MONTHLY INVESTMENT REVIEW

January 2025

VINTAGE
ASSET MANAGEMENT

Markets finished a remarkable year on a mostly softer note over the course of December. The positive factors on inflation, interest rates, economic growth and company earnings have persisted, even if not all as promising as before which encouraged some profit-taking, while investors have largely disregarded the various political or geopolitical considerations.

It was a year in which over seventy countries accounting for some 40% of the world's population and 60% of global GDP held elections. There were notable trends. Four-fifths of incumbents lost, in the UK and US for example as also in Botswana where the party in power since independence in 1966 was beaten. The far-right gained ground in Continental Europe, where in France the National Assembly voted out a centrist government under the short-lived prime minister Michel Barnier over a contentious budget and President Macron turned to François Bayrou instead, while in Germany the chancellor Olaf Scholz as expected lost a vote of confidence which saw elections arranged for 23rd February, seven months ahead of the usual schedule. Russia held its own election and appeared to interfere in others; in the month Romania's highest court annulled the result of the first round of the presidential election in which Calin Georgescu, a pro-Russian hard-right candidate, took the largest share of the poll at 22.9%.

Russia's wider influence was hit by the fall after fifty-three years of the Assad regime in Syria, which had held its own token elections earlier in the year and where rebels led by Hayat Tahrir al-Sham engineered a rapid change of control. South Korea's president Yoon Suk Yeol's declaration of martial law proved short-lived, if worrying; he was impeached and resisted arrest. There was continued tension over Taiwan, with China continuing its military exercises and with President Xi Jinping saying that no-one could stop unification. The conflict in the Middle East persisted if with a truce in Lebanon and the war in Ukraine dragged on; the new Trump administration in the US is expected to press for a resolution as well as for higher defence spending.

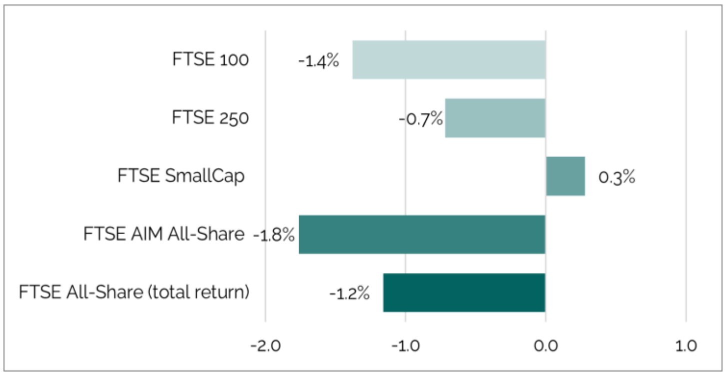
The trend to lower interest rates continued: out of 115 central banks worldwide 74 leaned towards easing their monetary approach and lowered interest rates at their most recent policy meetings. The European Central Bank (ECB) reduced its interest rate on deposits further from 3.25% to 3%, the fourth cut in 2024, in part as it was concerned at a weakening economic outlook. The US Federal Reserve announced a further cut to its interest rate of a quarter of a percentage point to a new range of 4.25-4.5%, with its committee voting 11:1 to do so; the Fed pointed to just two further cuts in 2025 given the likely impact on inflation of the proposed Trump policies, which caused markets to wobble. The Swiss National Bank and the Bank of Canada also cut rates, each by fifty basis points. The Bank of England held its rate at 4.75%.

The rate of inflation has remained variable if broadly lower than a year earlier in the developed economies. In the US the consumer price index (CPI) rose again in November to 2.7% from 2.6% in October; the core rate excluding fuel and food was unchanged at 3.3%. Producer price inflation was also up, with the annual rate reaching 3%, the highest since February 2023 and above expectations. The Personal Consumption Expenditure (PCE) index, the preferred measure for the central bank, saw a 2.4% increase over the year to November, up a little on the 2.3% to end October. The Federal Reserve adjusted its forecasts for consumer inflation, which it now expects still to be at 2.5% by the end of 2025 then 2.1% at end 2026; for the PCE the Fed forecast 2.5% for 2025 against a previous estimate of 2.1%. In the UK CPI was also higher at 2.6% for November, from 2.3% in October. In the eurozone it was at 2.2% in November, against an initial estimate of 2.3%, up from 2% in October.

