



MARKET UPDATE – SEPTEMBER 2024

The Minster Partnership

Market Update

Inflation continues to be the key driver of interest rate policy across the world. Inflation has fallen substantially in most regions, and we now expect to see a period of falling global interest rates.

The Consumer Prices Index (a broad measure of UK inflation) fell back to the Bank of England's target rate of 2.0% earlier this year, although it has since picked up slightly to 2.2% over the year to August 2024. This is in stark contrast to its peak of over 11% in 2022 and undoubtedly creates a more stable financial environment. This has provided sufficient confidence for the European Central Bank, the Bank of England, and the US Federal Reserve to instigate their first interest rate cuts in recent months, with the US opting for a 'bumper' 0.5% reduction in September.

Central banks now face a challenge over the timing and extent of cuts to interest rates. Although inflation has fallen substantially, it remains above central banks' targets in many regions of the world. In the UK, wage inflation and core inflation (excluding volatile energy and food prices) remain elevated, and this causes a dilemma for the Bank of England: how quickly and aggressively should they proceed with cutting rates further?

In the coming months we expect to see investment markets recover further as inflation stabilises and global interest rates fall further. This should mark the transition into a new economic cycle, and we expect this backdrop to be supportive of both equities and bonds. It is common for a significant portion of the total return for the new market cycle to be achieved in its relatively early stages, hence the importance of remaining invested throughout. We are cautiously optimistic on the outlook for investments, although volatility may continue to be elevated this year, and we expect investor patience to be further rewarded as economic prospects improve.