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Wealth Management Ltd

REFLECTING ON 2024 & PLANNING FOR 2025

Our thoughts on the markets

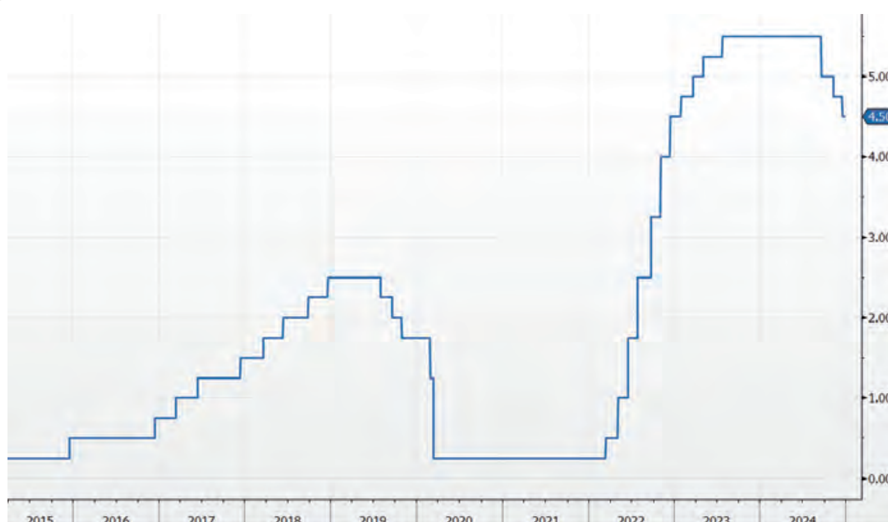
A look back at 2024

As 2024 began, investor optimism was high, with many expecting central banks, particularly the US Federal Reserve, to start reducing interest rates. Inflation was easing, fuelling hopes for multiple rate cuts. However, the strength of the labour market kept central banks cautious. Adding to the uncertainty, major elections in countries like the US and UK loomed, underscoring the year's political significance. Meanwhile, markets anticipated a shift in earnings, expanding beyond the dominance of the "Magnificent Seven" (Mag 7) large US technology companies that had driven returns in 2023, a continuation of a trend observed throughout much of the past decade.

During the course of 2024, the labour market softened a little but remained robust, supporting consumer spending and economic stability. Wage growth moderated, which helped to further ease inflationary pressures. This allowed central banks to start to adjust their policies and cut rates. However, strong economic growth, helped by strong household balance sheets in the US and Europe, and stubborn inflation in the latter part of the year, meant they proceeded more cautiously than markets had hoped at the start of the year, especially in the US. In total, the US cut rates by 1% during the year.

US Fed Funds Rate (%)

Source: Bloomberg



On the political front, a Labour Party victory in the UK general election marked the beginning of a new political era, while the United States witnessed the return of Donald Trump to the presidency. This shift in leadership signalled a new policy direction, with expectations of deregulation and increased fiscal expansion. Geopolitical uncertainties, however, continued to weigh on the global landscape. The Russia-Ukraine war showed no signs of resolution. Although a ceasefire between Israel and Hezbollah came into force at the end of November, the peace remains fragile, and the Israel-Hamas war continues.

Despite geopolitical risks and fewer-than-expected interest rate cuts, risk assets such as stocks performed well, making 2024 a strong year for markets overall. The resilience of the US economy drove double-digit returns in developed market equities, supported by an increase in share buybacks. In emerging markets, a late-year rally in Chinese equities, coupled with solid performances from India and Taiwan, added to the gains. In contrast, commodities faced headwinds, with weak demand from China and a strengthening US dollar in the fourth quarter limiting their performance.

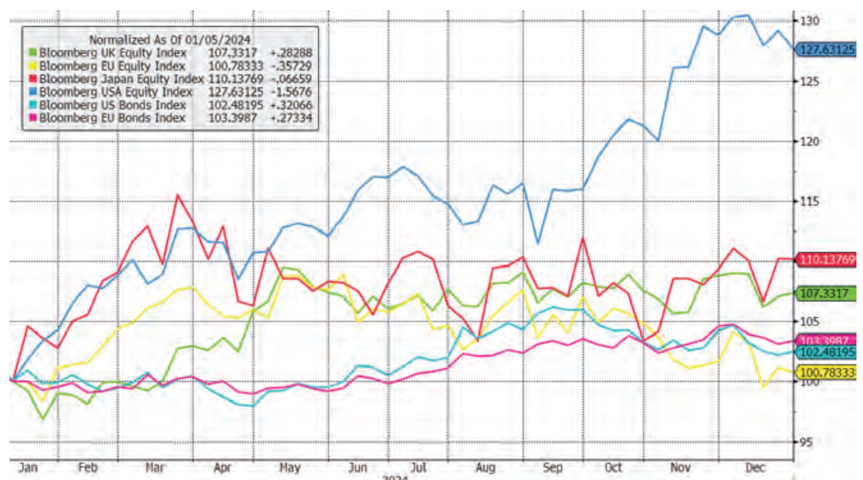
The US economy emerged as a standout performer in 2024. Initial concerns over the summer gave way to optimism as the country's economic growth remained strong, averaging 2.6% (annualised) over the first three quarters. The S&P 500 led global equity markets, propelled not only by the dominance of the Mag 7 stocks but also by a broadening improvement in earnings across sectors—a trend we expect to carry into 2025. While equity markets experienced a period of volatility in August, partly due to the unwinding of the yen carry trade, confidence in corporate earnings proved resilient, helping markets rebound swiftly.

In contrast, Europe faced significant challenges. High energy costs, restrictive regulations, and weak export demand hit the manufacturing sector hard. Competition from China, bolstered by government subsidies, further pressured the region. Political unrest in France and Germany, combined with fiscal strains, fractured the political consensus. European equities lagged behind other regions.

The UK economy recovered modestly from its 2023 lows, with equities achieving a better return than their continental counterparts. Initial optimism following the general election lifted sentiment. However, this was dampened by the autumn budget, which included unexpected tax increases. The rise in national insurance particularly affected business confidence, leading to reduced hiring intentions and complicating the Bank of England's position.

China's economic activity remained weak for much of the year, hampered by falling property prices and low consumer confidence. Early policy responses failed to impress, but a more comprehensive package of stimulus announcements in September raised hopes for significant 2025 stimulus, driving a late rally in Chinese equities to finish 2024 with a strong gain. Meanwhile, Japanese equities also rose strongly, supported by optimism over corporate reforms, an end to deflation, and a weak yen.

Global government bonds delivered a relatively disappointing performance in 2024, as rising yields eroded returns. However, their high starting yields offered some cushioning against these losses. With inflation no longer the dominant market driver, government bonds regained their traditional negative correlation to equities, providing valuable diversification benefits to portfolios. Higher-risk corporate bonds performed better, supported by attractive yields and narrowing credit spreads (the extra yield investors demand for taking on corporate risk), which contributed to stronger overall returns in this segment.



Performance of major equity and bond markets in 2024 (rebased to 100)

Source: Bloomberg

Looking Ahead

As we look ahead to 2025, political uncertainty remains a significant theme, following a year when nearly half the world's population cast their votes. Decisions made by newly elected governments are expected to shape markets and could heighten volatility. In the US, Donald Trump's return to the White House introduces fresh geopolitical, trade, and fiscal dynamics. His campaign rhetoric strongly favoured trade tariffs, and if such measures are implemented, they could exacerbate inflationary pressures. We also see a greater risk from Trump 2.0 policies in the first months of the new presidency than the market is expecting.

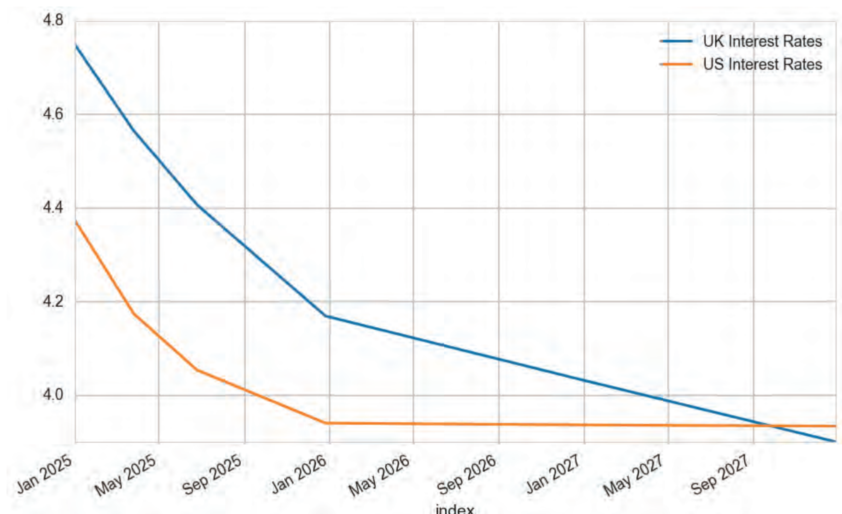
Globally, governments face limited fiscal flexibility due to rising debt levels. However, in response to public concerns about the cost of living, infrastructure, and economic growth, some may adopt more expansive fiscal policies. While this approach could support growth, it also risks keeping inflation elevated.

