MONTHLY INVESTMENT REVIEW

July 2024

VINTAGE
ASSET MANAGEMENT

Markets were much more mixed over the month of June, led by the US and Japan if with weakness in Europe and the UK, in large part due to political developments. There were encouraging cuts in interest rates as well as in economic data, which showed the resilience in the world economy and the robustness of company profits, for which investors have been ready for now to pay a higher price - although there may be a continued degree of moderate volatility.

More central banks have now cut interest rates, following the likes of Sweden and Switzerland: Canada was the first G7 country to do so with a reduction to 4.75% and then the European Central Bank cut its key rate for the first time in some five years, from 4% to 3.75%. The US Federal Reserve held its rate at 5.25-5.5%, as expected given only apparently modest progress towards the target inflation rate of 2%, and it hinted at one cut before the year-end, which compares to earlier indications of at least three reductions over the course of 2024 (and earlier market hopes of twice as many). There remains talk of a possible rise in rates should the inflation data disappoint. The Bank of England again kept rates at 5.25% - the average rate has been 5.5% since 1900, as it happens - although the commentary from the decision-making committee, which was split, increased market expectations of a first cut of 25 basis points in the next meeting due on 1st August, with the economic data especially on services remaining key. The Bank of Japan has yet to raise rates further, even as the currency weakened against the US$ especially to below ¥160.

The reported rate of inflation has remained key to short-term market moves and the data in the month was mostly positive. In the US the latest reported consumer price index (CPI) was down further to 3.3% in May from 3.4% for April, while the core rate reduced further to 3.4% from 3.6%. The personal consumption expenditures index, which is the key measure for the Federal Reserve, fell to the lowest level since March 2021 at 2.6% in May compared to 2.8% in April. In the UK the CPI data showed a further fall from 2.3% in April to 2% in May, helped by moderating food inflation; the services sector rate remains a concern as it only edged down from 6% to 5.9%, while average wage growth has remained high at around 6%. The inflation rate in the eurozone rose to 2.6% in May from 2.4% in April, which was the first such rise in 2024 with the services sector the strongest factor.

The economic data in the US was mixed in the month, with the latest published surveys showing services doing better than manufacturing. The number of job openings dropped to a three-year low at 8.1m yet May saw a first estimate of the creation of 272,000 new jobs while average hourly wages increased after three months of decline.

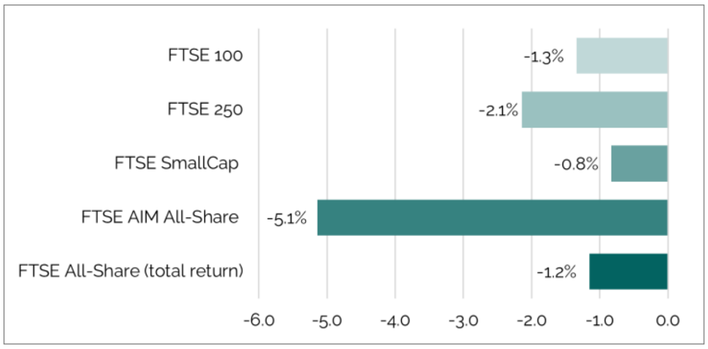
The authorities in China have been keen to indicate that the economy is doing better than feared; one risk has been the increase in trade tensions and in particular tariffs, although the EU and China agreed to hold talks on the latest proposal of a levy of up to 38% on Chinese electric vehicles. For the UK there was no reported economic growth in April, when the wet weather did not help, although services output was higher for the fourth month in a row and the growth in the first quarter of 2024 was upgraded to 0.7%.

