Various tailwinds support investors' risk appetite in September

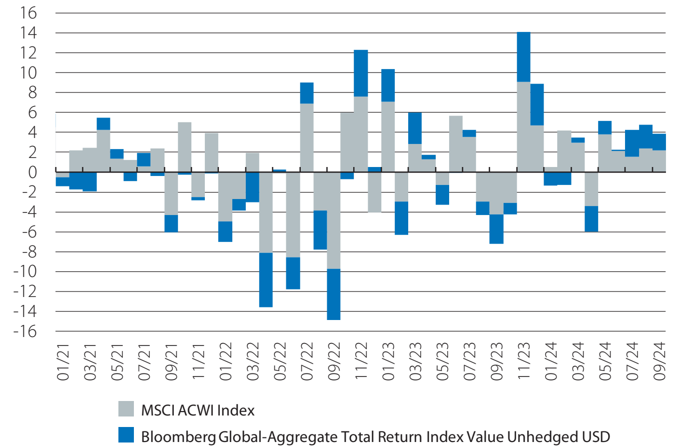
September sees Q3 end with widespread gains in the markets. In September, investors ended up shaking off the sharp correction of early August, thanks to various tailwinds that led to widespread gains in most markets and asset classes (September was the fifth consecutive month of simultaneous gains in global equities and fixed-income securities). The first of these tailwinds was the path of rate cuts onto which the vast majority of developed-market central banks settled, following in the footsteps of the Fed's 50-bp rate cut in September. This development occurred in a context of ongoing disinflation on both sides of the Atlantic and resilient labour markets, given the advanced stage of the business cycle. A second source of support was the decline in the price of crude oil during September, caused by both weak demand from China and the fact that Saudi Arabia is pondering a change of strategy by increasing production from December in order to gain market share. The escalation of tensions in the Middle East, however, reversed this trend and acted as a headwind for the market in early October. Finally, the Chinese authorities' decisive monetary and fiscal stimulus provided a major boost both for the country's equity markets (which had one of the worst performances in the year) and for the most highly-exposed regions, such as the euro area and Australia.

The cuts by central banks prolonged the falls in money market rates. The Fed's 50-bp interest rate cut announced at its September meeting, when it also confirmed the shift in its focus away from inflationary risks in favour of sustaining the labour market, raised investors' expectations of rapid and sharp rate cuts from other major central banks and induced a significant drop in money market rates. For the ECB, between August and late September, the implicit rates of this market went from anticipating a depo rate of 2% in Q1 2026 to one of 1.75% as early as September 2025. In the case of the Fed, the adjustment was similar in magnitude, with expectations for the terminal rate falling from 3% in late August to 2.75% by the end of September, albeit with a more prolonged downward path. These terminal rates anticipated for intervention benchmarks are below those currently estimated by the analyst consensus as being neutral levels. That said, the situation remains volatile and the unusual buoyancy of the US labour market in September sparked a new revision of expectations.

Sovereign debt yields fall and yield curves recover a positive slope. Sovereign debt yields also fell in September across the board on both sides of the Atlantic (although the decline was more pronounced in the shorter-term benchmarks, leading to positive yield curves), rounding off a quarter with investor profits. In the euro area, of particular note was the increase in France's risk premium, in a context of narrowing peripheral spreads. The poor performance of French debt took place in a month of political transition, during which the new government gradually recognised the magnitude of the fiscal problem. This, coupled with various rumours and pieces of news about cuts and reforms to tackle the deficit – which the finance minister

Monthly performance of global fixed-income securities and equities

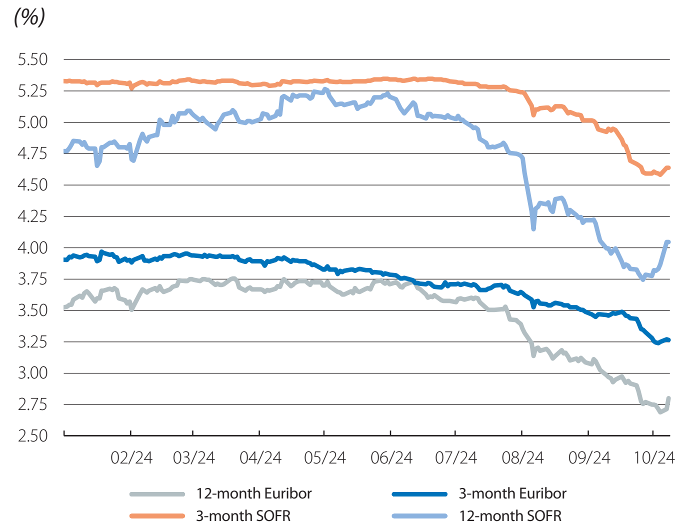
(%)



