MONTHLY INVESTMENT REVIEW

May 2024

VINTAGE
ASSET MANAGEMENT

Markets were much more mixed in April after the strong run in the first quarter of the year, largely on the fading prospect of immediate interest rate cuts in the US in particular. As before there were encouraging indications on the resilience in the world economy as well as the reporting of mostly robust corporate profits, against the prevailing background of complex political and geopolitical developments.

The reported rate of inflation has remained key and has proved relatively sticky, still broadly on a trend to a lower level but not consistently and shy of the 2% target that central banks espouse. In the US the latest reported consumer price index (CPI) was up to 3.5% for March as against 3.2% in February, which had been higher in turn than January; increased gasoline costs were a significant factor. The personal consumption expenditures index, a key measure for the Federal Reserve, rose by the same rate of 0.3% in March as in February; the core annualised rate was at 2.8%, which was higher than expectations, and the headline rate rose from 2.5% to 2.7%. In the UK the CPI data showed a fall from 3.4% in February to 3.2% in March while the core rate, excluding more volatile elements such as fuel and food, was also down, from 4.5% to 4.2%; the increase in prices for food and non-alcoholic beverages was at the lowest level since November 2021. The rate in the eurozone eased further again to 2.5% in March from 2.6% in February. In Japan the core inflation rate was down to 2.6% in March from 2.8% in February.

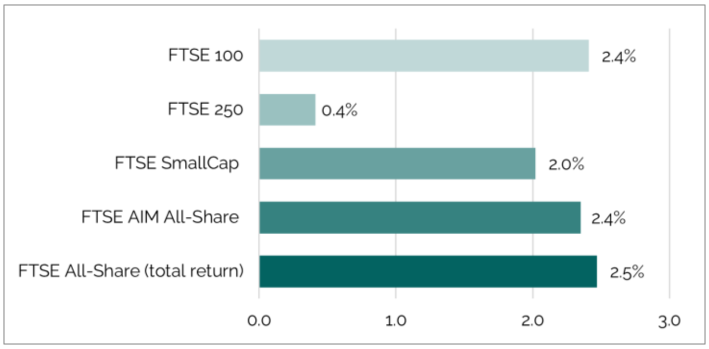
There has been some variability in the likelihood of central banks in the US, UK and Europe cutting interest rates. The US Federal Reserve had originally plotted three such cuts in 2024 and the market expectation is now just one or two, compared to hopes of six or seven at the start of the year. The probability of the three cuts is down to around 20%, the same as for no cuts at all or even a rise in rates, which some have suggested is needed given the stickiness in inflation. The European Central Bank is likely to be the first to move with an initial cut in June, although there is a debate as to how many cuts will follow, and the Bank of England is then likely to follow, if perhaps not until September. The Bank of Japan has remained under pressure, since it ended its negative interest rate policy, to raise rates further to support a weak currency, given the continued disparity in interest rates with the US$, although the bank is ready to intervene to buy the Yen as a prop.

In the US the economic data was more variable in the month. The reported rate of growth in GDP was an annualised 1.6% in the first quarter, which compared to 3.4% in the last quarter of 2023 and to forecasts of 2.5% - although such data is liable to revision. There was a decline in both the manufacturing Purchasing Managers Index (PMI), from 51.9 to 49.9, and in the services survey, from 51.7 to 50.9 (a reading over 50 indicates likely expansion). The labour market saw the creation of 303,000 new jobs in March which compares to a twelve-month average of 231,000 while the unemployment rate was little changed at 3.6%. In China the reported growth in GDP in the first quarter was stronger than expected, given the impact of greater exports, manufacturing investment and travel-related spending although the property sector continued to decline. Overall nominal growth has remained weak and the authorities are probably less minded to provide the type of stimulus that markets would welcome. In the eurozone the composite PMI rose from 49.2 to 50.3 in March. In the UK too there have been some encouraging developments with reported economic growth in the first two months of the year and the composite PMI rising from 52.8 to 54.0 in April, when the expectation was a small decline. The housing market has been more stable and mortgage approvals in March were at their highest level since the Truss-inspired disruption in the autumn of 2022.

Markets were relatively unperturbed by the missile strikes between Iran and Israel on the expectation that an escalation to a broader regional conflict was unlikely, if still a risk. Russia continued to use superior force in Ukraine although the US Congress finally approved a $61bn package of support, of which a third is intended for weapons and ammunition with some set to have an immediate impact. The build-up to the elections in the US and the UK continues, with markets appearing relaxed over the possible outcomes and certainly the most likely: Donald Trump winning if the Republicans not gaining full control of Congress and Labour winning if perhaps without the overwhelming majority that polls predict. Scotland, where there have been further twists, will be a factor.

Business profits have been resilient although there have been warnings amidst the generally reassuring tone of company reports. Corporate activity has picked up, especially in the UK which might help to correct the relatively low valuations on the London Stock Exchange.

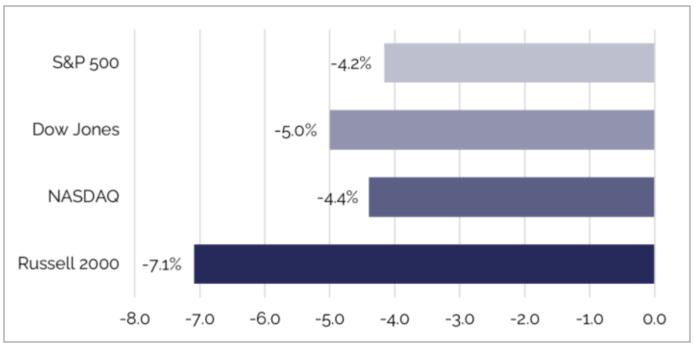
United Kingdom



In the UK the FTSE 100 index rose by 2.4% in the month from 7953 to 8144, reaching a new high, while the FTSE 250 index of mid-sized companies and the FTSE SmallCap index saw gains of 0.4% and 2.0% respectively. The FTSE AIM All-Share index was up 2.4%.

