BEA MPF e - Newsletter

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Message from the Investment Manager



Markets grappled with higher interest rates and inflation risks as performance diverged

In the U.S., economic data released in September painted a mixed picture. The U.S. Manufacturing Purchasing Managers' Index (PMI) eased slightly to 54.5, while signs of moderation emerged in the labour market, with the unemployment rate rising to 4.2%. Inflationary pressures reaccelerated, with headline and core Consumer Price Index (CPI) inflation rising to 3.7% and 2.6% year-on-year respectively. Heightened geopolitical tensions and persistent energy-driven inflation risks prompted the Federal Reserve to unanimously raise interest rates in mid-September. Nevertheless, the Fed remained confident in the resilience of the U.S. economy and revised its 2026 GDP growth forecast upward to 2.3%. Market attention has now shifted to the upcoming October earnings season and further guidance from major central banks.

Driven by higher energy prices, Eurozone inflation rose to 3.8% year-on-year in September. The European Central Bank raised its deposit rate by 25 basis points, marking its second rate hike of the year. In the UK, August Consumer Price Index (CPI) inflation remained at 3.1%, prompting the Bank of England to leave policy rates unchanged.

In Japan, cautious forward guidance from Governor Kazuo Ueda regarding the pace of future rate hikes led to an unexpected weakening of the yen against the U.S. dollar. Supported by a weaker yen and strong earnings from global semiconductor companies, large-cap exporters performed well and helped offset the pressure that higher borrowing costs exerted on domestically oriented sectors.

In China, economic data pointed to a divergence in growth trends. Industrial production and exports remained resilient, while consumption, fixed asset investment and credit demand continued to show weakness. Against a backdrop of limited policy support and a slow recovery in domestic demand, the outlook for Chinese equities remain cautious.

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