



Integrity  
Asset Management

# I AM Advised

## QUARTERLY MARKET COMMENTARY



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# Quarterly Market Commentary September 2024

## Investors reassess positions amidst high valuations and potential corrections in stock prices

Welcome to the September 2024 issue of *Quarterly Market Commentary* from Integrity Asset Management.

Looking back over the last quarter, global equities faced a notable downturn in August, with the US economy at the centre of investor scrutiny. Mixed economic indicators, inflationary pressures and interest rate fluctuations contributed to widespread market anxiety. Concerns about a potential US economic slowdown prompted sell-offs across various sectors as investors reassessed their positions amidst high valuations and potential corrections in stock prices.

UK equities experienced a turbulent August, initially buoyed by a Labour Party election victory that sparked optimism for economic recovery. However, this optimism was short-lived as broader economic concerns and geopolitical tensions

significantly declined the FTSE 100. Despite a promising start, the UK market faced challenges due to adverse economic data and diminishing investor confidence.

The Eurozone displayed resilience in July, with gains led by the healthcare, utilities and real estate sectors. However, August shifted sentiment as global market downturns and economic apprehensions impacted the region. Political uncertainties, such as France's inconclusive parliamentary elections, added to the Eurozone's economic challenges and growth prospects.

In the US, August's downturn overshadowed July's initial market gains. Despite the Federal Reserve's potential rate cut and improved inflation data, concerns about a recession and political shifts, including President Biden's withdrawal from the presidential race,

affected market dynamics. Investors recalibrated their expectations in response to these complex economic and political factors.

Japan's market experienced significant volatility, with the yen's appreciation impacting exporters and equity sectors. The Bank of Japan's rate hike supported the yen, while small-cap and value investments demonstrated resilience. Economic concerns contributed to further market fluctuations in August, highlighting the need for strategic diversification in investment portfolios.

Emerging markets showed resilience in July, benefiting from a weaker dollar and potential US rate cuts. However, challenges in China and Taiwan, along with currency depreciation in Turkey and interest rate delays in Poland, tempered gains. By August, increased volatility and geopolitical uncertainties reshaped the emerging market landscape, demanding adaptable investment strategies. Meanwhile, global bonds enjoyed a positive July, driven by dropping yields and central bank actions, though they faced renewed challenges in August due to economic concerns.

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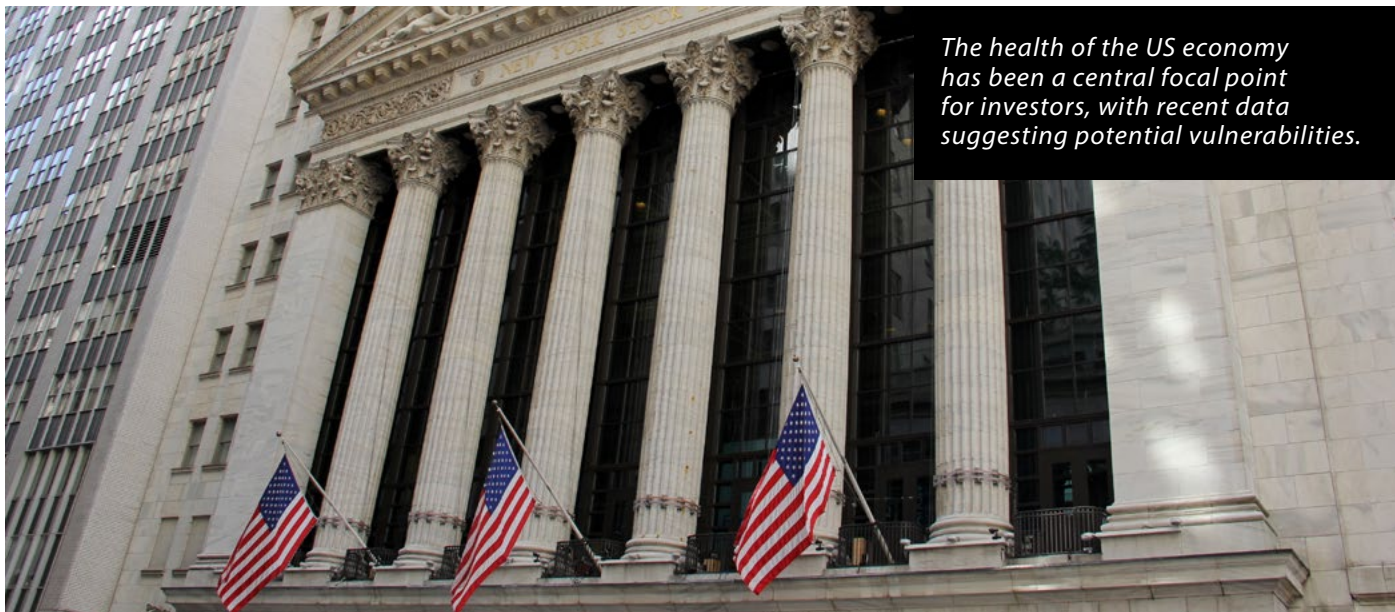
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# Quarterly Market Review

