

# MONTHLY INVESTMENT REVIEW

February 2024



**Markets started the new year with some mixed returns in January as well as a degree of volatility. Investors assessed the likely trajectory of interest rates and the resilience in the world economy as well as a number of pressures, particularly political. The exuberance at the end of 2023 faded initially although there was a stronger second half to the month.**

Central banks in the US, UK and Europe have held interest rates while being ready to cut them, given the mostly lower rate of reported inflation which is closer to their target of 2%. The US Federal Reserve had set out its expectation of three cuts in 2024 although markets have been expecting twice as many, which might cause some disappointment as well might the timing of the first cut if it were to slip further into the year. The European Central Bank may lead the US in timing, as its president Christine Lagarde found encouragement in the lower level of wage inflation, while there is scope for the Bank of England to make a first cut by June. The Bank of Japan has been consistent in only slowly adjusting its policy and it maintained its negative interest rate of 0.1%, although expectations of a rate rise rose as the governor Ueda Kazuo said the central bank was close to meeting its inflation target.

The reported rate of inflation in key economies was higher in the month if still much lower than at its peak, while it is likely to be variable. In the US the consumer price index (CPI) rose to 3.4% in December from a revised 3.1% for November although the rate for the fourth quarter was at 1.7% as against 2.6% in the third quarter of 2023. The personal consumption expenditures index, which the Fed regards as its key measure, rose by 0.2% in December compared to 0.1% in November, in line with expectations. The price of petrol will be an important debating point in an election year and was one factor in the Biden administration having introduced a moratorium on new exports of liquefied natural gas, along with issues on the environment and energy security. In the UK the CPI data also showed a slight rise to an annualised rate of 4% in December from 3.9% the prior month, which was the first increase since February. The inflation rate for food and non-alcoholic beverages continued to ease to a level of 8% in December, despite what looked to be ambitious pricing for those trying to hold to the strictures of a dry January. This was the lowest reading since April 2022 and prices should be more stable if much higher than before their sharp rise, although new EU border checks from April might have an impact. The rate in the eurozone returned from 2.4% in November to 2.9% in December.

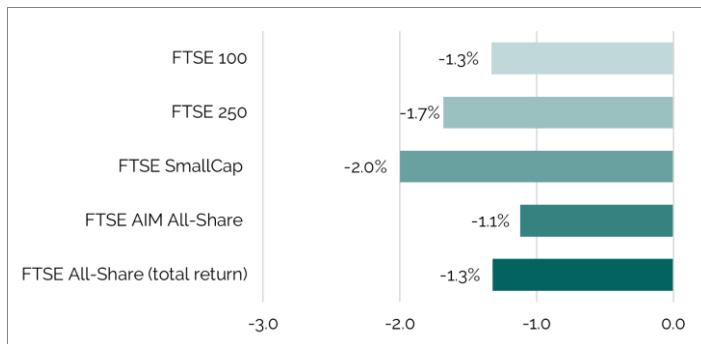
In the US the economy grew at an annualised rate of 3.3% in the last quarter of 2023, better than expected and when

combined with the lower inflation numbers a pointer to an elusive soft landing rather than the recession that sharp interest rate rises usually entail. The labour market has remained robust as the non-farm payrolls showed the creation of a further 216,000 new jobs in December, above both expectations and the number for November which was revised down to 173,000. For the UK consumer confidence has reached its highest level since January 2022, if still at a net negative reading; higher wages and the cut in National Insurance as well as lower mortgage costs have helped. In the eurozone the economy was flat in the last quarter of 2023, after a decline of 0.1% in the third quarter of the year; the German economy contracted by 0.3% given subdued global demand for Germany's industrial goods while there was a degree of stagnation in France. The EU has been slow to deploy its fiscal stimulus for investment in a green economy, unlike in the US. There have been increased expectations of more government intervention in China, in part to counter a stock market that has struggled and to address the continued complications in its property sector, where the tortuous bankruptcy of the Evergrande developer moved on another stage. The weaker Yen has helped Japanese exporters.

