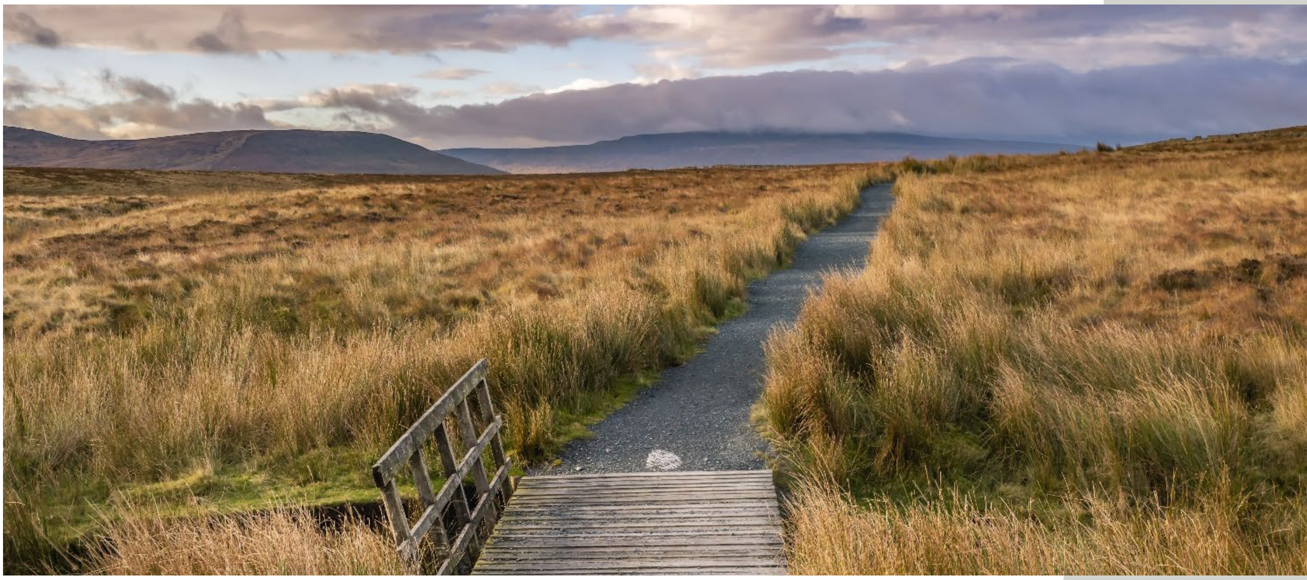
Market reflection

03 July 2024



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Overview

Global equities maintained their upward path in June, capping a strong first half of the year with a total return of around 12%. However, the regional picture was more nuanced. US stocks (+16%) have offered consistent leadership this year, and June was no exception. The US domicile of a handful of companies at the forefront of the adoption of generative artificial intelligence is proving to be a huge advantage for the country's indices. Briefly, chip-designer Nvidia became the world's largest company by market capitalisation, capping an extraordinary ascent for its shares in the last few years, a run that has been matched by an equally impressive expansion of its revenues and earnings.

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Equity markets in Europe (+9%) lagged behind. The nascent economic recovery in the region is struggling to accelerate, and although the European Central Bank duly reduced interest rates for the first time in this cycle, the cut was accompanied by a more hawkish statement with no immediate intent to lower rates further. This news was followed by the bombshell of the European Parliamentary elections, which saw strong gains for far right parties in several countries, notably Germany and France. The results in the latter persuaded President Macron to call a snap election in the legislative branch, creating turmoil in markets. The yield differential between French and German government bonds rose sharply as investors baulked at the prospect of a potential populist government being fiscally irresponsible. The polls suggest no outright majority for the National Rally Party and history suggests some degree of pragmatism should they obtain one, but markets await the result of the two-stage election which culminates on July 7th with some trepidation. The mood is much calmer in the UK, where a victory for Labour is seen as inevitable, but brings limited risk of extreme policymaking.

- The Bloomberg consensus for World GDP growth in 2024 remains stable at 3%, up from 2.6% in January, and matching the level of 2023. The forecast for 2025 is also 3%, although such stability has been rare in recent years.

- The debate is still very much alive about whether the US will finally succumb to slower growth or even a mild recession as a result of the lagged effects of higher interest rates.

- There also remains considerable uncertainty about the outcome of the US Presidential election and what it might mean for fiscal, trade and economic policy. The faltering performance of President Biden in the first debate with candidate Trump did nothing to instil confidence.

- The Bloomberg Global Aggregate Bond Index (BGABI) has lost around 3% in dollar terms this year as the “last mile” of getting inflation down to central banks’ 2% target has proven to be tough and expectations for rapid and sizeable interest rate cuts have been priced out. However, longer term inflation expectations remain well anchored and we still believe that lower interest rates are a case of “when” not “if”.

- A 0.2% rise in the sterling hedged version of the BGABI reflects a 2.4% rise in the pound’s trade-weighted value so far this year, a signal that investors are taking the prospect of a Labour government in their stride. Indeed, there are hopes for a more stable and business-friendly background.

- In equity markets this sentiment has been witnessed in increased levels of merger and acquisition activity in UK-listed companies and, finally, signs of inflows into UK mid-cap funds.

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