Market View
Last quarter in review: A year like no other

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At a glance

- Global political upheavals and switching loyalties caused market volatility.

- Trump's election win boosted equities and the dollar, but the market under his incoming government will be difficult to predict.
- Central banks cut rates as inflation eased, but the Fed and BoE foresee the slowing of cuts in 2025.

2024 saw US economic growth gather steam as the Federal Reserve (Fed) orchestrated a soft landing, creating an environment where earnings and corporate confidence supported equities and credit markets. Alongside this, central banks lowered interest rates as inflation made a gradual retreat. The fourth quarter exemplified this, with the S&P 500 rising 2.4% in the last three months of the year, bringing the full-year gains to 25%.[1] The quarter highlighted the diverging interest rate paths across the developed market central banks, with the Fed indicating a slower pace of cuts in 2025 relative to the European Central Bank (ECB), which opted to cut rates sequentially. This, together with looser fiscal policy, meant bonds struggled to gain traction over the quarter.

Trumping to victory

Donald Trump won the US election, with the Republicans securing the trifecta of the presidency, the House and the Senate. This should give him significant power to enact his agenda, although his slim House majority means the Republicans could struggle to pass some of the more extreme promises that Trump made during his campaign. Markets reacted quickly, with both equities and the dollar rising due to Trump's pro-growth strategies, while Treasuries sold off over concerns of higher deficits, which in turn could result in higher inflation. Since winning the election, Trump has made his intentions clear on social media, declaring he will impose substantial tariffs on Canada, Mexico and China. These tariff threats on the US's largest trading partners prompted a sell-off in Canadian and Mexican currencies and equities – perhaps an indication of things to come.

A shift in power

In 2024, voters globally expressed discontent with incumbent governments, which is common after periods of high inflation. This was illustrated in the UK as the British public voted to end 14 years of Conservative rule in favour of the Labour party. Meanwhile in other European nations, much like the US, major economies saw a shift towards right-wing parties. The political turmoil did not end at elections, as several European coalitions dissolved in the fourth quarter. Prime Minister Michel Barnier's French government collapsed following his proposed 2025 budget, as did Chancellor Olaf Scholz's government in Germany after a no confidence vote. The upheaval was not confined to Europe, as South Korea's President Yoon Suk Yeol was impeached after declaring martial law on 3 December, leading to widespread protests.

Diverging fortunes in US and European equities

US equities, particularly the Russell 2000 index, surged after Trump's victory, rising over proposed tax cuts and deregulation, although only finished the quarter up just under 1%.[2] Year-to-date, the Russell 2000 rose 12%.[3] The S&P 500 had a strong quarter, benefiting from Trump's victory, but also from robust quarterly earnings, which helped propel 2024 gains to 25%.[4] While the Magnificent 7 companies led outsized gains in equity markets in the first half of last year, we did start to see an indication that it is 'broadening' out to include other sectors beyond technology.

The fourth quarter was tough for European equities, with the FTSE 100 falling almost -7% and the Eurostoxx 60 dropping nearly -9%.[5] This brought 2024 total returns for the FTSE to just 3.8% and the Eurostoxx just shy of 1%.[6]

Interest rate cuts slowing in 2025

After picking up some pace in their interest rate cutting regime earlier this year, markets witnessed some divergence between central banks in the fourth quarter of 2024. The Fed cut rates in their final meeting in December, their third consecutive cut. In total, they lowered rates by 1% in 2024. But this may be the last cut for some time, with Chairman Jerome Powell signalling the pace of rate cuts may slow in 2025 as inflation remains above the Fed's 2% target rate.

In the UK, the Bank of England (BoE) cut rates in November but held them steady in December. The BoE faces similar issues as the Fed, namely sticky inflation, which means interest rates may not come down as quickly as some had previously forecast.

The ECB meanwhile lowered rates for the fourth consecutive time in December, and while future rate cuts for the Fed and BoE remain ambiguous, the ECB's path seems more certain. Markets are anticipating the ECB will continue lowering rates at every meeting until June, as the continent faces sluggish economic growth.

China braces for Trump

Initial enthusiasm over China's third quarter stimulus announcements—including monetary, property and equity market intervention—abated somewhat in the fourth quarter. Markets await further clarity on President Xi Jinping's plans to ensure the 5% GDP growth target is met, along with Trump's approach towards China. The Shanghai Composite was flat in the quarter, but rose 16% in 2024 overall.[7]

Conclusion

Political upheavals caused some short-term market volatility. Recent right-wing political uprisings in Europe come at a precarious time during the Russian war in Ukraine. Europe also faces uncertainty over the US president-elect's proposed tariffs, which may create further instability for the global economy and international relations.

Trump will inherit a strong economy, although inflation remains elevated and the budget deficit is substantial. Tax cuts and deregulation could benefit small companies, but it is worth remembering that while Trump's policies may appear market-friendly, his unpredictable behaviour can cause uncertainty and market volatility.

Although government shutdowns are often considered noise, investors should watch government bond yields, as these indicate if markets are nervous about a country's ability to pay off debt. We continue to monitor geopolitical risk when constructing portfolios but remain focused on quality companies well positioned to withstand political turbulence. Ultimately, it is the businesses and their ability to grow earnings that matter.

[1] Bloomberg

[2] Bloomberg

[3] Bloomberg

[4] Bloomberg

[5] Bloomberg

[6] Bloomberg

[7] Bloomberg

Investors should be aware that past performance is not an indication of future performance, the value of investments and the income derived from them may fluctuate and you may not receive back the amount you originally invested.