In the UK, Labour's recent budget introduced significant tax increases alongside substantial, front-loaded government spending. While higher taxes could weigh on sentiment, the immediate boost from increased spending may provide net support to growth in 2025. The UK's relatively balanced trade with US should also put it at a lower risk of fresh trade tariffs compared to other nations that have a heavy surplus with the US.

In 2024, expectations of significant rate cuts supported markets. However, new protectionist policies and increased government spending could fuel inflation in certain areas, potentially slowing the pace of central bank rate reductions in 2025.

Market implied path of central bank rates (%)

Source: Bloomberg



The resilience displayed by the global economy and markets in 2024, despite inflation and geopolitical challenges, will be tested further in 2025. Elevated tensions in Eastern Europe and the Middle East are likely to continue influencing commodity markets and investor sentiment. We will monitor these developments closely and adjust portfolios as needed.

Overall, resilient consumer spending and improving corporate profits should provide a supportive environment for equities, assuming a recession is avoided. We anticipate the AI investment narrative to broaden in 2025, creating opportunities beyond the mega-cap technology companies that currently dominate the space. Many other areas of the equity market are trading at more modest valuations, presenting attractive opportunities where we are focusing our attention. We strongly believe that 2025 will favour active management over passive strategies.

In fixed income, corporate bonds appear less compelling given the historically tight credit spreads, but government bonds now offer appealing income yields following the increases in 2024. Their renewed negative correlation with equities should also provide a valuable buffer in portfolios if equity markets face setbacks.

In the meantime, please find within the rest of this document our summary of how markets moved through each quarter in 2024.

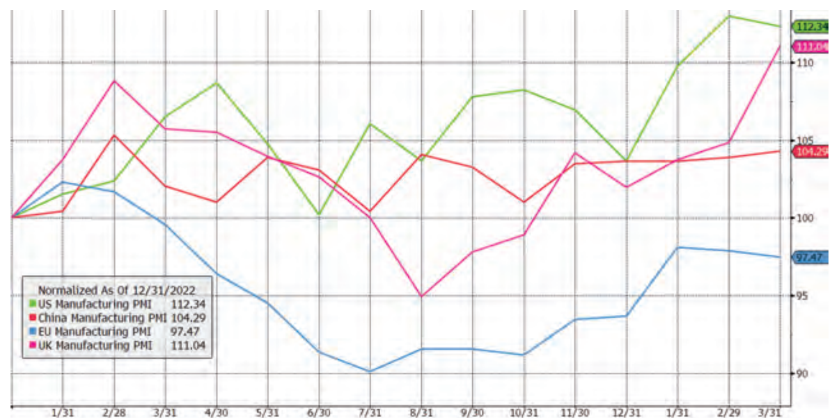
1st Quarter 2024

Equity markets carried forward their momentum from the end of 2023 into the first quarter of 2024. Investors entered the year optimistic after Fed Chair Jerome Powell's dovish pivot in December, which hinted at potential interest rate cuts. Although the Fed's actions fell short of early-year expectations, equities were buoyed by robust global economic conditions, especially in the United States. This optimism translated into improved corporate earnings, with strong first-quarter earnings reports affirming the resilience of businesses in a challenging macroeconomic landscape.

Despite earlier predictions of a global recession, the economy defied expectations. The US economy remained a standout, supported by robust government spending and a steady jobs market. Data from S&P Global revealed that global economic activity had moved back into expansion, driven by strength in US and Chinese manufacturing. Europe, however, continued to lag behind, with weaker productivity and a subdued manufacturing sector. Meanwhile, the data released during the quarter showed that the UK slipped into a technical recession during the latter half of 2023, a reminder of lingering economic pressures.