## Inflationary pressures, interest rate movements and fluctuating consumer confidence levels stir market anxiety

**W**elcome to our Quarterly Market Commentary. In this market commentary over the previous quarter, global equities took a sizeable downturn in August. Investors and market analysts have been looking to make sense of the turbulent market dynamics. This unexpected downturn has been attributed to many factors contributing to the volatile environment.

The health of the US economy has been a central focal point for investors, with recent data suggesting potential vulnerabilities. Economic indicators have shown mixed signals, causing uncertainty about the longevity of economic growth. Inflationary pressures, interest rate movements and fluctuating consumer confidence levels stirred market anxiety. The fear that the US economy might be heading towards a slowdown prompted some investors to reassess their positions, leading to widespread sell-offs in equities.

Additionally, valuations reached historic highs earlier in the year and have become a point of contention among some market experts. The anticipated correction from these stretched valuations

subsequently materialised, with many stocks being perceived as overpriced relative to their earnings potential. As investors sought to recalibrate their expectations, this led to significant downward pressure on stock prices across various sectors.

Another critical trend observed was the decline in government bond yields across major markets, signalling increased bond prices. This movement was primarily attributed to easing inflationary pressures, which relieved fixed-income investors and suggested a stabilising economic environment.

While these developments present exciting opportunities, it's essential to remember that past performance is not a reliable indicator of future outcomes and may not be repeated. The sectors, securities, regions and countries mentioned here serve illustrative purposes only and should not be considered explicit recommendations to buy or sell. Maintaining a well-informed perspective and a diversified approach remains key to investment success as we navigate these evolving market conditions.



*The month started with a wave of positivity fuelled by a landslide victory for the Labour Party in the general election.*

## UK

August unfolded as a turbulent month for UK equities, characterised by an initial surge in optimism followed by a stark downturn. The month started with a wave of positivity fuelled by a landslide victory for the Labour Party in the general election. This political shift brought renewed hope for a sustained recovery in the domestic economy, bolstered by expectations of a potential interest rate cut, given that June's annual Consumer Prices Index (CPI) inflation remained steady at 2.0%.

In the wake of the election results, business confidence soared in July, reflecting the burgeoning optimism in the market. Purchasing Managers' Indices (PMIs) for the services and manufacturing sectors pointed towards continuing the UK's GDP recovery into the summer months. This buoyancy was particularly evident in domestically focused UK small and mid-cap equities, which experienced robust performance.

The FTSE 250 ex-Investment Trust index surged by an impressive 8.0% over the month, while the FTSE 100 rose 2.5%, driven by gains in housebuilding, retail and banking stocks. This growth was achieved despite the challenges posed by a strong currency, which threatened to erode the sterling value of earnings derived predominantly from overseas.

S&P Global's manufacturing PMI further supported the upward momentum, which climbed to 52.1 in July, marking its highest level in two years. The services PMI also showed signs of improvement, underscoring the positive impact of the new UK government's focus on growth and economic stability. Deloitte's survey of UK chief financial officers revealed a notable rise in risk appetite, with 36% of CFOs expressing that it was an opportune time to embrace more risk.

