MONTHLY INVESTMENT REVIEW

December 2024

VINTAGE
ASSET MANAGEMENT

Markets were mixed over the month of November, when the election results in the US boosted the indices there and the US$, which held back emerging markets. The positive factors underpinning markets have remained in place in spite of some challenges.

The US elections saw Donald Trump win a decisive victory to return as president including taking the popular vote while the Republicans also secured control of both the Senate and House of Representatives. Trump's nominations for senior positions met with a mixed response while much will hinge on what he does early on in January over illegal immigration and on tariffs – the president-elect's initial gambit was to threaten a 25% tax on imports from Canada and Mexico as well as an additional 10% on those from China. The new administration is expected to cut regulation and to support domestic business champions, so helping the financial and technology sectors and Bitcoin in particular, as part of a wider strategy of making the US more independent.

In France the minority government of Michel Barnier has been under pressure from the far-right Rassemblement National (RN) party over its plans to reduce spending and raise taxes by a combined €60bn to cut the deficit from 6% of GDP this year to 5% in 2025. In Germany the chancellor Olaf Scholz committed to a vote of confidence by Christmas following the collapse of the coalition government. In Japan the prime minister Shigeru Ishiba clung to office with a minority government. The new Labour government in the UK has endured a problematic period with farmers demonstrating in London over inheritance tax, if with less flair than their French counterparts whose protests resumed. There was continued tension over Taiwan, conflict in the Middle East including Syria again if with a ceasefire in Lebanon and war in Ukraine, where there were some pointers to peace but also some escalation. The COP29 climate conference found an agreement of sorts on funding in Azerbaijan, whose autocratic presidential host spoke of fossil fuels as a gift of God; the G20 summit in Rio de Janeiro omitted any promise of a transition away from them.

The world has seemed increasingly complex and divided yet the various political or geo-political developments have rarely distracted markets given the broadly positive progress on inflation, interest rates, economic growth and company earnings.

The rate of inflation has been close to the 2% target of the main central banks and it has been more variable. In the US the consumer price index (CPI) picked up to 2.6% in October from 2.4% for September; with the core rate excluding fuel and food unchanged at 3.3%, while the Personal Consumption Expenditure index, the preferred measure for the central bank, saw a 2.3% increase over the year to October. In the UK CPI was also higher at 2.3% for October from 1.7% in September, which was the highest increase in two years and reflected a rise of a tenth in the energy price cap; the core rate also rose to 3.3%. The rate in the eurozone increased to 2.3% in the early data for November, from 2% in October. Food prices globally reached their highest level in eighteen months, up 5.5% on the previous October if still down on the peak in March 2022.

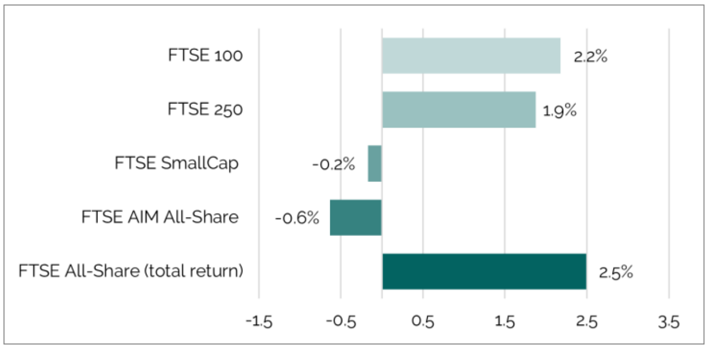
The US Federal Reserve as expected announced a further cut to its interest rate of a quarter of a percentage point to a new range of 4.5-4.75% and the Bank of England did the same, taking its rate to 4.75%. The European Central Bank is widely anticipated to reduce its interest rate on deposits further from 3.25% given the subdued level of economic growth in the eurozone in spite of the shift in inflation. The yield on French government bonds rose to a level akin to those in Greece, while that on Chinese bonds declined to a level below the Japanese equivalent. Expectations that the Bank of Japan would also raise its main interest rate from 0.25% given higher inflation contributed to a stronger Yen.

