

Message from the Investment Manager



Inflation concerns and monetary policy tightening regain market focus

U.S. non-farm payrolls increased by 162,000 in August, while the unemployment rate remained unchanged at 4.1%, reflecting continued labour market resilience. Inflationary pressures reaccelerated during the month, with headline and core Consumer Price Index rising 0.4% and 0.3% month-on-month respectively, a faster pace than in July. Rising energy prices also contributed to the increase in the Producer Price Index. At its September meeting, the Federal Reserve raised the federal funds rate to a range of 3.75% to 4.00% and reiterated that inflation remains elevated.

Eurozone inflation rose to 3.3% year-on-year in August, driven mainly by higher energy prices. The Eurozone manufacturing Purchasing Managers' Index ("PMI") rose to a four-year high, supported by improving manufacturing output in Germany. However, retail sales data continued to indicate soft consumer demand. In response to persistent inflationary pressures, the European Central Bank raised its deposit rate to 2.50% and indicated that inflation is likely to remain above target for an extended period.

Japan's second-quarter GDP growth was revised upward to an annualised rate of 1.4%, while wage growth accelerated and manufacturing activity remained resilient. However, household spending declined for an eighth consecutive month, highlighting continued weakness in domestic demand. The Bank of Japan raised its policy rate from 1.0% to 1.25% in September and stated that future policy decisions would depend on the inflation outlook as well as the impact of previous rate hikes on economic and financial conditions.

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In China, economic momentum continued to slow in August, with both manufacturing and non-manufacturing PMI readings remaining below 50. Nevertheless, high-tech manufacturing continued to expand and supported industrial production. To strengthen the financial system stability and support economic development, China's Ministry of Finance announced a 300 billion RMB equity injection for major state banks and insurers, boosting their Tier-1 capital ratios.

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