The world is in a complex and fractious state. The wars in Gaza and in Ukraine might yet lead to a wider regional conflagration. The US election dominates the headlines just as Donald Trump has dominated the Republican party primary votes, with Nikki Haley just holding on as a potential candidate, perhaps until the result in her home state of South Carolina. India will be one of many other countries holding elections in 2024 and the controversial consecration by the prime minister Narendra Modi of a Hindu temple at Ayodhya had the hallmark of a political rally. In the European Union there will be parliamentary elections in early June; for now the French and the German governments are dealing with protests by farmers while looking to counter the appeal of far-right parties for whom migration has been a key issue. The presidential vote in Taiwan did see Lai Ching-te of the incumbent Democratic Progressive Party win and so be likely to maintain the country's more independent approach to China, which took comfort from the fact that the DPP lost its parliamentary majority. Sheikh Hasina secured a further term as prime minister of Bangladesh in part by disabling the opposition.

Companies are forecast to see a sharp rise in earnings in 2024, after a dip in 2023, although these projections may prove ambitious. There are pressures on margins from higher shipping costs, with more militant attacks on ships in the Red Sea, while the trade tensions between the US and China can have a substantial impact on business. The influence of Artificial Intelligence has continued to be a dominant theme for the largest technology shares.

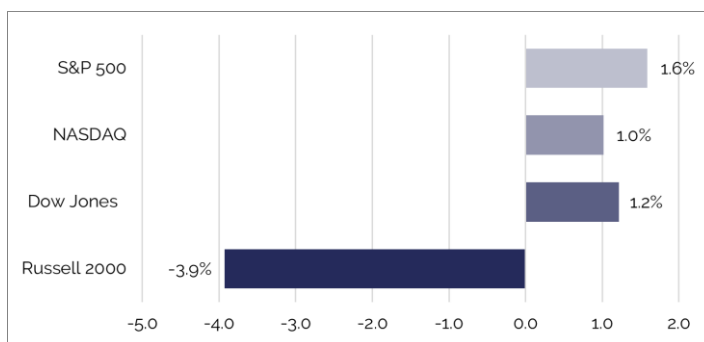
## United Kingdom



The FTSE 100 index was down by 1.3% over the month to close at a level of 7631. The FTSE 250 index of mid-sized companies and the FTSE SmallCap index saw declines of 1.7% and 2% respectively. The FTSE AIM All-Share was off 1.1%.

The total return for the FTSE All-Share index including income was -1.3% in the month.

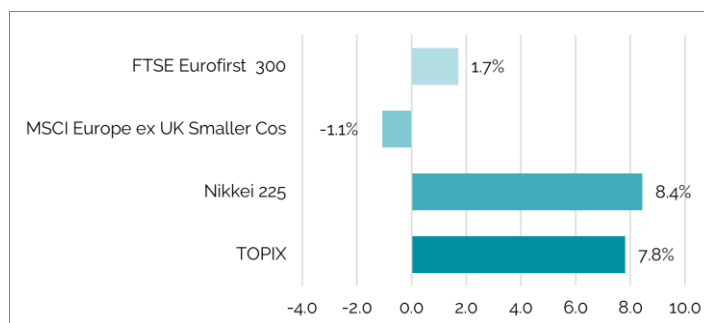
## United States



In the US the S&P 500 index gained 1.6%, the technology-oriented NASDAQ 1% and the Dow Jones Industrials index 1.2%.

The Russell 2000 index of smaller companies fell by 3.9% in the period.

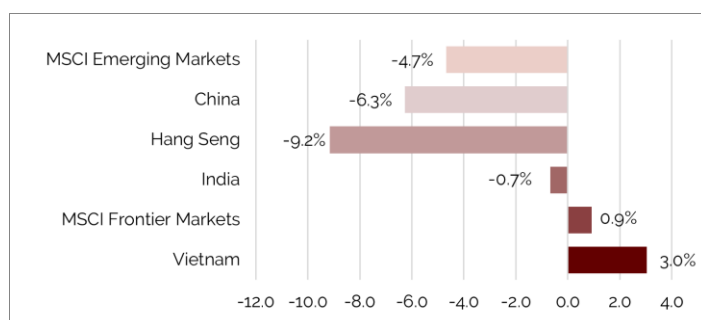
## Europe & Japan



In Europe the FTSE Eurofirst 300 index was up by 1.7% over the month, when France and Italy were stronger than Germany and Spain amongst major markets, while the MSCI Europe ex UK Smaller Companies Index was down 1.1%.

