

MONTHLY INVESTMENT REVIEW

June 2024



Many markets reached new highs over the month of May in a broadly positive period although there was a degree of volatility and variability. As before the hopes of cuts in interest rates were a factor as were reassuring if mixed indications on the resilience in the world economy and the continuation of resilient corporate profits, which mitigated against any concerns in the complex world of political and geopolitical developments.

The reported rate of inflation has remained key and there was some more encouraging data in the month, if still some indications that price pressures have been relatively sticky. In the US the latest reported consumer price index (CPI) was back down to 3.4% for April from 3.5% for March, which had seen a second monthly rise, while the core rate reduced to 3.6%, the lowest level since April 2021. The personal consumption expenditures index, still a key measure for the Federal Reserve, saw little change. In the UK the CPI data showed a sharp fall from 3.2% in March to 2.3% in April, the lowest level since 2021, although the expectation was nearer 2% and the services sector rate only edged down from 6% to 5.9%. The rate in the eurozone was unchanged in April at 2.4% while the core rate was down to 2.7%.

The predictions and probability of central banks in the US, UK and Europe cutting interest rates have continued to shift with the latest economic data and the latest guidance from those contributing to the decisions. The US Federal Reserve has suggested that there needs to be more evidence that inflation is definitively in decline and the market expectation remains just one or two reductions in 2024, with some suggesting a rise in rates. The European Central Bank is likely to be the first to move with an initial cut in June – the Bank of Sweden cut its main rate by a quarter of a percentage point to 3.75% while central banks in Switzerland, the Czech Republic and Hungary have also lowered rates. The Bank of England kept rates at 5.25% and the Governor, Andrew Bailey, said that he was optimistic over the trajectory of inflation if needing to see more evidence that inflation would remain low; wage inflation has remained high, at 6% in the first quarter of the year. The Bank of Japan is still expected to raise rates further as the yield on ten-year government bonds rose above 1% for the first time in eleven years; the Ministry of Finance had appeared to intervene to support a weak currency.

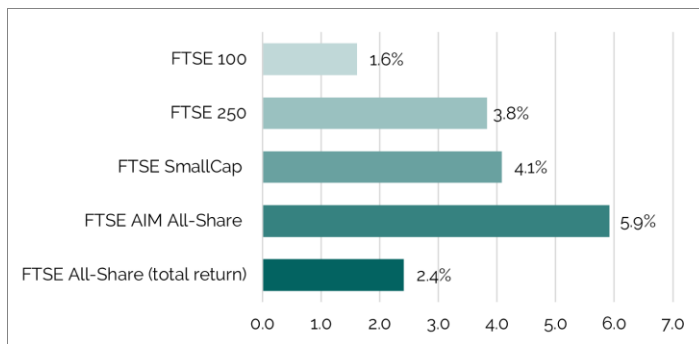
The economic data was variable in the month. In the US the reported rate of growth in GDP for the first quarter was indeed adjusted, this time down from 1.6% to 1.3%, while retail sales were flat in the latest data. The labour market looked solid if a little softer, with the creation of 175,000 new jobs in April down from the level of 303,000 in March.

In China the government announced a Rmb300bn (£35bn) fund to support purchases of unsold housing, although there are estimates that the country has some Rmb30trn of surplus land and housing, equivalent to ten times the value of sales in 2023. For the UK the reported growth for the first quarter of 2024 was 0.6% over the prior quarter, if just 0.2% over the first quarter of 2023. The OECD downgraded its growth forecast for 2024 from 0.7% to 0.4%, which would be the lowest level amongst G7 countries, but the IMF upgraded its own forecast to 0.7% – this might help to confirm J.K. Galbraith's dictum that economic forecasting was invented to make astrology look good. Retail sales were down by 4% in April after a similar rise in March. The US imposed a customs surtax of \$18bn on Chinese imports, although that was only equivalent to some 4% of the value of the \$427bn of imported goods in 2023, when the trade deficit was \$279bn. This included a 100% duty on electric vehicles, which China has been mostly exporting to Europe.

