Monthly Macro

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What were the biggest drivers of markets in September?

- The big story in September was central bank rhetoric, with 'higher for longer' the flavour of the month. On both sides of the Atlantic, key central bank figures were keen to convey the message that, despite inflation generally falling, rate cuts would not be coming soon.
- The Federal Reserve and the Bank of England both kept their rates unchanged, while the European Central Bank raised its deposit rate to a record high of 4%. As we approach 'peak rates', a key risk for investors is the possibility that central bankers might have 'overtightened' in their battle against inflation.
- Bond markets continued to fall in September as investors contemplated the prospect of rates remaining elevated for a prolonged period. The defining feature of the sell-off has been the steepening of the yield curve with long-dated bonds doing worse that short dated bonds. 10-year US Treasuries fell 2.4%, with the yield rising to 4.6%. UK government bonds (gilts) were relatively resilient, down 1.0%. Corporate bonds, high yield debt and emerging market bonds all declined, although global floating rate notes rose.
- Both bonds and equities around the world weakened as rising Treasury yields pressured asset valuations. These moves have continued and intensified into the opening week of October.
- The cause of the sell-off in bond markets has been the shaking of the belief that central bank policy rates will fall as soon, or as far, as previously expected. However, the extent and nature of the moves suggest that simple fear of further short-term price falls is exaggerating declines.
- Macroeconomic data may have proved more resilient than expected but did not change materially in September. Core inflation pressures eased in the US and there were some signs of growth weakness in Europe.
- As was the case in 2022, rising rate pressures had a damaging impact on almost all assets. Equity weakness was uniform across most global markets, though energy stocks and related areas gained as oil prices rose relatively sharply.
- The dollar remained strong relative to most other major currencies, though there was some support for currencies of commodity-related economies.

What will you be looking out for in October?

- Besides the higher for longer mantra, the sell-off in longer dated government bonds has been driven in part by concerns about rising government deficits. In the coming months, we may see investors focus more on the supply of government bonds and debt-to-GDP ratios edging higher, particularly in the US. Over time, the narrative of sovereign creditworthiness could become a major driver of government bond markets, and by implication other bond markets such as credit.
- It is notable how much market beliefs have changed in the last twelve months. In October last year, there was extreme confidence that a recession was inevitable; today there seems to be equal confidence that growth will prove resilient.
- It remains to be seen whether the consensus will be disappointed once again, but at the moment volatility seems to be less about considered assessment of what data are saying about growth or inflation, and more about fear of short-term loss.

Key dates for the month ahead:

12 Oct: US inflation data **18 Oct:** China Annual GDP figures; UK inflation data **26 Oct:** ECB interest rate decision

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