The total return for the FTSE All-Share index including income was 2.5% in the month.

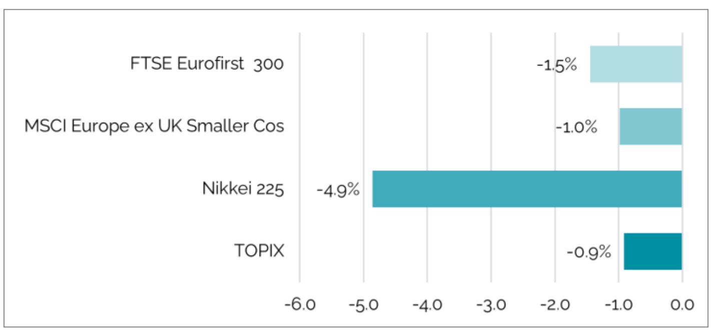
United States



In the US the S&P 500 index fell by 4.2% in the month, while the Dow Jones Industrials index was down by 5.0% and the technology-oriented NASDAQ index by 4.4%.

The Russell 2000 index of smaller companies saw a sharper fall of 7.1% in the period.

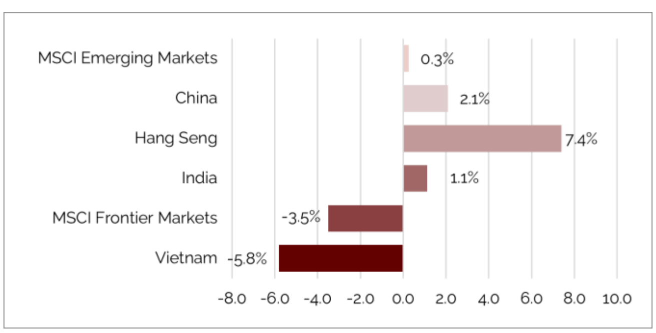
Europe & Japan



In Europe the FTSE Eurofirst 300 index was down by 1.5% over the month, when Spain proved more resilient than the other major markets of France, Italy and Germany, while the MSCI Europe ex UK Smaller Companies Index was off 1%.

In Japan markets fell in the period with the Nikkei 225 index down by 4.9% and the TOPIX index by 0.9%.

Emerging Markets



The MSCI Emerging Markets index in US$ rose by 0.3% in the month, helped by the Indian market which gained 1.1%; the Brazilian and Korean markets were down by 1.7% and 2% respectively. In China the Shanghai index gained 2.1%, while the Hang Seng index in Hong Kong rallied by 7.4%.

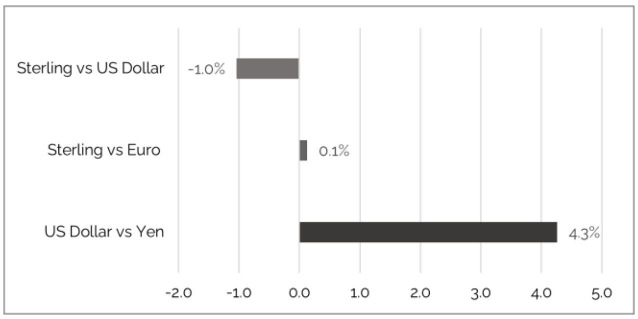
The MSCI Frontier Markets index was 3.5% lower and the Vietnamese market lost 5.8%.

Bond markets

In bond markets the UK 10-year gilt yield rose again from 3.93% to 4.35% and the total return for the FTSE Gilts All Stocks index in the month was -2.9%. In Germany the 10-year bund yield went from 2.3% to 2.58% while the US ten-year yield was back up from 4.2% to 4.68% on the inflation data.

The major bond markets saw declines in the month, with eurozone sovereign and emerging market debt in US$ most resilient.

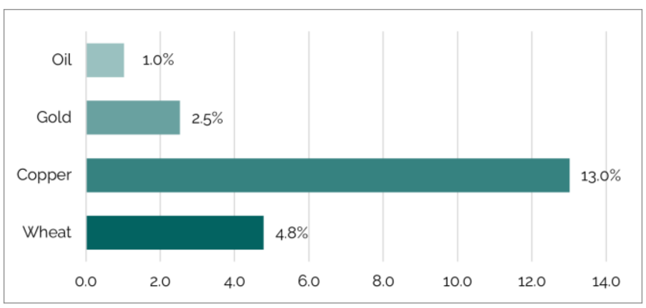
Currencies



Sterling was down by 1.0% against the US$ to close at a rate of $1.25:£ while against the euro Sterling was up 0.1% in the month, ending at a rate of €1.17:£.

The Japanese yen weakened further against the US$, by 4.3% in the month.

Commodities



The price of Brent crude oil ended the month up by 1% at $88 per barrel. The price of gold gained a further 2.5% to end the period at $2286 per troy ounce.

The prices of major metals were mostly higher in the month, with the bellwether copper up by a striking 13.0%, while the main agricultural commodities were more mixed, although wheat was up by 4.8%.

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