In Japan markets were strong with the Nikkei 225 index gaining 8.4% and the TOPIX 7.8%.

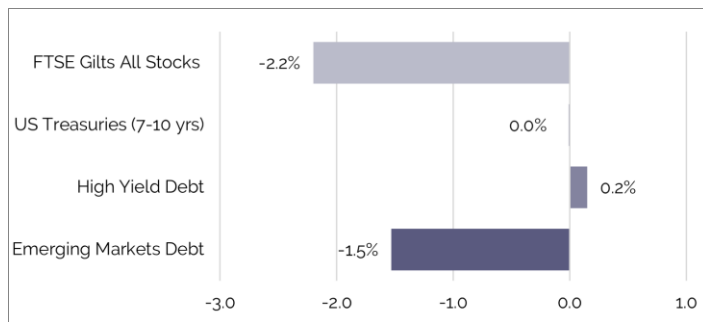
## Emerging Markets



The MSCI Emerging Markets in US\$ fell by 4.7% in the month. The Indian market only declined slightly by 0.7% while the Korean and Brazilian markets were off by 6% and 4.8% respectively; in China the Shanghai index fell 6.3% and the Hang Seng index 9.2%.

The MSCI Frontier Markets index rose 0.9% and the Vietnamese market gained 3%.

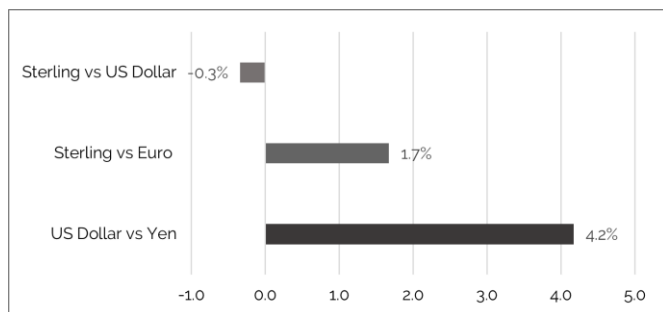
## Bond markets



In bond markets, the UK 10-year gilt yield rose from 3.54% to 3.79% and the total return for the FTSE Gilts All Stocks index in the month was -2.2%. In Germany the 10-year bund yield went from 2.02% to 2.17% while the US ten-year yield edged up from 3.88% to 3.91%.

The other major bond markets were flat or saw modest declines in the month, aside from the high yield sector which was up 0.2%.

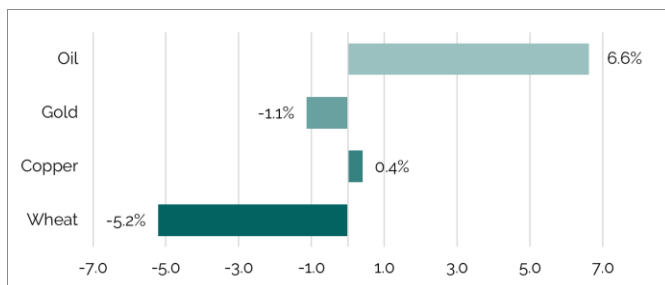
## Currencies



Sterling declined by 0.3% against the US\$ and closed at a rate of \$1.27:£ while against the euro Sterling was 1.7% higher in the month to end at a rate of €1.17:£.

The US\$ strengthened notably against the Japanese Yen, up by 4.2% in the month.

## Commodities



The price of Brent crude oil ended the month up by 6.6% at \$83 per barrel. The price of gold was down by 1.1% at \$2040 per troy ounce. The prices of major metals were mostly lower in the month, with the bellwether copper seeing a marginal rise of 0.4%. The main agricultural commodities were mixed, with wheat falling by 5.2%.

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