Global Manufacturing PMI Growth (rebased to 100)

Source: Bloomberg



In the bond market, expectations for a March rate cut by the Fed were unmet. However, Powell's remarks during the quarter, suggesting the Fed was "not far" from easing monetary policy, provided reassurance. Wall Street anticipated rate cuts by the summer, with predictions of a total reduction of 0.75% by year-end. Other major central banks held rates steady, with the exception of the Swiss National Bank, which cut rates by 0.25% as inflation neared 1%. Notably, the Bank of Japan raised interest rates for the first time in 17 years, ending its negative interest rate policy and signalling a significant shift in its monetary approach.

US equities had a strong first quarter, with the S&P 500 delivering solid gains. Cyclical sectors outperformed defensives, reflecting confidence in economic growth. Performance broadened beyond the Mag 7 technology stocks, with notable declines in Tesla and Apple. Japanese equities also excelled, with the Nikkei 225 reaching a 30-year high, while UK equities showed a steady recovery, delivering a 4% total return by the quarter's end.

Government bonds faced headwinds as inflation remained sticky, dampening their appeal in the short term. Corporate bonds outperformed, as credit spreads reached historical lows, reflecting strong risk appetite.

US Corporate BAA 10 Year Spread: Difference between corporate yields for bonds rated BAA and the US Government 10 Year yield (%)

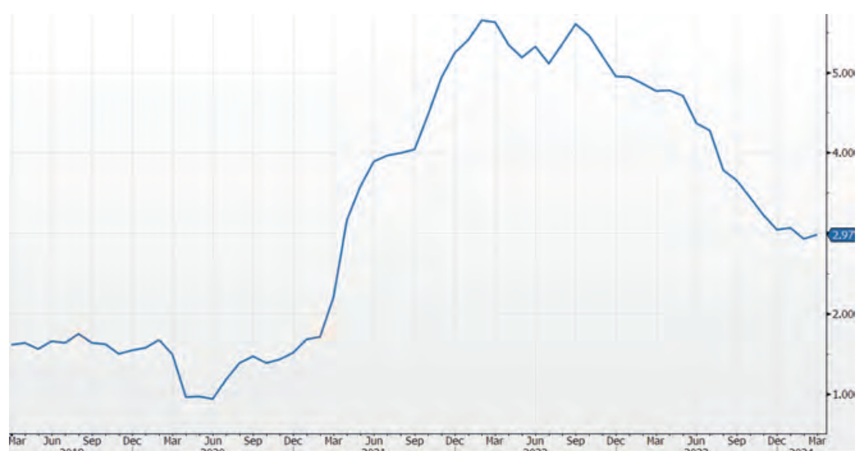
Source: Bloomberg

Commodities also enjoyed a strong quarter. US crude oil reached $85 per barrel, cocoa prices soared to record highs, and gold surpassed $2,200 per ounce, underscoring market confidence despite persistent inflationary pressures.

Although inflation showed signs of moderation, reaching the Fed's 2% target remained a challenge. Core inflation indicators and rising commodity prices pointed to ongoing pressures. The strength of the consumer, supported by a robust labour market, played a key role in sustaining growth despite elevated real interest rates.

US Core PCE Inflation (%)

