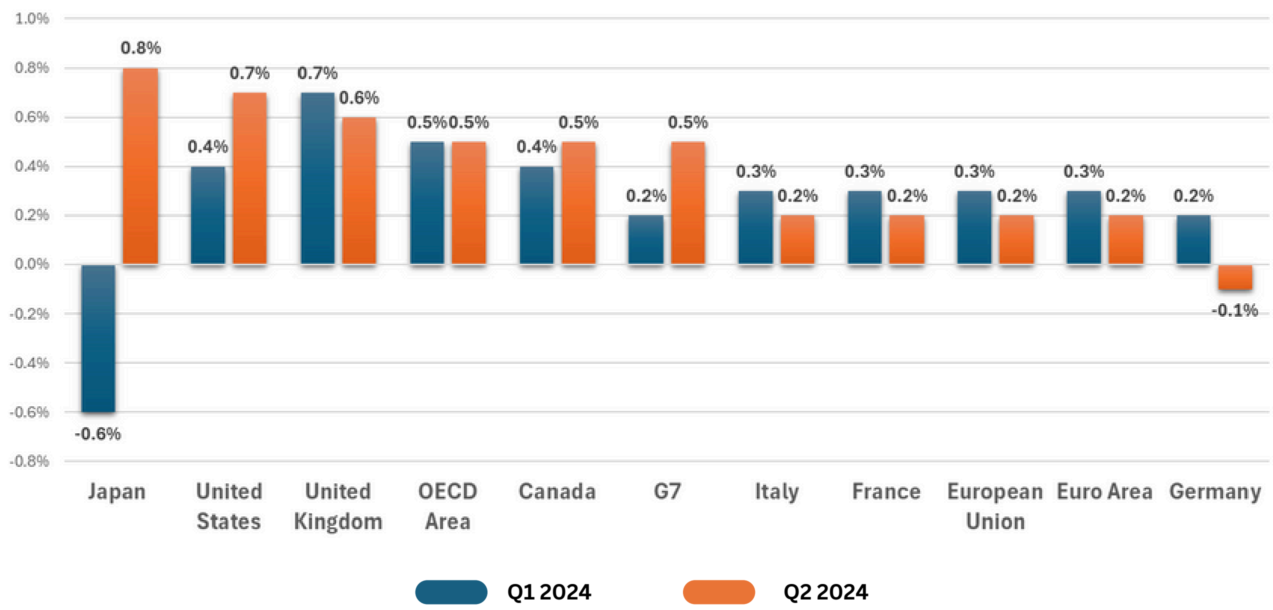
<u>Taking Stock - Global Growth Landscape & Equity Performances post Rate cuts</u>

As we have discussed in our previous insights, the US labour data has quickly become a point of concern for the Federal Reserve, with fears that the labour market may be cooling too fast and a spike in unemployment could trigger a wider rout in the economy. While this is a legitimate concern in the US, on a global scale when we look at the wider picture, we can see that growth has been steady throughout the first two quarter of 2024. Taking the OECD group of nations, GDP grew at a rate of 0.5% in Q2 2024, the same as in Q1. The United States and Japan both grew in Q2, with Japan rebounding from a contraction of -0.6% in Q1 due to an uplift in private consumption and inward investment. The US growth rate was also attributed to private consumption, showing consumers in the US are still spending despite tighter economic conditions. While we have seen a slowdown in growth across Europe, only Germany had a negative Q2, with the economy contracting by -0.1%. What we can gather from these statistics is that global growth remains resilient, with only one major economy suffering a contraction during Q2.

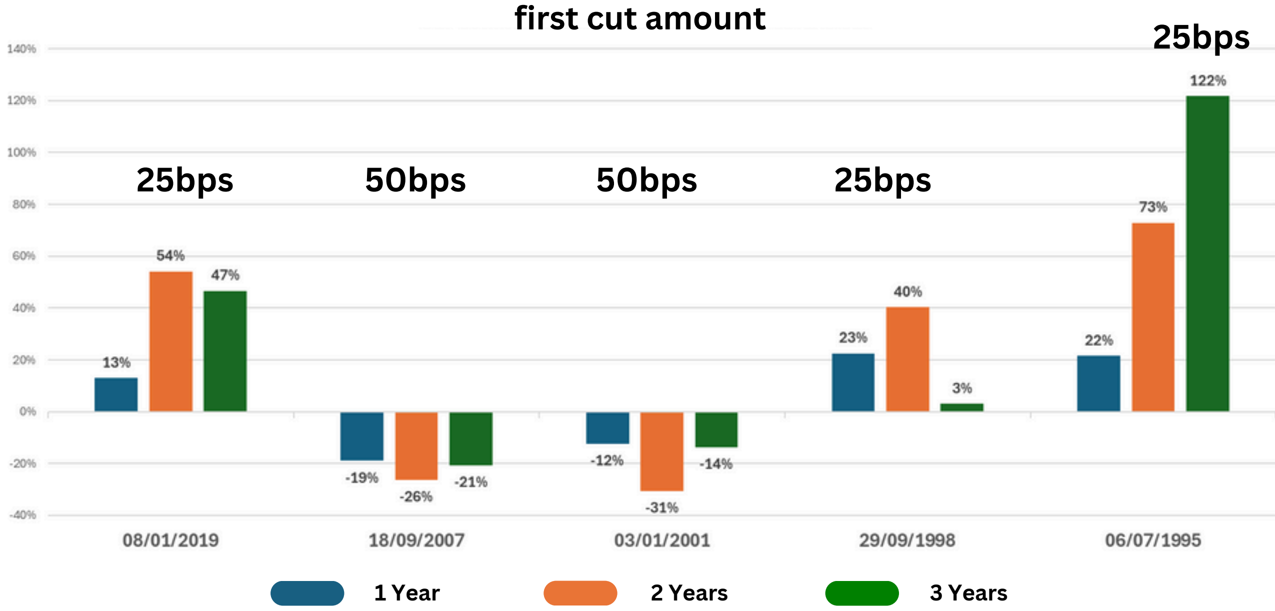
World Economies GDP - Q1 vs Q2 2024



As we approach the first interest rate cut in the US, the view now is by how much the Federal reserve will cut rates before the end of 2024. Recent inflation data has traders betting on a 25-basis point cut, due to lower inflation data in August than was expected. However, history does show that this may not be such a bad outcome.

The chart below highlights the performance of the S&P 500 after the Fed's first rate cut over one, two and three years. What is interesting to note is that in the three instances when the Fed's first cut was 25bps, the S&P 500 returned and average of 19% in the first year after the cut, rising to an average of 55% in the second year and 57% in year three. However, while the two instances where the Fed's first cut was 50bps show a negative three-year period, it is important to note that both these instances were during recessions. The key point is that historically, a 25 basis points cut has not adversely affected the stock market and could potentially facilitate further growth in the US stock market.

S&P 500 Forward Returns one, two and three years after first interest rate cut, first cut amount



Following this, we can see from the below chart the average historical performance of the 12 S&P 500 sectors during the first 12 months after the Federal Reserve's initial rate cut. Consumer non-cyclical, which incudes companies like Walmart and Coca Cola has performed the best, while the financial sector has performed the worst

Average Performance of S&P Sectors in the first 12 months after first Rate Cut (percentage points)