Despite the promising start, the positive sentiment could not be sustained throughout the month.

The market faced a downturn as broader economic concerns and geopolitical tensions began to exert pressure. In August, the FTSE 100 experienced a significant decline, falling some 4%, before attempting to recover. Several factors influenced this drop, including adverse reactions to economic data, concerns about a potential US recession and ongoing global economic uncertainties. Furthermore, the initial euphoria following the Labour election victory dissipated as investors reevaluated the practical implications of Labour's policies on the economy.

In this challenging landscape, it becomes increasingly essential for market participants to maintain vigilance and adopt a diversified investment strategy. Such an approach will be crucial for managing risks and capitalising on future opportunities as the UK navigates the complex interplay of domestic and global economic forces.



*The Eurozone was not immune to the broader market downturn that rippled across global financial markets.*

## EUROZONE

In July, the Eurozone’s economic landscape showcased resilience, marked by a modest share advance, primarily driven by strong healthcare, utilities and real estate performances. This positive momentum came despite the challenges the consumer discretionary and information technology sectors faced, which delivered negative returns.

The healthcare sector benefited significantly from robust quarterly earnings and promising clinical outcomes, which bolstered investor confidence. In contrast, the consumer discretionary sector’s luxury goods and automotive segments struggled due to weak consumer demand, reflecting broader economic uncertainties. The information technology sector faced headwinds from a market rotation away from growth stocks, compounded by concerns that the US might impose further restrictions on semiconductor equipment sales to China.

Economic indicators painted a mixed picture of the Eurozone’s

health. The region recorded a GDP growth of 0.3% quarter-on-quarter in Q2 2024. However, this was overshadowed by Germany’s GDP contraction of 0.1%, highlighting regional disparities. Inflation data showed a slight uptick, with euro area annual inflation estimated at 2.6% in July, compared to 2.5% in June. At its July meeting, the European Central Bank (ECB) maintained interest rates, with ECB Governor Christine Lagarde indicating that future rate cuts remained a possibility, contingent on forthcoming economic data.

The Purchasing Managers’ Index (PMI) provided further insight into the Eurozone’s economic pulse, with a reading of 50.1, a decline from June’s 50.9, signalling near-stagnation. The PMI, a key economic indicator derived from surveys of manufacturing and service sector companies, pointed to tepid growth, as readings above 50 indicate expansion, while those below 50 suggest contraction.

In the political arena, the French parliamentary election concluded

without any party securing an outright majority, adding a layer of political uncertainty to the Eurozone’s economic challenges.

August brought a shift in sentiment, as the Eurozone was not immune to the broader market downturn that rippled across global financial markets. The region felt the impact of heightened economic apprehensions, partly driven by geopolitical tensions and concerns about global economic stability. This downturn amplified anxieties over growth prospects and further strained sectors already under pressure, such as consumer discretionary and technology.

The combination of these factors underscores the Eurozone’s complex environment, balancing domestic economic policies, regional growth disparities and external pressures. As the region moves forward, careful monitoring of economic indicators and political developments will be crucial for managing risks and capitalising on potential growth opportunities.



*July's optimism was tempered by August's market downturn.*

## US

July witnessed a notable yet complex performance for US shares, characterised by sharp rotations and strategic shifts among investors. The month saw a general upward trend in US equities, bolstered by a strategic move from growth-oriented companies, which typically have high future growth potential, towards more modestly valued firms. This transition was highlighted by the outperformance of smaller companies over their larger counterparts as investors sought to capitalise on potential future economic shifts.

A key event towards the end of July was the Federal Reserve's decision to maintain interest rates

at 5.25%-5.50%. However, the Fed's indication of a possible rate cut in September injected a dose of optimism into the market. This expectation was further fuelled by softer inflation readings, which suggested that at least one rate cut might occur before the year's end. The consumer price index (CPI) showed annual inflation at 3.0% in June, a decrease from 3.3% in May, while the personal consumption expenditures index dropped to 2.5% year-over-year in June, down from 2.6% in May. Additionally, the US economy demonstrated resilience with a 2.8% annualised growth rate in Q2.