Source: *CaixaBank Research, based on data from Bloomberg.*

Interbank interest rates

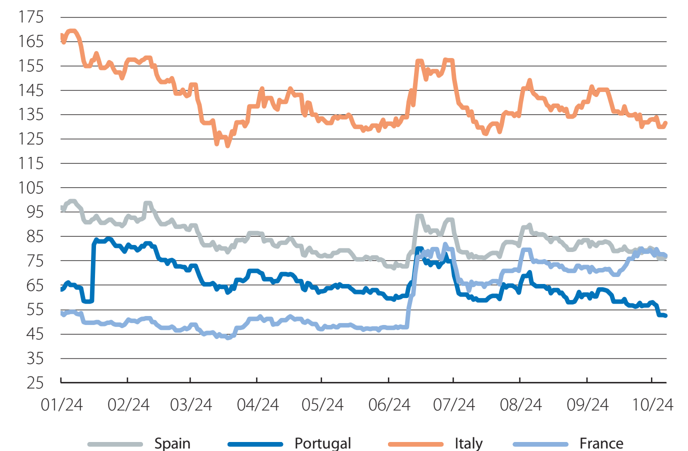
(%)



Source: *CaixaBank Research, based on data from Bloomberg.*

Risk premiums of the euro area periphery

Difference in the 10-year sovereign debt yield vs. *the German benchmark (bps)*



Source: *CaixaBank Research, based on data from Bloomberg.*

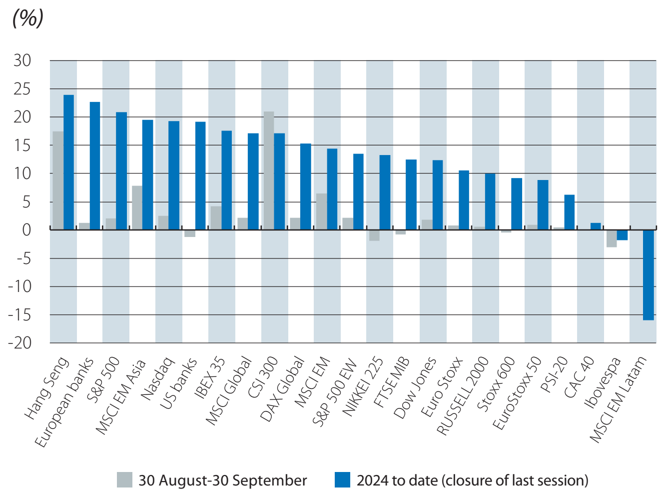
says could exceed 6% of GDP – caused France's risk premium to rise slightly above Spain's for the first time since 2007.

Global stock markets enjoy a rally. This was driven both by the fall in risk-free rates and by the monetary and fiscal stimulus measures announced by the Chinese authorities, aimed at supporting the real estate sector and stimulating a general economic recovery. The announcement of the measures sparked rapid gains in the country's main indices, as well as in Hong Kong, after having registered some of the worst performances in the world in the year up to September. It also triggered gains in the month in European stock markets, which have a large proportion of companies highly exposed to China (particularly those in the luxury sector, which are very numerous in Europe). Among the European indices, the IBEX 35 performed particularly well, thanks to companies exposed to the tourism sector, as well as others of a more cyclical nature, driven by the buoyancy of the Spanish economy. Finally, the US indices also closed the month and the quarter with gains. The S&P 500 reached all-time highs, driven once again by tech companies with the greatest exposure to AI.