Russia remained problematic and has maintained its recent advantage in Ukraine, while also replacing Sergei Shoigu, the minister of defence, with an economist, Andrei Belousov. The Chinese leader Xi Jinping visited Europe for the first time in five years, with his choice of France, Serbia and Hungary instructive as destinations as was his next stop in Russia. The mammoth Indian elections, held during a heatwave that set new records, will end on 4th June, when Narendra Modi is set to retain power. In Mexico Claudia Sheinbaum will become the first female president after elections marred by violence. In South Africa the ANC failed to secure a majority for the first time since the end of apartheid and might now usefully form a coalition with the Democratic Alliance rather than the radical EFF and MK parties. In the UK Rishi Sunak appeared to disregard disappointing local election results and to seize on some better economic data to go for a general election on 4th July; the Conservative party is far behind in the polls although the likely Labour victory may prove narrow. Donald Trump was found guilty on all charges in his latest trial. As before markets have appeared relaxed over the possible outcomes, for which the impact might show on individual sectors.

Business profits have been encouraging and share buy-backs have added to the benefits for shareholders, even if the best opportunity to have bought back cheaply may have passed. There have been profit warnings too and more companies have been defaulting on debt payments or going out of business. Corporate activity has picked up, as exemplified by the bid by BHP to take over Anglo American, which opted to divest component businesses in its defence. Artificial intelligence firms continued to launch enhanced products and to use more power in data centres.

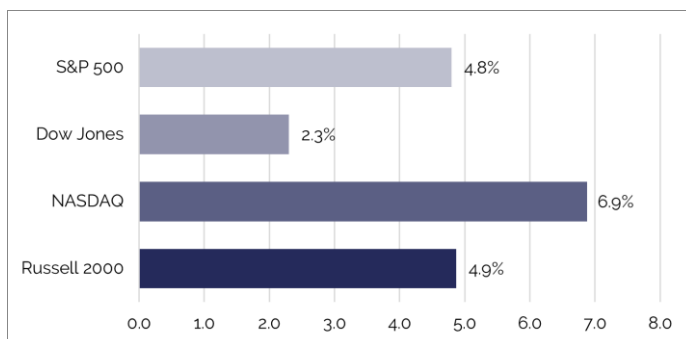
United Kingdom



In the UK the FTSE 100 index rose by 1.6% in the month from 8144 to 8275, reaching a new high if seeing a degree of uncertainty on the election. The FTSE 250 index of mid-sized companies and the FTSE SmallCap index saw gains of 3.8% and 4.1% respectively, while the FTSE AIM All-Share index was up 5.9%.

The total return for the FTSE All-Share index including income was 2.4% in the month.

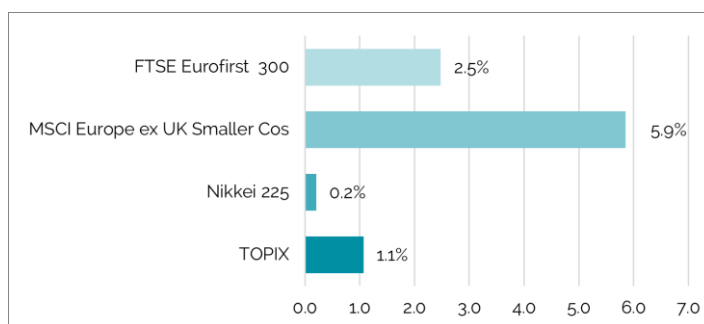
United States



In the US the S&P 500 index rose by 4.8% in the month, while the Dow Jones Industrials index was up by 2.3% and the technology-oriented NASDAQ index by 6.9%.

The Russell 2000 index of smaller companies gained 4.9% in the period.