The resilient world economic environment has been encouraging if a factor in the rate of inflation taking longer to stabilise below the 2% target rate of central banks. The US economy is expected to have grown at a rate in the order of 3% in the last quarter of 2024 while the Federal Reserve raised its projection for 2025 a little from 2% to 2.1% for 2025. There were 227,000 jobs added in November, which showed that the labour market remained robust, and the unemployment rate is expected to be at 4.3% in 2025. Business and consumer confidence in the US has been high although there are signs of weakness such as the highest level of credit card defaults since 2010. The UK economy has been sluggish, with no growth in the latest data, and the ECB downgraded its outlook for growth to 1.1% from 1.3% for the eurozone in 2025. There have been encouraging developments in Asia, although the likely tariffs from the Trump administration have tempered expectations.

Corporate earnings have been robust and companies in the US in particular have continued to invest heavily, particularly on Artificial Intelligence. Valuations have moved higher given the trend in markets and investor enthusiasm. Credit spreads for investment grade and high-yield debt are at the lowest level for a decade and the yield on the US S&P 500 index is below that of US government bonds. The cyclically-adjusted price/earnings (CAPE) ratio is higher than it has been for 98% of the time since 1990; the CAPE yield for the S&P is 2.6%, which has historically pointed to a negative return over the next decade (for yields between 2% and 3%, the average annualised return has been -1.5%) – but the next year might see further gains if not on the scale of 2023 and 2024. At least the US agreed an extension to the debt ceiling before its expiry, removing one concern for now.

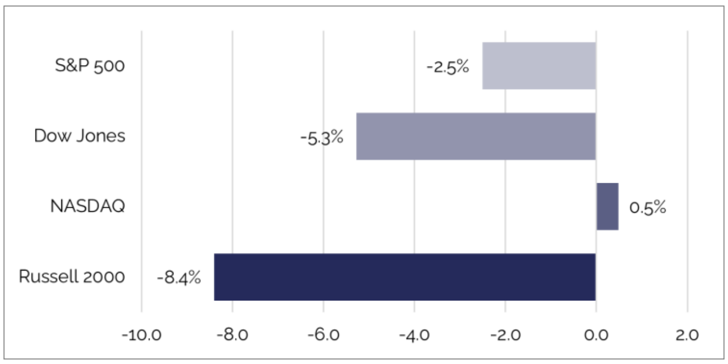
United Kingdom



In the UK the FTSE 100 index was down by 1.4% in the month to 8173, and up 5.7% in 2024. The FTSE 250 index of mid-sized companies was off by 0.7% although the FTSE SmallCap index was 0.3% higher, making returns for 2024 of 4.7% and 6.5% respectively. The FTSE AIM All-Share index was down by 1.8% in December and 5.7% for the year.

The total return for the FTSE All-Share index including income was -1.2% in the month if 9.5% for the year as a whole.

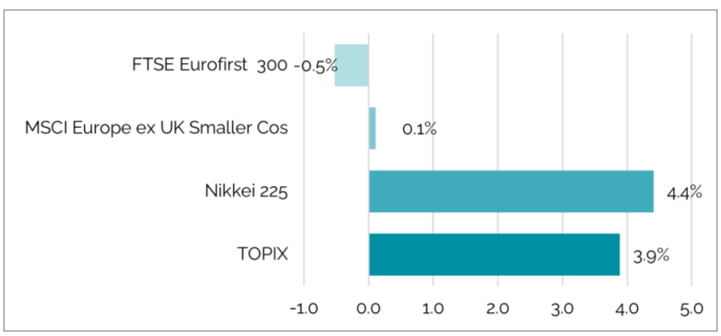
United States



In the US the S&P 500 index was down by 2.5% in the month and the Dow Jones Industrials index fell by 5.3% although the technology-oriented NASDAQ index was up by 0.5%; the returns for 2024 were 23.3%, 12.9% and 28.6% respectively.

The Russell 2000 index of smaller companies dropped by 8.4%, reducing its return for 2024 to 10%.