The dollar shows weakness due to the rate cuts and political risk in the US. The US currency ended September with widespread depreciation – for the third consecutive month – against its main peers, especially the yen, yuan and Australian dollar, as well as against the euro, albeit to a lesser extent in the latter case. The dollar was highly sensitive to movements in the money markets which anticipated fast and aggressive rate cuts by the Fed. Moreover, some of its weakness also seemed to be attributable to sales prior to the election in November, given the uncertainty over how the various scenarios might affect the currency. The spike in geopolitical risk in the Middle East, on the other hand, triggered a sharp appreciation of the dollar in early October, as it acted as a safe-haven asset. As for other currencies, in September the yen prolonged its appreciation of the last three months, thanks to the Bank of Japan hinting throughout the month at the possibility of further rate hikes. On the other hand, the yuan capitalised on the widespread rise in Chinese financial asset prices triggered by the stimulus measures. These measures also facilitated the appreciation of the Australian dollar, driven by the rise in the price of metals, in view of the expectation of higher demand from China.

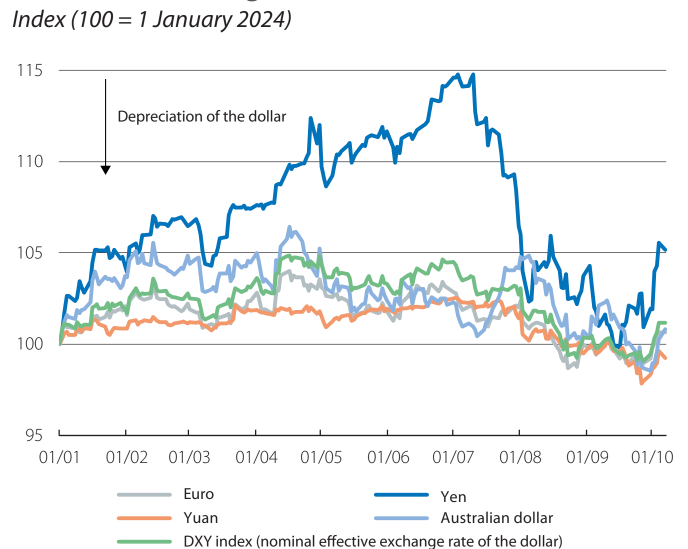
Following a summer of declines, the tensions in the Middle East drive up the price of crude oil. Oil prices ended a summer of declines in September, weighed down in the month by the news that Saudi Arabia was preparing to change its trade strategy, shifting from controlling production in order to reach 100 dollars a barrel to seeking an increase in OPEC+ production from December that will allow it to gain market share. While there was no increase in the price of oil in September despite China's stimulus package (which ought to increase demand) and the escalation of tensions in the Middle East, this latter factor did cause it to spike in the first week of October, given the increased risk of an escalation between Iran and Israel. Industrial metals, on the other hand, did capitalise on China's stimulus measures and the expected increase in demand, closing the month with gains. Finally, food futures rose sharply, particularly sugar and cereals, due to extreme weather events in several major producing countries, such as Brazil.

Performance of the main stock market indices
(%)



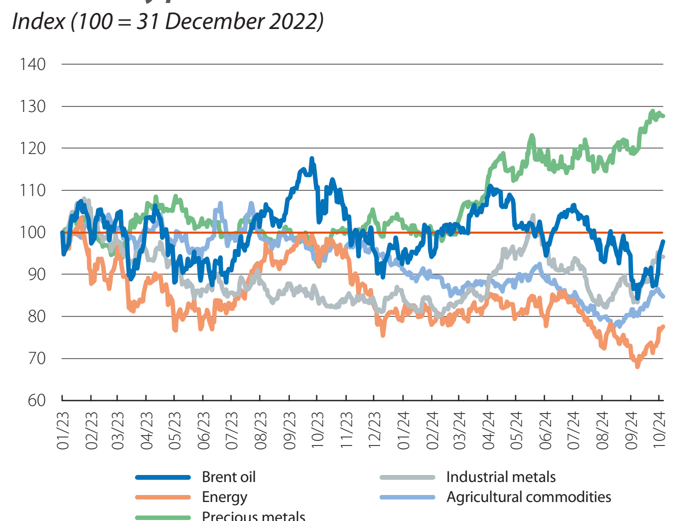
Source: *CaixaBank Research, based on data from Bloomberg.*

Select currencies against the dollar
Index (100 = 1 January 2024)



Source: *CaixaBank Research, based on data from Bloomberg.*

Commodity prices
Index (100 = 31 December 2022)



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