Investment Commentary

bordier 1844

A Review of 2024

Market overview

2024 proved to be a good year for equities with all major developed markets ending the year in positive territory. Elsewhere, generally declining interest rate cut expectations over the second half of the year meant it was a more challenging year for some areas of fixed interest markets while commodities also proved to be somewhat of a mixed bag, heavily influenced by fluctuating demand expectations in regions such as China.

The broad catalyst for the strength in equity markets was a backdrop of generally receding inflationary pressures, which allowed key central banks to finally reverse their interest rate policy, and of improving expectations in terms of both economic and corporate earnings growth. The potential positive impact on corporate profitability of the increased adoption of artificial intelligence ('AI') also proved to be a powerful theme, benefitting AI 'providers' in particular.

The US market led the way in terms of returns, in part driven by the continued outperformance of some of the 'giant tech' companies at the top of the S&P 500 Index. Economic data from the US also improved over the year, in contrast to some other regions, and the latest annualised growth figure of 3.1% suggests that the gap between the US economy and the rest of the developed world is widening. The election of Donald Trump and the Republican 'clean sweep' of congress then provided a further boost to the US market in November given the prospect of tax cuts, looser regulation and 'America first' protectionist policies. Given the different performance drivers for fixed interest, bond markets have been far more circumspect since the election, focusing more on the potentially inflationary impact of the Republican's spending plans and Donald Trump's stated intentions regarding trade tariffs.

In contrast to the US, economic data in the Eurozone weakened somewhat over the course of the year, especially relating to manufacturing, while political chaos in both Germany and France have added a layer of uncertainty in the region. This did not prevent Eurozone markets rising in 2024, however, and we do still believe that some measured exposure is appropriate given that there are numerous high quality domestic and more internationally focused companies listed in Europe which are currently on very depressed valuations – especially when compared with their US listed peers. To an extent the same can be said of the UK market where sentiment remains fragile but valuations look similarly attractive. While Labour's election victory in July was initially well received, markets have since become more concerned about the economic outlook as data suggests that the economy remains on the brink of recession. There are also some concerns around the impact on the labour market, and on inflation, of higher national insurance and minimum wage liabilities falling on companies from April this year.

The Japanese market performed well in 2024, second only to the US in local currency terms, with sentiment bolstered by a modest uptick in inflation (a good thing given the deflationary slump Japan has been in for so long), the positive effect of a weaker Yen on exports and a general release of value stemming from a greater adoption of more shareholder-friendly practices such as share buybacks and increased dividend payout ratios. Concerns around the potential impact of US Tariffs, and a potentially stronger US Dollar, have weighed on Asian markets since the US election result however Asian markets still produced a good return over the year (up c12% in Sterling terms), aided by a significant stimulus package from the People's Bank of China which has revived a previously ailing Chinese market, weighed down by a prolonged property market slump and period of subdued consumer confidence and economic growth.

Returns from fixed interest markets were muted overall in 2024 with the benchmark Barclays Global Aggregate Bond index flat in Sterling terms. Although 2024 saw the highest level of rate cuts in the G10 since 2009, bond yields rose towards the end of the year as inflation concerns rose, most notably in the US and UK. Higher yielding areas of the market outperformed, in part due to the protection provided by the yield and in part due to their generally shorter duration profile.

Investment Commentary

A Review of 2024

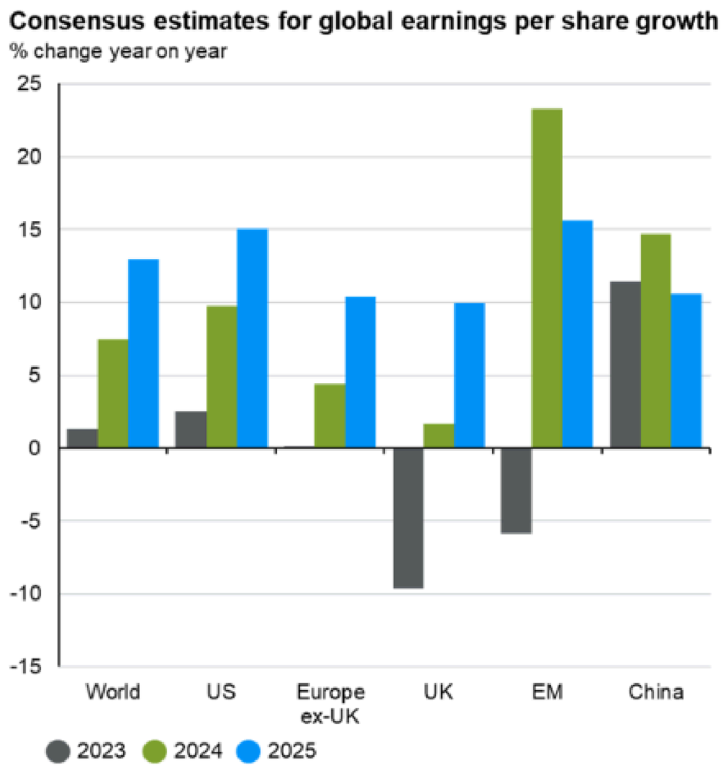
Strategy Positioning

As is often the case the short-term market drivers and influences are diverse and, in some cases, conflicting. The important point for us is that the positive environment for risk assets that drove good returns over 2024 remains in place moving into 2025. We still expect an economic 'soft landing' with inflation close to central bank targets and positive global growth intact, while a backdrop of falling interest rates, a lower cost of capital, 'pro-growth' policies from new governments and improving earnings expectations should prove supportive to equity markets.

We see particularly compelling valuation opportunities within mid and smaller cap companies and have added to exposure in the US, funded from the sale of our thematic holding in the sustainable energy sector which we believe may continue to face headwinds under the new Republican administration. We keep our conviction in our infrastructure and AI-related thematic investments.

We also believe that the twin tailwinds of lower interest rates and low default rates in the corporate sector should push bond yields lower over 2025. The likely divergent paths of central bank policy over the course of his year will continue to complicate the outlook for fixed interest markets but should also provide opportunities for an active management approach.

Consensus estimates point to a healthy recovery in earnings growth over 2025:



Source: J P Morgan Guide to the Markets as at December 2024 using data from FTSE, IBES, LSEG Datastream, MSCI, S&P Global and J.P. Morgan Asset Management

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

FOLLOW US: