December Market Update:
Santa Rally stall

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In a nutshell

- No Santa Rally this year
- Mix of interest rate cuts and cautious holds from main Central Banks
- Political unrest stretches from Europe to South Korea

No Santa Rally

December didn't deliver the festive market cheer some hoped for, with most asset classes ending in negative territory. Given the year we'd had up to that point, perhaps a slight pull back in performance was to be expected.

The famed 'Santa Rally'- where equity returns in the final week or so before Christmas are thought to be higher than usual - didn't quite materialise. Or perhaps Santa just came early, kicking things off in January instead. Either way, 2024 will be remembered as a strong year for markets, with the seemingly unstoppable AI trend fuelling much of the momentum.

A mixed bag for interest rates

So, if not good returns, what did December deliver? Most significantly, it was interest rate cuts. The Federal Reserve (Fed) continued their downwards journey, bringing rates 0.25% lower, and into a 4.25-4.50% window. This reduction was close to a done deal and so wasn't particularly impactful - as it was already priced into the markets. What did take people by surprise was the admission from Jerome Powell's update that he and his committee now expect to make just two further rate cuts through 2025. This is notably lower than they'd previously projected, and lower than the market would like, sending stocks down and bond yields up.

Inflation risk and a robust jobs market caused a reset of 2025 expectations, with the Fed wary of boosting either unnecessarily. The latest inflation reading was 2.7%, compared with a 2% target.

In Europe, a strong economy isn't a concern. The European Central Bank (ECB) cut rates to 3% with a view to reinvigorating growth. A little like China, Europe is in wait-and-see mode when it comes to potential Trump tariffs. Upcoming political changes and the ongoing Russia/Ukraine conflict mean caution persists around investing in the region. The key question is: do these risks create a value opportunity - or a value trap?

In the interest rate holding camp were the UK and Japan. The UK is in a tricky situation. Inflation is still above target at 2.6% and wage growth is ticking along at 5.2%. If wages continue at that level, they have the scope to push inflation in an upwards spiral. All of this points to keeping rates where they are. However, the UK also had a second negative GDP growth month and saw Q3's figure downgraded. So maybe time to cut rates and give the economy a boost...?

Global highlights

China continues to roll out monetary and fiscal support, though we're still lacking a little on detail. The 5% growth target for the year looks to be roughly met, but you don't need to scratch far below that headline number to see the underlying issues. Authorities appear receptive to fixing issues though, and willing to utilise the tool at hand. The Emerging Markets region as a whole returned over 2% for the month. China was up nearly 4%, while South Korea – dealing with the fallout of a declaration of martial law, mass protests, and an ousted President – fell around 6%.

2024 surprises

With the exception of Europe ex UK, most major equity markets delivered above average returns for the year, with the US the obvious standout performer. 2024 was undoubtedly an upside surprise for markets, given the economic backdrop – and a timely reminder that the best bet is generally to stay invested.

Name	1m	3m	YTD	1yr	3yr
FTSE Actuaries UK Conventional Gilts All Stocks	-2.21	-3.10	-3.32	-3.32	-23.65
ICE BofA Global Corporate	-1.24	-1.54	3.58	3.58	-5.20
ICE BofA Global High Yield	-0.19	0.53	8.94	8.94	6.58
FTSE All Share	-1.16	-0.35	9.47	9.47	18.53
FTSE USA	-1.09	9.94	26.83	26.83	36.84
FTSE World Europe ex UK	-0.74	-3.87	3.02	3.02	10.87
FTSE Japan	0.96	2.73	9.71	9.71	17.36
FTSE Asia Pacific ex Japan	0.14	-1.81	11.82	11.82	6.93
FTSE Emerging	2.02	0.14	14.36	14.36	9.22

Source: FE Analytics, GBP total return (%) to last month end

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