The reaction of the French president Emanuel Macron to the strong showing of far-right parties in the European elections was to gamble on calling for snap legislative elections. The first round of that poll showed the risk in this approach as the Rassemblement National or National Rally party led by Marine Le Pen again did best, if with a share of the vote that was below that feared. Markets have been concerned over the RN's plan to cut contributions into the EU budget and for a fiscally-expansive populist policy, while also looking askance at the alternative of the left-wing alliance led by Jean-Luc Mélenchon with the Greens and Socialists. There was sufficient support from the centre in the EU for Ursula von der Leyen to secure the backing to serve a second term as the Commission President. Markets and the currency also faltered in Mexico given the size of the congressional majority for the new president Claudia Sheinbaum, which would allow her to change the constitution. The Indian elections saw a surprising set-back for Narendra Modi as his BJP party struggled and failed to win a majority of seats, let alone the decisive increase that he had touted, leaving him reliant on a coalition. In South Africa the ANC agreed to form a government with the Democratic Alliance, which pleased markets given the alternative option lay with the more extreme EEF and MK parties.

The second round of the French election will prove important while in the UK the general election on 4th July is widely expected to see a substantial Labour victory, although any final twist as well as voter apathy may mean it is less substantial than the opinion polls predict. In the US Donald Trump has looked more likely to win the presidential election, despite his recent conviction on all charges, given the lack of coherence in an ageing President Joe Biden. As ever markets favour stability and a degree of common sense in policy, whilst looking for threats and opportunities in individual sectors.

Business profits have been encouraging and corporate activity has continued. The growth in corporate earnings has been broader, returning to more normal levels as did the share price of Nvidia after it briefly became the most valuable quoted company.

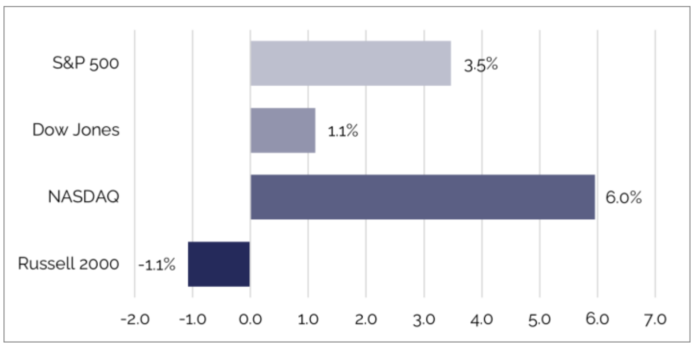
United Kingdom



In the UK the FTSE 100 index was down by 1.3% in the month from 8275 to 8164. The FTSE 250 index of mid-sized companies and the FTSE SmallCap index saw declines of 2.1% and 0.8% respectively, while the FTSE AIM All-Share index was down by 5.1%.

The total return for the FTSE All-Share index including income was -1.2% in the month.

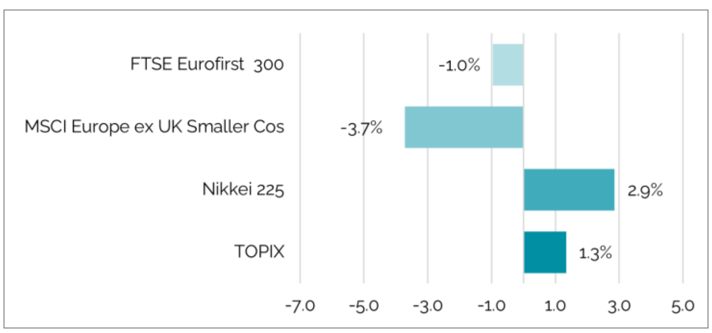
United States



In the US the S&P 500 index rose by 3.5% in the period, while the more value-oriented Dow Jones Industrials index was up by 1.1% and the technology-oriented NASDAQ index by 6%.

The Russell 2000 index of smaller companies by contrast was down by 1.1%.

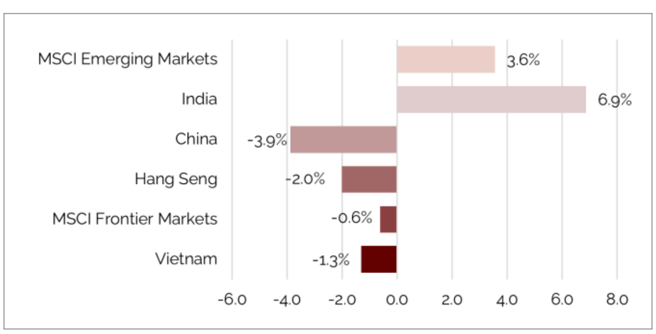
Europe & Japan



In Europe the FTSE Eurofirst 300 index was 1% lower over the month, when Germany was the most resilient of the major markets and France fell 6.4%; the MSCI Europe ex UK Smaller Companies Index was down by 3.7%.