Sector-wise, July brought gains in real estate, utilities and financials, which thrived amid the

changing economic landscape. Smaller companies also stood out, buoyed by the anticipation that they would benefit from any forthcoming decrease in interest rates. Conversely, the information technology and consumer discretionary sectors faced challenges, notably due to a decline in some mega-cap companies that had previously driven market gains. Concerns arose over whether returns would adequately match investments in emerging themes like artificial intelligence.

On the political front, a significant development occurred as President Joe Biden announced his decision to withdraw from the 2024 presidential race, endorsing Vice President Kamala Harris as the Democratic nominee. Harris subsequently picked Minnesota Governor Tim Walz as her running mate. This political shift added another layer of complexity to the economic environment.

However, July's optimism was tempered by August's market downturn. Economic and political factors contributed to this decline, overshadowing the earlier gains. Financial concerns, including potential risks of a US recession and global uncertainties, began to weigh heavily on investor sentiment. The initial market enthusiasm waned as investors recalibrated their expectations in light of these challenges.

During this period, the US market's performance underscores the intricate interplay between economic indicators, market sentiment and political developments.



*Japan's economic and financial landscape marked by significant volatility in the equity and currency markets.*

July was a month of noteworthy fluctuations in Japan's economic and financial landscape, marked by significant volatility in the equity and currency markets. The Japanese equity market experienced a roller-coaster ride, reaching a historical high early in the month only to correct sharply after that. This volatility culminated in the TOPIX Total Return index posting a slight decline of 0.5% by month's end.

The yen displayed dramatic movements in the currency markets, significantly strengthening from 162 yen to 150 yen against the US dollar by late July. These fluctuations were primarily attributed to speculative activities rather than shifts in corporate fundamentals. Despite the currency swings, Japan's macroeconomic conditions remained robust, with the yen's rapid appreciation driven mainly by short-term capital flows.

The yen's reversal from prior weakness was prompted by potential intervention from the Japanese government, triggered by weak US CPI data that suggested the Federal Reserve might implement

more substantial rate cuts. On 31 July, the Bank of Japan (BOJ) took a proactive step by raising its policy rate to 0.25% from a previous range of 0-0.10%, further bolstering the yen's strength.

These developments had varied impacts across different sectors of the Japanese equity market. The financial sector maintained its resilience, with the construction and real estate sectors also achieving solid gains. During this period of turbulence, defensive sectors such as pharmaceuticals and foods provided further market support.

Conversely, exporters, including those in the automotive, technology and machinery sectors, faced challenges due to the yen's appreciation, which threatened to erode their profit margins. Despite these headwinds, small-cap stocks demonstrated resilience, and investments aligned with the value style outperformed those favouring growth.

August continued market volatility, with broader economic concerns contributing to a downturn. The need for a balanced approach became evident as Japan navigated these turbulent waters. Investors focused on diversification and strategic positioning in value-oriented investments as they sought to manage risks while capitalising on potential opportunities in the shifting landscape.

Overall, Japan's experience in July and August 2024 underscores the complexities of navigating an ever-evolving economic environment, marked by both opportunities and challenges across various sectors.

## JAPAN

**“OVERALL, JAPAN’S EXPERIENCE IN JULY AND AUGUST 2024 UNDERSCORES THE COMPLEXITIES OF NAVIGATING AN EVER-EVOLVING ECONOMIC ENVIRONMENT, MARKED BY BOTH OPPORTUNITIES AND CHALLENGES ACROSS VARIOUS SECTORS.”**

## ASIA (EX JAPAN)

Asia ex-Japan equities displayed remarkable stability during July, with the MSCI AC Asia ex-Japan Index remaining largely unchanged. This stability masked the diverse performances across different markets, with Thailand, Malaysia and the Philippines emerging as the top performers. Meanwhile, Taiwan, China and South Korea faced significant challenges, particularly towards the end of the month.