The world economic environment has been resilient, notably in the US, although there would be an impact from any trade war. China announced a further stimulus package, this time through a fiscal boost worth 10trn Yuan (£1.1trn) to support local governments, although markets had hoped for more to encourage consumer spending. Across Europe the car industry has been under pressure: Bosch, the largest parts supplier, said that it would cut jobs, working hours and pay, similar to an earlier move by Volkswagen. For the UK, while the International Monetary Fund raised its forecast for growth in 2024 to 1.1%, the latest reported data for the third quarter was just 0.1%, and negative 0.1% per capita, with some of the blame ascribed to the slow build-up to the Budget; the tax increases on businesses will be an extra challenge. The Chancellor has announced plans to overhaul the pension industry and to endorse larger schemes including for local authorities.

In the US the latest quarterly earnings season saw results that were broadly ahead of forecasts; high profit margins and share buy-backs have been powerful factors. In the first two quarters of 2024 the consensus was for earnings growth in the order of 4% while companies delivered roughly twice that, with a similar pattern in the third. The forecasts for 2025 are ambitious while US shares have also seen a re-rating upwards that means they trade well above long-term averages.

Longer-term issues remain in debt and demographics. The US public debt has now passed $36trn, compared to $24.5trn in March 2020 before the impact of high spending to counter the Covid pandemic; it was $908bn in 1980 and $5.7trn in 2000. The debt ceiling is due to expire on 2nd January 2025.

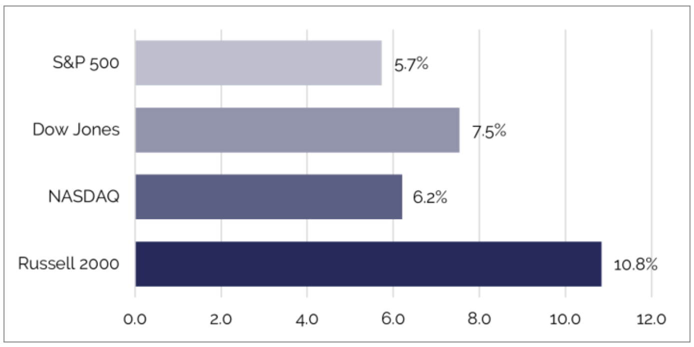
United Kingdom



In the UK the FTSE 100 index rose by 2.2% in the month to 8287 and the FTSE 250 index of mid-sized companies was up by 1.9% although the FTSE SmallCap index was 0.2% lower and the FTSE AIM All-Share index was down by 0.6%.

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

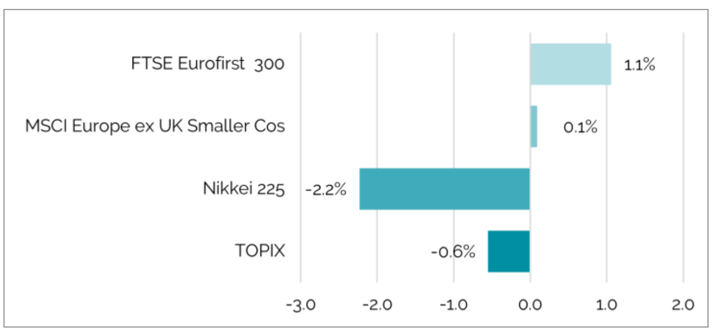
United States



In the US the S&P 500 index gained by 5.7% in the month, the Dow Jones Industrials index by 7.5% and the technology-oriented NASDAQ index by 6.2%.

The Russell 2000 index of smaller companies was particularly strong with a surge of 10.8% given the potential for a stimulus to domestic businesses.

