Winter 2024/25

INVESTOR INSIGHT

A look at the markets by RSMR

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Welcome to the latest edition of our 'Investor Insight' which provides high-level commentary on the global markets and how these might be affecting your investments.

Ken Rayner, CEO, RSMR

The global economy: What's going on?

Fund managers optimistic for 2025.

The US economy continued to surge in the final months of 2024, boosted by strong consumer spending and employment, while Europe and Asia struggled to improve growth. In the UK, the new Labour government offered a more stable political regime, promising economic stimulus, while Donald Trump's US election victory signals freer spending in a regime which may be inflationary.

Europe remains uncertain as French prime minister, Michel Barnier, quit and in Germany, Olaf Scholz and his Social Democratic Party clung to power in a fractious political climate.

While there was strong recovery in the first half of 2024, due to combatting inflation with high interest rates, global growth is uneven due to political and economic challenges, but equity markets have generally continued strongly. The focus has been on the US markets, led by the technology sector, and some other developed markets have enjoyed good returns with stocks from large high-growth businesses performing best.

Inflation rose in November with the US up to 2.7% from 2.6%, Europe rising to 2.2% from 2% and UK inflation above target at 2.6% due to higher energy prices while Japan rose to 2.9% from 2.3%, all giving central banks a tricky short-term economic challenge. Despite this, interest rates still seem set to fall although there have been rises in some emerging countries.

Overall, investors appear more confident, based on the strength of the US economy, which may reach a reckoning as Trump takes office. Markets will soon be influenced by his approach and policies and their effect on investor confidence.

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The asset classes – a quick round-up

EQUITY MARKETS

Global markets had a dynamic 2024 with significant shifts in economic conditions, investor confidence and sector performance.

The main index measuring global stock performance, rose almost 10% in the first six months (Charles Swab Global Half Year Outlook) on the back of better economic data, including falling inflation and more people in work, but this fluctuated across all sectors and regions.

Equity markets remained positive, and the US reached several all-time highs. Even so, towards the year end, investor confidence suffered due to slowing US rate cuts and the prospect of another Trump presidency apparently with inflationary policies.

Most US and UK returns came from stocks from large successful businesses. While investor confidence rose consistently, a defensive approach sought refuge in these stronger companies.

There has long been a significant valuation gap between large and small companies and investors believe this will narrow, especially if interest rates continue to fall, but several factors, including the influence of private equity, mean this is more hope than expectation.

A repeat of last year's strong, above 20%, returns seems unlikely even if rates still fall, but, if earnings continue to improve, it may consolidate valuations and boost investor confidence later this year and into next.

FIXED INTEREST

Recent returns were surprising, displaying similar volatility to equities as investors adapted to central bank rate cuts.

Investors put more than $600bn into global bond funds in 2024 (source: EFPR), anticipating lower interest rates and hoping that slowing inflation will be a turning point for global fixed income.

Bonds had a patchy year although they rallied in the summer before losing their gains by the year end on mounting concerns that global rate cuts will be slower.

Recent statements from the US Federal Reserve (Fed) after it cut rates by 0.25% to 4.5-4.75% in December suggested fewer reductions this year, which sent US government bond prices lower and the dollar to a two year high.

Corporate credit has been more resilient which led to a surge in the issue of bonds as companies took advantage of easy money.

Meanwhile, corporate debt sales hit a record $8tn (source FT December 2024) as companies exploited investor interest to accelerate borrowing. This year's outlook looks stable as companies refinance debt secured during the pandemic.

ALTERNATIVE INVESTMENTS

The moves towards renewable energy and Artificial Intelligence (AI) are continuing to boost the property and infrastructure sectors which gained greater support as interest rates fell. Further cuts will help this, and both are also benefiting from wider investment trends associated with the shift towards renewables which requires infrastructure, and artificial intelligence (AI) which will need dedicated data centres.

Energy transition is important for a range of sectors, but uncertainty caused by Covid, Russia's invasion of Ukraine and the Middle East conflict, have made some governments turn protectionist to maintain domestic supplies, which has affected prices.

Oil prices have been stable as demand, rather than supply, dictated prices. Organisation of Petroleum Exporting Countries (OPEC) has limited supplies for some time but the gradual transition to renewables, oil production from other sources, such as US fracking, and slowing demand from China has balanced this.

Renewable energy transition signals major global economic changes: i.e. China's electric vehicle (EV) sales easily beat other economies. Almost half are now electric or hybrid, which is also reducing oil dependency.

Precious metals responded well to the Fed's rate cuts with gold trading to record highs in dollar terms while iron ore, copper and steel reacted positively to China's stimulus measures anticipating increased demand.

RSMR Global round-up

- The economy in China, which announced new stimulus measures, grew at 4.8% in the third quarter, slightly lower than in 2023.
- Unemployment in the EU is at 6.1%.

- The UK Office For National Statistics (ONS) highlighted falls in activity in hospitality, law firms and advertising in the final quarter.
- Germany's economy is expected to grow by only 0.6% in 2025 according to a poll by Consensus Economics.
- The US stock market performed well in Q4 2024.
- India is now a driving force in Asia as its economy is growing faster than China's and its workforce is expanding.
- Brazil increased interest rates due to fears of a worsening environment for prices and core goods.
- According to the ONS, UK economic growth fell to zero between July and September.
- Following sharp declines in 2021/22 earnings, growth expectations are higher for emerging markets compared to developed ones.

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SO, WHAT'S NEXT?

Optimism has broken out among a range of investment managers amid a belief that the earnings growth momentum can continue this year.

It seems unlikely to us that this will happen, unless earnings can maintain their momentum, which looks ambitious for European and Asian economies. The US and India may prove exceptions, although Trump's proposed, and possibly inflationary, new polices could hinder growth if interest rates need to remain higher than expected.

Among Trump's proposed policies are new trade tariffs on various countries, especially Asia and China. If this happens, the economic effects will depend on whether trade patterns alter as a result.

The US stock market is expected to navigate a complex landscape. Key factors to monitor include the Fed's monetary policies, economic growth indicators, and geopolitics.

As we look ahead, the ability to navigate these dynamic conditions will be key for investors seeking to capitalise on emerging opportunities.

About RSMR

Independent specialist research.

RSMR was formed in 2004 to meet a growing demand from financial advisers for specialist and impartial investment research.

The RSMR team is made up of individuals with expertise from across all areas of the financial industry – from asset management, strategy and fund research through to business development, strategic planning and market research.

We are best known within the financial industry for our 'R' fund ratings – this rating is given to investment funds that meet our stringent research criteria. We don't limit ourselves to just looking at performance – we also look carefully at the people, processes and capabilities that are required to make effective investment decisions.

We work in partnership with your financial adviser, providing the benefit of our broad industry insight and rigorous research. This quarterly market summary is designed as a 'snapshot' of the more thorough and lengthy commentary that we provide to your adviser on a quarterly basis.

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