Source: Bloomberg



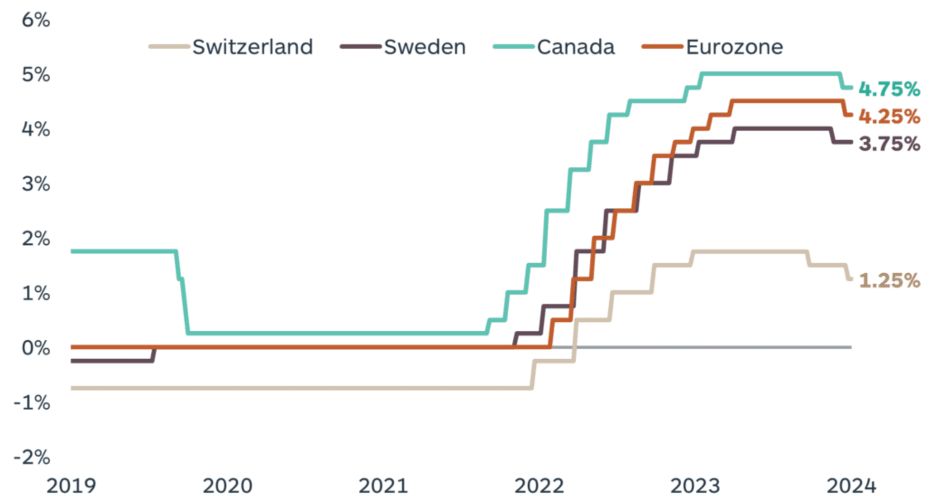
2nd Quarter 2024

Entering the second quarter of 2024, many expected significant rate cuts from global central banks. However, monetary easing remained measured, with rate cuts seen only from the European Central Bank, Swedish Riksbank, Bank of Canada, and another from the Swiss National Bank. Resilient economic growth, sticky disinflation, and a robust labour market led policymakers to tread cautiously. This deliberate pace of rate reductions reassured markets, as it signalled optimism for corporate earnings rather than alarm over economic conditions.

This restrained policy approach weighed on government bond markets, with yields rising amid concerns over surging government borrowing—particularly in the US, where deficits continued to grow. Corporate bond spreads remained tight, suggesting confidence in corporate creditworthiness despite a gradual uptick in defaults.

Policy Rates

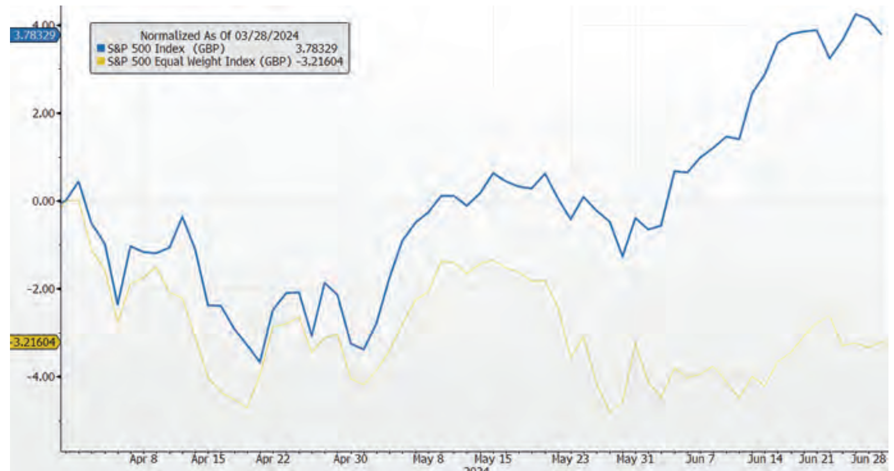
Source: Factset



Equity markets performed well overall, though gains were concentrated. The Mag 7 tech stocks dominated the US S&P 500 Index's returns, accounting for nearly all of the quarterly gains. Semiconductor giants TSMC and ASML also benefited from their exposure to the booming AI sector. However, the gap between the market-cap-weighted S&P 500 and its equal-weighted counterpart widened significantly, with the former rising close to 4% in sterling terms while the latter fell by over 3%.

US Equity Market Peroformance in Q2 2024 (%)

Source: Bloomberg



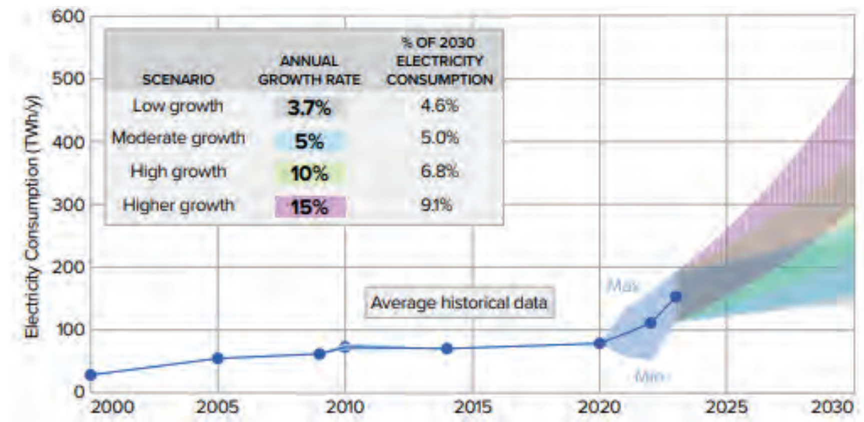
This performance concentration underscored the importance of mega-cap tech stocks, even as corporate earnings growth began to broaden beyond the tech giants. The quarterly earnings season was largely positive, with strong corporate balance sheets demonstrating that companies across sectors were adeptly managing slower growth.

