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Market reflection

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Overview

Although global equities made further progress in November, there was a wide dispersion of returns amongst and within individual markets, with US equities the primary contributors to gains. The primary reason was Donald Trump's victory in the US Presidential race, which raised the prospect of more stimulus for the US economy whilst also increasing the threat of punitive tariffs being placed on imports into the US. Some of the biggest winners in the US were small cap shares deemed to be more sensitive to increased growth expectations.

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Regional banks performed very well on the prospect of decreasing regulatory constraints as did their larger cap peers which also benefitted from the expectation of a boost to merger and acquisition activity as well as more Initial Public Offerings, both of which offer juicy fees. Healthcare was the worst performer, rattled by Trump's nomination of Robert F. Kennedy Jr. as his Health Secretary. RFK is a renowned vaccine sceptic and a thorn in the side of Big Pharma. In contrast, most other indices struggled to make gains, with European markets, especially, lacking impetus. As a big exporting region, it is most vulnerable to tariffs. This comes at a time when its heavyweight core countries, Germany and France, are already struggling economically and politically. China is another country at risk from Trump's policies, and it, too, continues to disappoint. The promised stimulus package, announced in September with a view to bolstering the spirits of both investors and consumers, has yet to pack a sufficient punch to convince investors that a corner has been permanently turned. Hopes for more immediate interest rate cuts in the US and UK declined as inflation indices remained stubbornly above target, although the ECB has a clearer path to cut rates owing to the much weaker economic background.

- The Bloomberg consensus for World GDP growth in 2024 remains at 3.1%, up from 2.6% in January. The forecast for 2025 is also 3.1%. The Bloomberg poll of economists' probability of a US recession is now 25%, having been 50% at the beginning of the year.

- Global government bonds made small gains in November, with the Bloomberg Global Aggregate index rising 0.6%, heading off the possibility of a third consecutive year of negative returns. Yields of around 4.5% for 10-year UK Gilts and US Treasuries tempted buyers back into the market.

- While the MSCI All-Countries Index has delivered a total return (TR) of 21% this year in sterling terms, the version excluding the US is up only 8.5%, a reflection of the dominance of US equities, where the S&P 500 Index has delivered a TR of 28%. The FTSE 100's 11% TR is respectable considering its very low exposure to the Technology sector and Artificial Intelligence theme. France (-6%) has been conspicuously weak, with its formerly strong Luxury Goods companies succumbing to weak demand from Chinese consumers. The country is also experiencing political turmoil and difficulties in agreeing a budget

- While US small cap stocks (Russell 2000 Index) have not quite caught up with large caps, a 22% TR so far in 2024 has rewarded investors' patience with an area of the market which had offered good value by historical standards. We anticipate a similar pick-up in the performance of UK small companies, although the increase in employment costs imposed by the Budget has been a headwind for them.

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