effect of sales charges, commissions, account fees, expenses or U.S. federal income taxes. **MSCI All Country World Index (ACWI)** is designed to measure results of more than 40 developed and emerging equity markets. **MSCI All Country World (ACWI) ex USA Index** is designed to measure equity market results in the global developed and emerging markets, excluding the United States. **MSCI EAFE® (Europe, Australasia, Far East) Index** is designed to measure developed equity market results, excluding the United States and Canada. **MSCI Emerging Markets Index** is a free-float-adjusted market-capitalization-weighted index designed to measure equity market results in more than 20 global emerging markets. Individual emerging markets listed herein represent a subset of the MSCI Emerging Markets Index. **MSCI Europe Index** is designed to measure developed equity market results across 15 developed countries in Europe. **MSCI Pacific Index** is designed to measure the equity market performance of the developed markets in the Pacific region. It consists of Japan, Australia, Hong Kong, New Zealand and Singapore. **MSCI World Index** is designed to measure equity market results of developed markets. The index consists of more than 20 developed-market country indexes, including the United States.

Nasdaq Composite Index is a broad-based market-capitalization-weighted index that measures all domestic and international-based common-type stocks listed on The Nasdaq Stock Market.

S&P 500 Index is a market-capitalization-weighted index based on the results of 500 widely held common stocks. This index is unmanaged, and its results include reinvested dividends and/or distributions but do not reflect the effect of sales charges, commissions, account fees, expenses or U.S. federal income taxes.

The ZEW Economic Sentiment Index measures the level of optimism that analysts have about the expected economic developments in Germany over the next six months.

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