The AI narrative continued to captivate investors. Major firms like Nvidia were seen as obvious beneficiaries of the trend, but sky-high valuations raised questions about short-term over-enthusiasm. As Warren Buffett famously noted, “Price is what you pay, value is what you get.” The euphoria around AI mirrored the dot-com boom, where long-term potential was underestimated but short-term impacts overestimated.

Looking ahead, companies tied to the buildout of AI infrastructure—such as data centres, power systems, and IT networks—are likely to experience sustained demand growth. Projections for electricity consumption by US data centres were climbing, highlighting the scale of investment required to power this technological arms race.

Economic data during the quarter showed a rebound in global growth despite tight monetary policy. The UK exited its technical recession, while US growth remained strong, albeit with signs of moderation. Falling oil prices helped temper inflationary pressures, and commodity markets delivered strong performances. Copper, a key economic bellwether, saw a sharp price increase, as did silver, which plays a critical role in many industries.

Power Consumption : Actual and Forecast



Source: The EPRI
Notes: Projection of potential electricity consumption by U.S. data centers: 2023-2030. % of 2030 electricity consumption projections assume that all other (non-data center) load increases at 1% annually.

The quarter ended on a political note as UK Prime Minister Rishi Sunak called a surprise early election, held shortly after the quarter's close. The Labour Party's victory marked a shift in leadership after 14 years of Conservative governance. Market reactions were muted, with UK stocks, gilts, and sterling largely unaffected. Investors seemed cautiously optimistic about Keir Starmer's more centrist platform and the prospect of political stability after a period of turbulence.

Consumer spending, critical to US economic performance, remained robust despite higher interest rates. Fixed-rate mortgages insulated many households from rate hikes, although rising costs for unsecured lending began to weigh on budgets. The strength of the US consumer will be pivotal in determining whether the economy can achieve a much-desired soft landing.

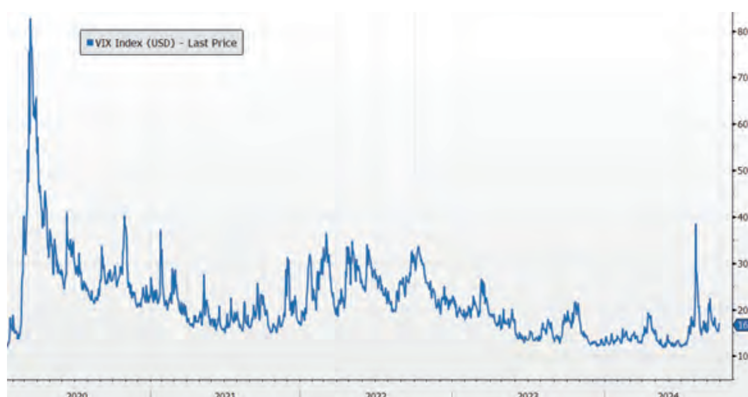
Q2 2024 was marked by measured optimism. While central banks hesitated to fully embrace rate cuts, strong corporate performance and resilient economic growth painted a broadly positive picture for global markets.

3rd Quarter 2024

The third quarter of 2024 proved to be constructive for markets overall, despite notable periods of volatility. A surprise rate hike from the Bank of Japan in late July shocked investors, causing the largest single-day drop in Japanese equities since 1987. This move, coupled with softer economic data from the US, including a spike in jobless claims and the triggering of the Sahm Rule (a recession indicator), raised concerns about the resilience of the U.S. economy. The VIX volatility index, often called Wall Street's "fear gauge," spiked to levels not seen since October 2020 before stabilizing.