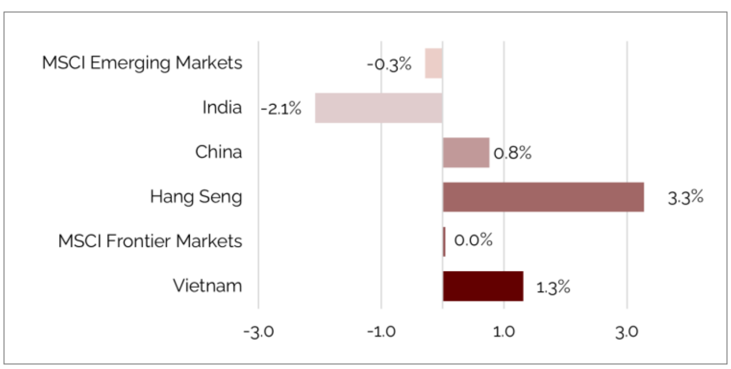
Europe & Japan



In Europe the FTSE Eurofirst 300 index was down by 0.5% over the month and up by 6.8% in 2024. The MSCI Europe ex UK Smaller Companies Index was up 0.1% in the month if just 2.8% for the year.

In Japan the Nikkei 225 index rose by 4.4% and the TOPIX index by 3.9%, to give returns for 2024 of 19.2% and 17.7% respectively.

Emerging Market



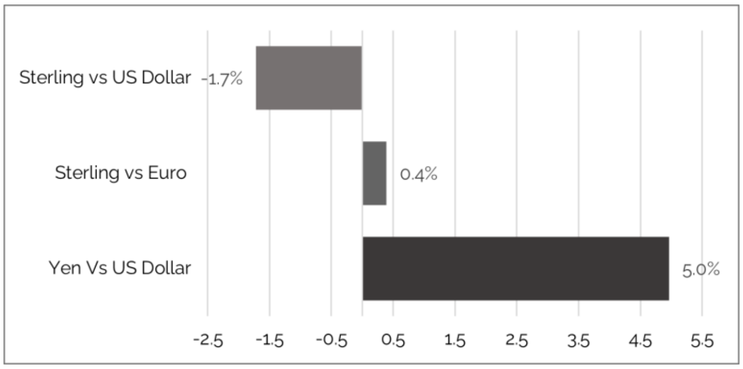
The MSCI Emerging Markets index in US$ dipped by 0.3% in the month to make for 5.1% in 2024. The Indian market was down by 2.1% in the month if up by 8.2% for the year. The Brazilian and Korean markets were down in the month and each some 10% lower in 2024.

The MSCI Frontier Markets index was up 0.04% and the Vietnamese market 1.3% higher, for annual returns of 5.1% and 12.1%.

Bond markets

In bond markets the UK 10-year gilt yield rose from 4.24% to 4.57% compared to 3.54% at the start of 2024; the total return for the FTSE Gilts All Stocks index in the month was -2.2% to make -3.3% in the year. In Germany the 10-year bund yield moved from 2.09% to 2.37% while the US ten-year yield rose from 4.17% to 4.57%. There were losses in the major bond markets in the month and mixed returns over the year.

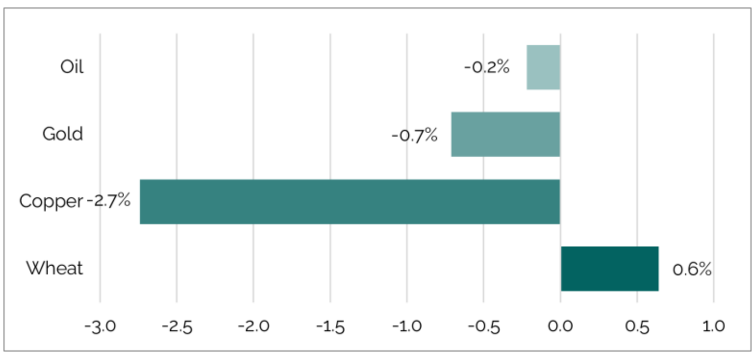
Currencies



Sterling weakened against the US$ by 1.7% over the month to a rate of $1.25:£ and had a similar return over the course of the year, while against the euro Sterling was up by 0.4% in the month and 4.8% in the year to end at a rate of €1.21:£.

The Japanese yen dropped by 5% against the US$ in the month and by 11,5% in the year.

Commodities



The price of Brent crude oil was down by 0.2% in the month and 4.5% in the year at $74 per barrel. Gold dipped by 0.7% to end at $2625 per troy ounce, up by 27.2% in the year.

The prices of major metals were all lower in the month, with the bellwether copper down by 2.7%, and mixed over the year; the main agricultural commodities were mostly higher in the month, wheat by 0.6%, and lower in the year aside from a rise in the price of coffee of 68.3%.

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