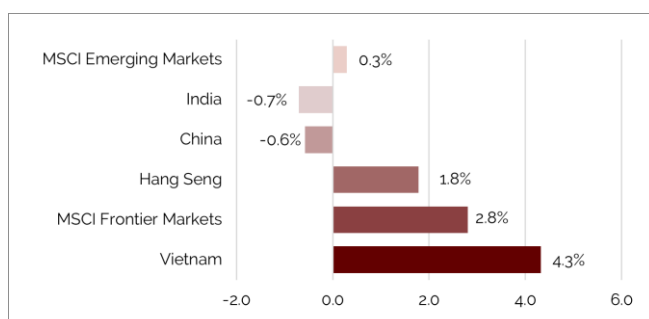
Europe & Japan



In Europe the FTSE Eurofirst 300 index was up by 2.5% over the month, when Spain and Germany fared better than Italy and France amongst the major markets. The MSCI Europe ex UK Smaller Companies Index was up 5.9%.

In Japan markets rose more modestly in the period with the Nikkei 225 index up by 0.2% and the TOPIX index by 1.1%.

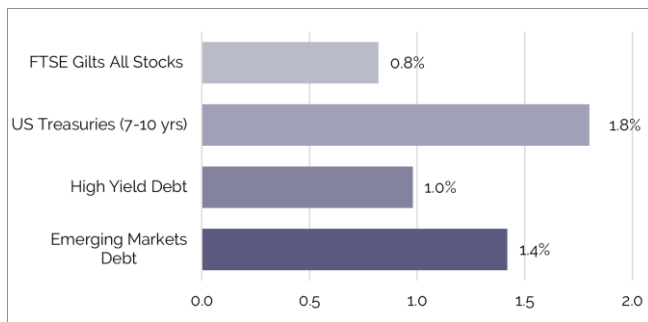
Emerging Markets



The MSCI Emerging Markets index in US\$ rose by 0.3% in the month, helped by the currency moves, as the Indian market was down 0.7% and in China the Shanghai index was off 0.6%, although the Hang Seng index in Hong Kong was up by 1.8%.

The MSCI Frontier Markets index was 2.8% higher and the Vietnamese market rose 4.3%.

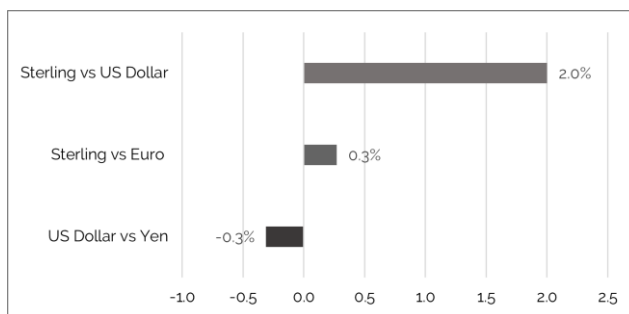
Bond markets



In bond markets the UK 10-year gilt yield dipped from 4.35% to 4.32% and the total return for the FTSE Gilts All Stocks index in the month was 0.82%. In Germany the 10-year bund yield went from 2.58% to 2.66% while the US ten-year yield was at 4.5% as against 4.68%.

The major bond markets saw advances in the month, apart from eurozone sovereign debt.

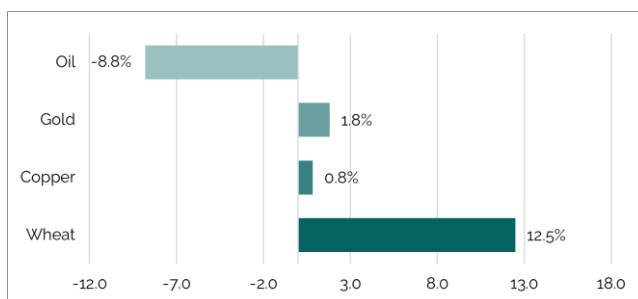
Currencies



Sterling was up by 2.0% against the US\$ to close at a rate of \$1.27:£ while against the euro Sterling was up 0.3% in the month when it ended at a rate of €1.17:£.

The Japanese yen strengthened slightly against the US\$ over the month.

Commodities



The price of Brent crude oil was down by 8.8% over the month to \$80 per barrel. Gold gained a further 1.8% to end the period at \$2327 per troy ounce.

The prices of major metals were mostly higher in the month, with the bellwether copper up by 0.8%, while the main agricultural commodities were more mixed, although wheat was up by a further 12.5%.

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