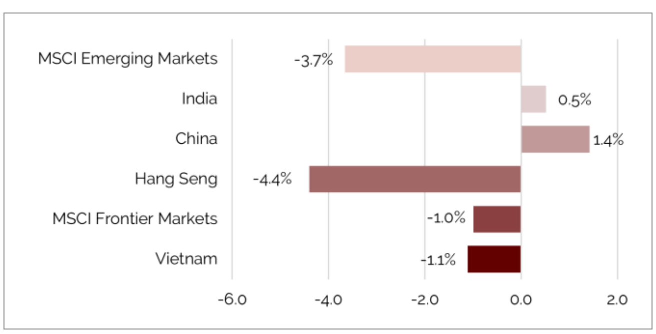
Europe & Japan



In Europe the FTSE Eurofirst 300 index was up by 1.1% over the period, when the German market managed a gain in spite of the country's challenges while markets in Spain, Italy and France declined. The MSCI Europe ex UK Smaller Companies Index was a little higher by 0.1%.

In Japan the Nikkei 225 index fell by 2.2% while the TOPIX index was off by 0.6%.

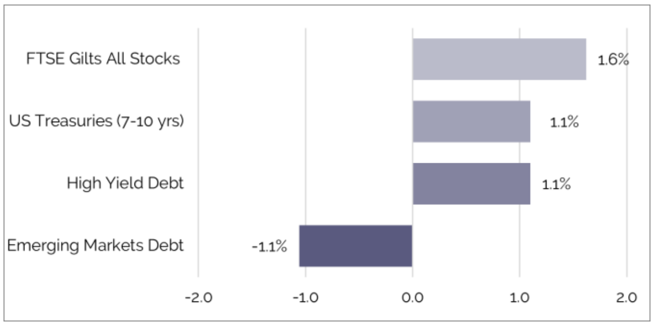
Emerging Markets



The MSCI Emerging Markets index in US$ fell a further 3.7% in the month. The Indian market rose by 0.5% and the Shanghai index by 1.4%, although the Hang Seng index in Hong Kong was down by 4.4% and the Korean market by 3.9%.

The MSCI Frontier Markets index was 1% lower and the Vietnamese market was down by 1.1%.

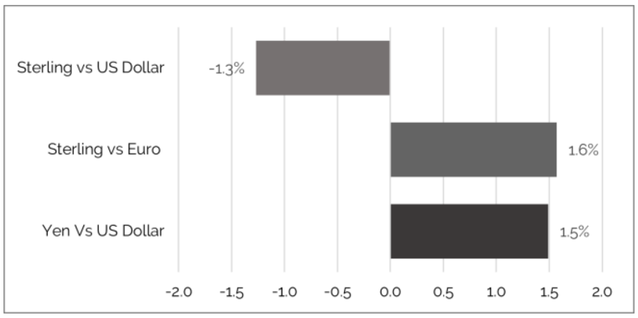
Bond markets



In bond markets the UK 10-year gilt yield declined from 4.45% to 4.24% and the total return for the FTSE Gilts All Stocks index in the month was 1.6%. In Germany the 10-year bund yield moved from 2.39% to 2.09% while the US ten-year yield dipped from 4.28% to 4.17%.

There were gains in the major bond markets, aside from emerging market debt.

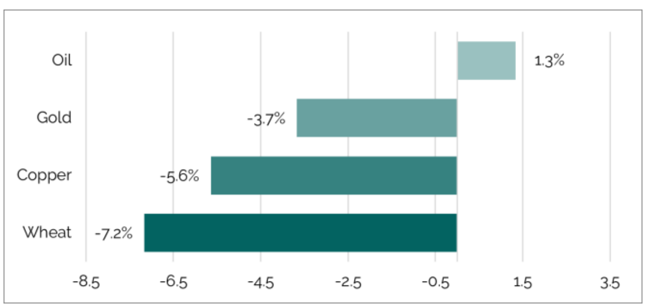
Currencies



Sterling weakened against the resurgent US$ and closed the month down by 1.3% at a rate of $1.27:£, while against the euro Sterling was up by 1.6% in the month to end at a rate of €1.20:£.

The Japanese yen rose by 1.5% against the US$.

Commodities



The price of Brent crude oil was a little higher over the month, up by 1.3% at $74 per barrel. Gold fell back by 3.7% to end the period at $2643 per troy ounce.

The prices of major metals were all lower in the month, with the bellwether copper down by 5.6%, while the main agricultural commodities were mixed, with wheat off 7.2% and coffee up by 29.6%.

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