Investment Commentary

August 2024

Market overview

Recent geopolitical events continued to impact the short-term direction of financial markets and gave rise to a period of increased volatility. Global stock markets faced headwinds as a result which meant negative month end returns for some regions. It was pleasing; however, to see some of our active managers bucking the trend by generating positive returns across July.

Fixed interest markets enjoyed a more positive journey on the back of the European Central Banks' decision to move first with a 25-basis points (bps) interest rate cut mid-June followed by UK's policymakers' decision to follow suit just after July's month end. There is now a real expectation that the US Fed will follow their lead over the coming weeks. Our long duration positioning, increasing price sensitivity to changes in interest rates, across fixed interest markets should prove beneficial in the event central banks act as expected.

In the US, we've seen a helpful and well overdue adjustment in some of the mega cap stocks in the past couple of weeks and early rotation into mid/small caps and the value lurking elsewhere in markets. We believe this is a healthy sign that investment fundamentals are starting to reassert themselves and should play right into the hands of active managers who are naturally skewed away from the mainstream index concentrations.

The recent weaker economic data should strengthen the argument for rate cuts (i.e. getting the original agenda back on track after the Q2 wobble on sticky inflation and more resilient growth), and that should additionally support mid/small caps as well as longer duration positioning in fixed interest. It now feels like the market conditions and fundamentals are coming back to us at last and our risk-on positioning is worth keeping.

Our thematic exposure trended more positively towards the month end as infrastructure and sustainable energy sectors are generally correlated to US rates and growth sentiment, therefore as rate cut expectations grow these holdings should move forward.

Short-term we may see more volatility with the possibility of general market retrenchment led by profit-taking in the mega caps, but generally the rotation we're seeing should be viewed as a healthy adjustment. There should still be plenty of opportunities in the next part of the economic/market cycle.

Strategy Positioning

With global economic growth forecasts for 2024 and 2025 approaching 3%, just below pre-pandemic averages, and two thirds of recent US corporate earnings beating analysts' expectations, we remain comfortable at the top end of our equity market ranges for now. Our investment committee continues to prefer regions that offer greater economic growth potential and have favourable market dynamics including US, Asia, and the economic recoveries in Japan and Europe.

Very recently, however, weaker-than-expected forward-looking US economic data and employment numbers have spooked global markets with concerns that the health of the world's largest economy is not as good as many had thought. This could put larger US rate cuts back on the table once more. Although the near-term market volatility is unwelcome, it should add weight to the argument that certain market trades had become too crowded, particularly those defying gravity in a thirst for anything technology related. We believe that our more diversified stock market positioning, with underlying managers more disciplined about value and with greater focus on investment fundamentals, should allow a safer passage through volatile periods whilst the market leadership rotates.

Reductions to more defensive alternative investments earlier this year allowed for an increased allocation to fixed interest positions. These investments are exhibiting their true defensive qualities during the current stock market weakness and we remain very content with our stance, expecting further benefits as central banks become more confident in needing to switch their monetary policy tactics. Allocation to cash deposits across all strategies remains at a minimum.

CONTACT US

Nugenis Financial Planning
5 Oak Tree Court
Mulberry Drive
Cardiff Gate Business Park
Cardiff CF23 8RS

029 2050 8000

JustAsk@nugenisfp.co.uk

nugenisfp.co.uk

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