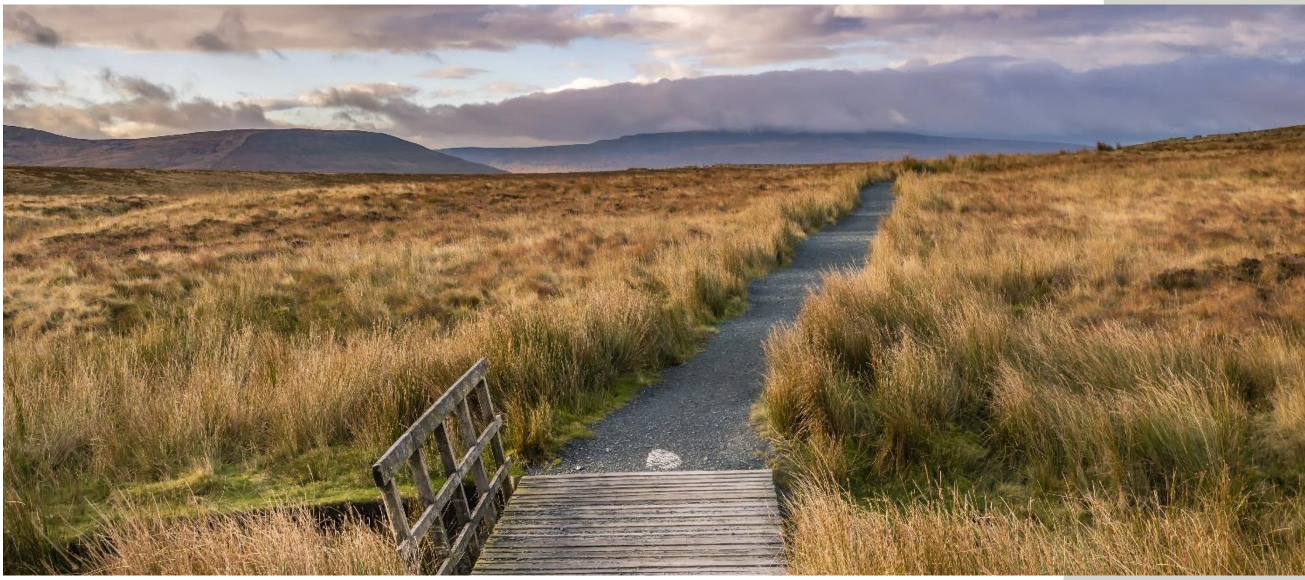
RATHBONES | Incorporating Investec Wealth & Investment (UK)

05 February 2024

Market reflection



John Wyn-Evans
Head of Investment Strategy

Overview

2024 has begun in much the same way as most of 2023 progressed, with global equities being pushed higher by a narrow group of US mega-cap technology-related stocks. These have helped to propel the S&P 500 Index to a new all-time high. But the gap in performance to the rest of the market is illustrated by the fact that the Russell 2000 Index of small cap companies remains in a bear market, more than 20% below its peak. That is a situation that has never happened before.

Continued overleaf

European equities, although still some distance from their March 2000 high, have at least regained the ground lost since the financial crisis. UK equities remain trapped in a relatively narrow range but continue to offer the consolation of an attractive dividend yield of around 4%.

China's equity market is still the weak outlier, falling almost 10% in January alone, as the restructuring of its debt-laden property development industry continues to weigh on activity. China's future demographic challenges were also laid bare when it reported a second consecutive year of population decline in 2023.

Leading the pack in terms of percentage gain this year is Japan. The country is finally observing some green shoots of growth and a modicum of much needed inflation. Its equities are further supported by far-reaching changes in the attitude to corporate governance, with shareholders being given greater priority.

Following the strong recovery in late 2023, bond markets have succumbed to some profit-taking as investors push out the horizon for interest rate cuts in light of resilient economic growth, notably in the US, where GDP growth came in at 3.3% (quarter-on-quarter annualised) in the fourth quarter. Both the UK and Europe continue to dodge recessions, if only by a small margin. The market currently expects interest rate cuts to begin in April in Europe and in May in the UK and the US.

- The Bloomberg consensus for World GDP growth in 2023 suggests a final outcome of 2.9%. This figure was just 2.1% a year ago and speaks to the resilience of the economy, especially the US and some regions of the Developing Markets, notably India. Even so, economists are still expecting some of the lagged effect of higher interest rates to flow through to 2024, with the consensus forecast for growth pegged at 2.7%.

- The starting gun has been fired for the US Presidential election, with ex-President Trump achieving comfortable victories in the Iowa caucuses and New Hampshire primary. We view the election as having the potential to increase market volatility as it approaches. A prospective UK General Election could be much more sedate by comparison, certainly from a financial market perspective, given that both leading parties tend towards the centre.

- We continue to monitor the disruption in the Middle East, notably regarding shipping in the Red Sea. The oil price remains relatively subdued, still lower than it was before Russia's invasion of Ukraine. Underlying supply is plentiful, with the US producing record numbers of barrels. However, attacks on ships have necessitated the rerouting of cargoes away from the Suez Canal and via the Cape of Good Hope. This is a more costly and time-consuming journey and will cause some shortages and higher prices. However, it should not be met with a stimulus to demand as happened during the pandemic, and so is deemed to be a containable problem from an inflation perspective at the current time.

 Continued overleaf

RATHBONES | Incorporating Investec Wealth & Investment (UK)

The information in this document is for private circulation and is believed to be correct but cannot be guaranteed. Opinions, interpretations and conclusions represent our judgement as of this date and are subject to change. The Company and its related Companies, directors, employees and clients may have position or engage in transactions in any of the securities mentioned. Past performance is not necessarily a guide to future performance. The value of shares, and the income derived from them, may fall as well as rise. The information contained in this publication does not constitute a personal recommendation and the investment or investment services referred to may not be suitable for all investors; therefore we strongly recommend you consult your Professional Adviser before taking any action. All references to taxation are based on current levels and practices which may be subject to change. The value of any tax benefits will be dependent on individual circumstances.

investecwin.co.uk

Investec Wealth & Investment (UK) is a trading name of Investec Wealth & Investment Limited which is a subsidiary of Rathbones Group Plc. Investec Wealth & Investment Limited is authorised and regulated by the Financial Conduct Authority and is registered in England. Registered No. 2122340. Registered Office: 30 Gresham Street. London. EC2V 7QN