The technology sector, a significant driver for many Asian markets, experienced a notable sell-off in late July. Taiwan, heavily reliant on its technology sector, felt the brunt of this downturn as stocks linked to artificial intelligence (AI) came under pressure. Despite the dip, Taiwan continued to hold its position as the best-performing market in the index for the year-to-date period. Similarly, South Korea's chipmakers faced setbacks as investors began to question how the burgeoning

AI industry would translate into tangible revenue growth.


External factors, including unexpected developments in the US presidential election campaign, further influenced July's market dynamics. These political shifts, coupled with speculations surrounding the timing of a potential interest rate cut by the US Federal Reserve, contributed to mixed investor sentiment across the region.

By contrast, equity markets in India, Indonesia and Singapore recorded modest gains during July. Sector-wise, healthcare emerged as the strongest performer, reflecting robust investor confidence. Conversely, semiconductor manufacturers experienced significant price declines amidst the broader technology sell-off.

Moving into August, the initial stability gave way to broader economic concerns, contributing to a market downturn. As investors

navigated this challenging environment, the importance of diversification and strategic positioning became increasingly evident. The ongoing developments in AI and the geopolitical landscape, market commentators believe, will continue to shape investment strategies and market responses across Asia and Japan.

Overall, the performance of Asia ex-Japan equities in July and the subsequent market dynamics in August highlight the opportunities and challenges within this diverse region. By maintaining a vigilant and adaptable approach, investors can better manage risks and capitalise on emerging opportunities in the ever-evolving market.



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## EMERGING MARKETS

Emerging market (EM) equities showed resilience in July, posting gains in US dollar terms, albeit trailing behind their developed market counterparts. This performance was buoyed by a weaker dollar and the anticipation of potential US interest rate cuts spurred by softer inflation data. Despite these favourable conditions, significant challenges from key players like China and Taiwan dampened overall enthusiasm within the MSCI EM index.

Greece, the UAE and Egypt led the charge, showcasing robust performances throughout the month. These markets were propelled by favourable economic factors, including a strong gold price that bolstered South Africa's

market and growing optimism surrounding the Government of National Unity in the region. India also outperformed, benefiting from its domestic economic momentum, while Brazil followed suit, and Mexico managed to stay slightly ahead of the EM index.

Conversely, South Korea and Taiwan faced headwinds, delivering negative returns amid a broader global technological stock sell-off. This sector, having enjoyed months of strong growth, experienced a correction that weighed heavily on these markets. In China, uncertainty surrounding the Third Plenum added to investor caution as the domestic economy grappled with weakness and an unclear trajectory for future policy support.

In other regions, currency depreciation hampered Turkey's market performance, while Poland struggled with delays in anticipated interest rate cuts, which affected investor sentiment and returns.

As August unfolded, emerging markets encountered a shift in momentum characterised by increased volatility and broader economic concerns. The initial optimism, fuelled by exchange rate dynamics and interest rate expectations, was tempered by geopolitical uncertainties and market corrections.

The interplay between global economic trends and local market dynamics will continue to shape the investment outlook for emerging markets as they adapt to the ever-evolving global economic environment.

*Greece, the UAE and Egypt led the charge, showcasing robust performances throughout the month.*





*As August approached, the bond market faced renewed challenges amid broader economic concerns and geopolitical uncertainties.*

## GLOBAL BONDS

The global bond market experienced a favourable month in July, characterised by a widespread drop in government bond yields across major markets. This decline was driven by easing inflationary pressures and anticipating potential interest rate cuts from central banks. These factors collectively fuelled a positive atmosphere in the bond markets, with various sectors demonstrating notable performance.

In Europe, corporate bond spreads tightened considerably, marking an outperformance over government bonds. This trend reflected growing investor confidence in the corporate sector amidst expectations of an accommodative monetary environment. Conversely, US corporate bonds lagged behind, performing in line with Treasuries. Nonetheless, high-yield (HY) credit enjoyed a robust month, bolstered by the prospect of lower interest rates. High-yield bonds, known for their speculative nature, benefited from the market's optimistic outlook on interest rate cuts.

