INVESTMENT UPDATE

JUNE 2024

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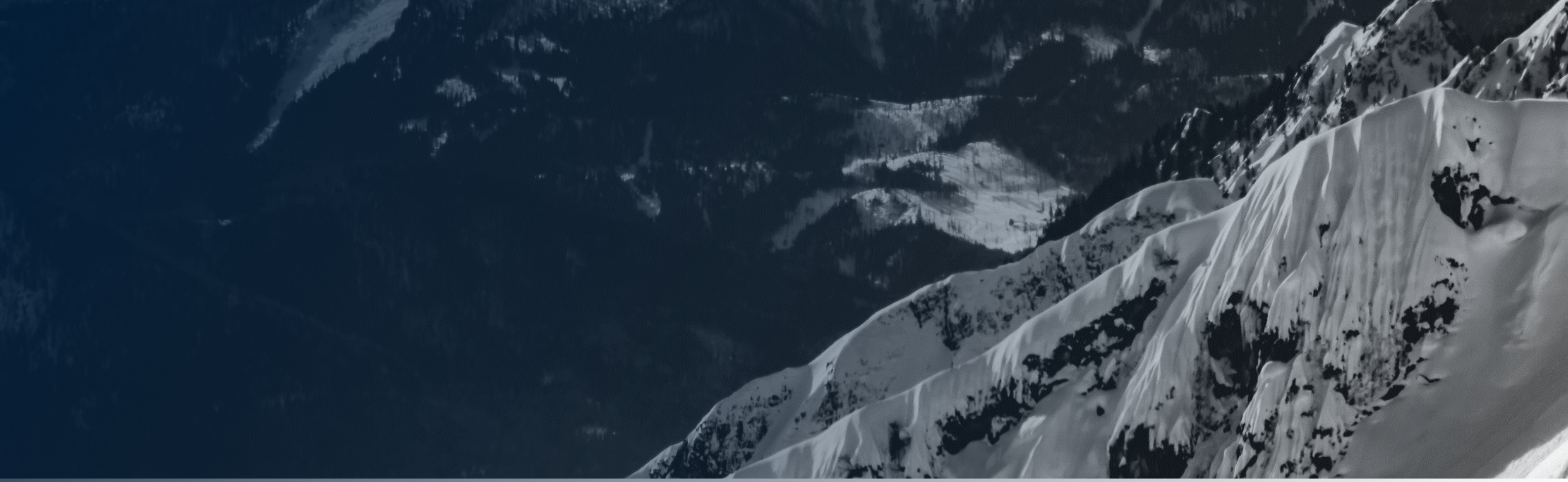

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JUNE 24

Index	Level 30 April	Level 31 May	Change*
S&P 500	5035	5277	+4.8%
FTSE 100	8144	8275	+1.6%
Euro Stoxx 600	504	518	+2.8%
Nikkei 225	38405	38488	+0.2%
Shanghai	3104	3086	-0.6%
US 10 Yr Treasury Yield	4.68%	4.51%	-0.17
UK 10 Yr Gilt Yield	4.36%	4.33%	-0.03
Bund 10 Yr	2.58%	2.65%	+0.07

*all returns in local currency terms

Overview

Equity and bond markets had a positive month, following the declines in April, with some markets attaining new all-time highs during the month and corporate bonds outperforming government bonds, which suggests some optimism from investors on the prospects for global economic growth. This was despite a mixed picture on inflation trends in certain economies. However, all portfolios generated positive returns as a consequence. In the UK, headlines were stolen by the surprise announcement of an election in July, but the markets' muted reaction suggested investors were not overly concerned.

US

In dollar terms at least, the US main market more than recovered the losses seen in April, reaching a new all-time high before pulling back. The US economy continues to lead globally, even though GDP figures for the month were reported lower at 3.4%. This number showed that the economy is slowing down, but this in turn led markets to believe that a weaker economy gives room for the Federal Reserve (Fed) to cut interest rates. This optimism was further buoyed by core inflation coming in at a lower than expected 3.4%, with the Fed's preferred measure, the Personal Consumption Expenditure index (PCE) being in line with expectations. The slower progress on attaining an inflation level of 2%, does suggest that we are likely to see rate cuts until at least September and this has also been suggested by members of the Fed themselves.