In Japan the Nikkei 225 index was up by 2.9% and the TOPIX index by 1.3%.

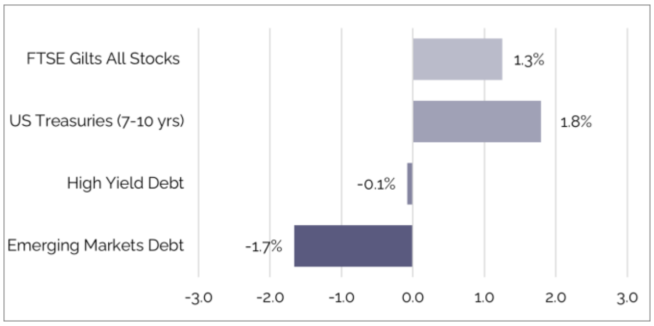
Emerging Markets



The MSCI Emerging Markets index in US$ rose by 3.6% in the month, as the Indian market recovered from election jitters to rise 6.9% and the Korean market was up by 6.1%, although Mexico fell 5%. In China the Shanghai index was down 3.9% and the Hang Seng index in Hong Kong was off 2%.

The MSCI Frontier Markets index was 0.6% lower and the Vietnamese market was down 1.3%.

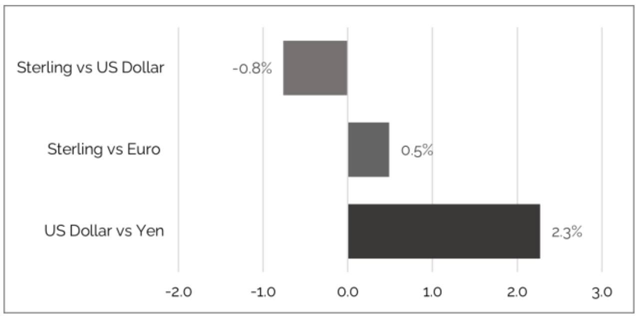
Bond markets



In bond markets the UK 10-year gilt yield was down from 4.32% to 4.17% and the total return for the FTSE Gilts All Stocks index in the month was 1.3%. In Germany the 10-year bund yield went from 2.66% to 2.50% while the US ten-year yield moved from 4.5% to 4.4%.

The major bond markets saw mixed returns in the month, with US Treasuries doing well and emerging markets weaker.

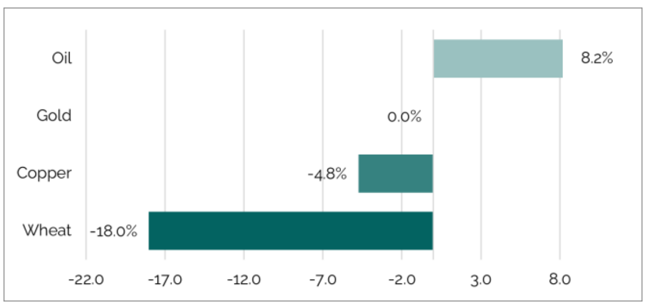
Currencies



Sterling was down by 0.8% against the US$ to close at a rate of $1.26:£ while against the euro Sterling was up 0.5% in the month when it ended at a rate of €1.18:£, with the elections a consideration.

The Japanese yen was down by 2.3% against the US$ over the month.

Commodities



The price of Brent crude oil recovered by 8.2% over the month to $87 per barrel. Gold was barely changed to end the period a touch lower at $2326 per troy ounce.

The prices of major metals were mostly weaker in the month, with the bellwether copper down by 4.8%, while the main agricultural commodities were more mixed, although wheat fell back by 18%.

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