Central banks played a pivotal role in shaping market dynamics during this period. In the US, consecutive low core inflation readings and signs of slowing economic growth gave the Federal Reserve ample justification to

contemplate interest rate cuts in the upcoming September meeting. As expected, the Federal Open Market Committee (FOMC) maintained interest rates at the end of July. Still, Fed Chair, Jerome Powell, signalled the possibility of a rate cut in September, sparking a rally in Treasuries.

Similarly, the European Central Bank (ECB) appeared poised for a September rate cut, barring any significant data surprises. Although the eurozone's core inflation in July exceeded expectations slightly due to elevated goods prices, market anticipation for rate cuts remained largely intact. European government bonds performed well, with French government bonds recovering previous losses after political uncertainties from a hung parliament reassured investors against extreme fiscal measures.

In the UK, gilts participated in the global rally as investors keenly awaited the Bank of England's (BoE) rate announcement in early August. The market was divided on whether a rate cut would occur immediately or be deferred to September. Meanwhile, the new Labour government unveiled fiscal plans, including public sector pay awards and cost-saving measures, with the Autumn Budget scheduled for 30 October.

Currency markets also witnessed notable movements, with the Japanese yen outperforming due to the Bank of Japan's decision to raise interest rates to 0.25%, contrasting the rate-cutting stance of other central banks. Sterling had a strong month, bolstered by better-than-expected growth figures.

Convertible bonds, as reflected in the FTSE Global Focus index hedged in US dollars, achieved a 1.5% gain by the end of July. These instruments demonstrated adequate downside protection during the latter half of the month when equity markets faced pressures. The convertible bond market remained active, with US\$9 billion of new issuances meeting robust demand and liquidity.

As August approached, the bond market faced renewed challenges amid broader economic concerns and geopolitical uncertainties. The initial optimism surrounding interest rate dynamics was tempered by market corrections, underscoring the need for a strategic and diversified approach to navigating the evolving landscape. Investors remained vigilant, balancing risk management with opportunities in a dynamically shifting global economy.

# Summary

## Navigating potential slowdowns and corrections as investors grapple with mixed signals from economic indicators

In conclusion, the previous quarter has revealed a complex tapestry of global market dynamics, underscored by a notable downturn in equities during August. This period has been marked by a convergence of factors, including economic vulnerabilities in the US, which have sent ripples through global markets. Understanding these trends becomes paramount in navigating potential slowdowns and corrections as investors grapple with mixed signals from economic indicators like inflation and consumer confidence.

The UK experienced a dramatic swing in market sentiment, initially buoyed by political optimism following a major electoral shift. However, this enthusiasm was quickly overshadowed by broader economic concerns and geopolitical tensions, leading to a slump in equities. This underscores the unpredictable nature of market dynamics and the need for a diversified approach to withstand such volatility.

In the Eurozone, resilience in specific sectors was offset by political uncertainties and regional disparities, particularly highlighted by Germany's economic contraction. The mixed economic data and political stalemates necessitate a vigilant approach to understanding local and regional market influences, with an eye on potential opportunities amidst these challenges.

The US market reflected a similar narrative, with gains in July overshadowed by August's downturn. While potential interest rate cuts offered some hope, the overarching concerns of a recession and political shifts added complexity to market dynamics. This highlights the intricate interplay of economic and political factors that investors must consider when strategising their portfolios.

Japan's experience during this period illustrates the challenges and opportunities within a volatile market landscape. Currency fluctuations and central bank actions significantly impacted various sectors, necessitating strategic diversification and a focus on value-oriented investments. This serves as a reminder of the importance of adapting to changing market conditions through informed investment decisions.

Overall, the global bond market's performance in July, followed by challenges in August, emphasises the ever-changing nature of economic landscapes. Maintaining a diversified investment strategy, being vigilant and understanding market trends are critical for investors to effectively manage risks and capitalise on opportunities in this complex environment. As we move forward, continuous monitoring and strategic positioning will be essential in navigating the evolving global economy.





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