On the corporate front, technology giant Nvidia continued to surprise on the upside; reporting earnings ahead of estimates for the sixth consecutive quarter. As a consequence, the technology sector was up over 10% on the month. Nvidia itself is now larger than the entire German stock market on its own and is the biggest single contributor to the S&P 500 this year, accounting for over 30% of the index' return according to UBS. Notwithstanding this, mid-cap company sector was up almost as much as the larger index and the small cap sector actually surpassed it, in an encouraging sign of a broadening of returns.

Europe

Eurozone data continued to improve, with the unemployment rate falling to 6.4% in April, after five months at 6.5%. This was below market forecasts that it would remain at 6.5%. The manufacturing sector has suffered with interest rates higher for longer, but the month's manufacturing Purchasing Managers Index (PMI) saw a marginal improvement, moving from 45.7 to 47.4. A reading above 50 is positive, so although still in contraction territory, this is the highest reading in 15 months, which is positive. Core inflation surprised as it rose to 2.9%, which was ahead of market expectations of 2.8% and came after nine consecutive months of falling inflation. However, as anticipated, the European Central Bank announced a 0.25% interest rate cut after the month end, but with price pressures remaining, the path of interest rate cuts from here looks uncertain.

UK

Both the stock market and bond markets paid little attention to the announcement of a July election and the potential prospect of a Labour government, largely due to the lack of fiscal borrowing headroom to support unfinanced government spending. Instead, markets were more focused on the current economic backdrop and prospects for lower interest rates, which supported another high for the FTSE 100. The annual inflation rate in the UK eased to 2.3% in April, compared to March's reading of 3.2%. Despite being slightly higher than market forecasts of 2.1%, this was still a three-year low for inflation and was largely due to the 12% reduction in regulator OFGEM's energy price cap feeding into the figures. Consumer confidence continued to improve, beating forecasts and reaching its highest level since December 2021. However, the UK's PMI survey saw a slight pull back in May to 52.8, below the expected level of 54. This was due to a slowdown in services sector PMI as companies continued to adapt to higher interest rates.

Japan

Japanese equities traded sideways during May. GDP figures for the final quarter of 2023 were revised down and figures for the first quarter of this year came in at -0.5% (subject to revision). There has been a shift in sentiment towards Japanese stocks, with May seeing money flow out of the market. Japan's Ministry of Finance confirmed it defended the currency against further weakening at the end of April, buying yen to the tune of $62bn, however the yen remains weak against the US dollar.

Asia and Emerging Markets

In China, the stock market initially responded favourably to the central bank announcing a series of measures to prop up the country's ailing property sector. These included a 300 billion yuan relending facility established by the bank to help local state-owned enterprises purchase completed but unsold buildings and convert them into affordable housing. However, the market now seems to have shrugged off the aid as inadequate and expects more funding to be required by the end of the year, so the main market ended up in negative territory over the month as a result.

Results elsewhere in Asia were mixed. Taiwan benefitted from its exposure to the silicon chip led technology sector, whilst Korea's similar exposure failed to prevent a decline.

In emerging markets, elections have been dominating the headlines, as South Africa, Mexico and India all headed to the polls. The final results were all announced after the month end. Mexico elected its first female president with a large majority, suggesting policy continuity, while in India Narendra Modi failed to win the forecast landslide and his BJP party lost its outright parliamentary majority. In South Africa, the nation's largest party, the ANC, suffered an even greater fall in popularity than expected and will need to form a coalition with a minority party.

Outlook

Whilst we are clearly now in a period where major central banks are lowering rates, the visibility of cuts and their timing still leads to some caution on the duration (sensitivity to interest rates) front in fixed interest, with this having been reduced within model portfolios in May, in favour of equity exposure. Having performed well, Europe and Japan have been reduced to a more neutral level. Inflation data will continue to dominate both central bankers and investors' minds alike, as it will ultimately be the trigger for any action on the rates front. The liquidity environment in the US remains favourable, with Quantitative Tightening being tempered and is likely to remain supportive as we head into the Presidential election there.

In our next bulletin, we will know the outcome of the UK general election. However, as previously mentioned, markets seem little troubled by the potential for a change in government – the Labour party seeming to have learnt from Mrs Truss' experience of attempting to enact unfunded spending plans, which didn't end well for her.

Rockhold Asset Management, with contribution from Alpha Beta Partners, Marlborough and LGT, June 2024.

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