VIX Index (Price)

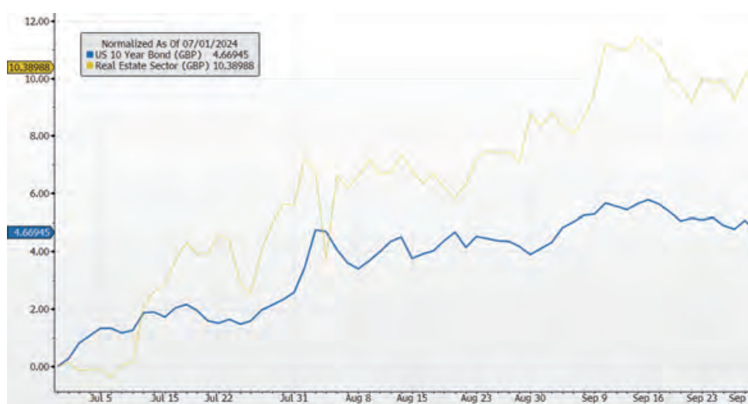
Source: Bloomberg



Amid these uncertainties, bonds demonstrated their traditional role as a safe haven. The 10-year U.S. Treasury yield fell from around 4.5% at the start of the quarter to 3.8% in early August, as demand soared. This inverse movement between bond prices and yields provided some relief to investors seeking stability. Concurrently, "bond proxy" equity sectors such as utilities and real estate outperformed, benefiting from their steady earnings profiles.

US 10 Year Treasury Bond and Real Estate Sector Q3 2024 Performance (%)

Source: Bloomberg



On the monetary policy front, the Fed held interest rates steady in July, despite weaker inflation and labour market data. While critics argued the Fed might be behind the curve in cutting rates, Fed Chair Jerome Powell hinted at an imminent policy shift. He highlighted significant progress toward reducing inflation to the Fed's 2% target but emphasized the need for more confidence before taking action. True to this cautious optimism, the Fed enacted a 50-basis-point rate cut in September, lowering the federal funds rate to 4.75%.

Elsewhere, the Bank of England took a proactive stance, cutting rates by 25 basis points in August—the first reduction in over four years.

Geopolitics added to market risks during the quarter, with an escalation in the Israel-Hezbollah conflict. U.S. political developments drew attention, with former President Donald Trump surviving an assassination attempt and President Joe Biden stepping aside from his re-election campaign. Vice President Kamala Harris became the Democratic nominee, creating a neck-and-neck race against Trump in the 2024 presidential election.

Equity markets posted broad gains, with smaller companies and cyclical sectors delivering strong earnings growth. This diversification signalled reduced reliance on mega-cap tech stocks, alleviating some concerns about "concentration risk." Meanwhile, China's announcement of a 3% GDP stimulus package bolstered Asian equities, though concerns over structural issues persisted.

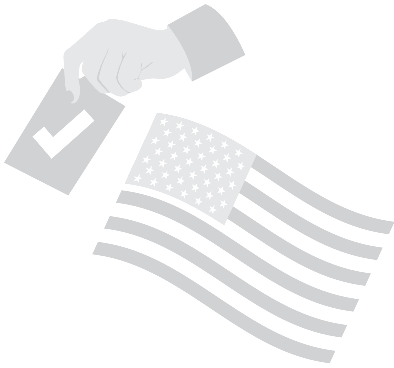
UK equities also delivered solid returns, buoyed by attractive valuations, rising political stability, and robust M&A activity. Improving consumer and business confidence further supported the economic recovery.

As the quarter closed, inflation concerns receded, and markets shifted their focus to overall economic health. A soft landing, where the economy slows but continues to grow, appears the most likely scenario. While central banks maintain flexibility to cut rates further if needed, the question remains to determine how much easing will be required to tempt some of the capital from money market funds, estimated to stand at over $6trn, into equities.

Money Market Funds Assets (USD bn)

Source: Bloomberg

4th Quarter 2024



The US elections were a pivotal driver of market performance during the fourth quarter. Donald Trump's re-election and Republican gains in Congress boosted expectations for policies favouring US economic dominance. Anticipation of further tax cuts, expansionary fiscal measures, and nationalist trade policies strengthened US equities and the US dollar.

The Fed cut interest rates twice during the quarter, responding to signs of economic moderation. However, Jerome Powell's cautious tone regarding future rate cuts weighed on sentiment. Despite the easing measures, markets reacted negatively following the December rate cut as the Fed indicated a more restrained approach for 2025, citing a solid labour market and slower progress in reducing inflation. The US election result has also been perceived by many as likely to put upward pressure on inflation.

USD and Sterling Performance in Q4 2024 (%)

Source: Bloomberg

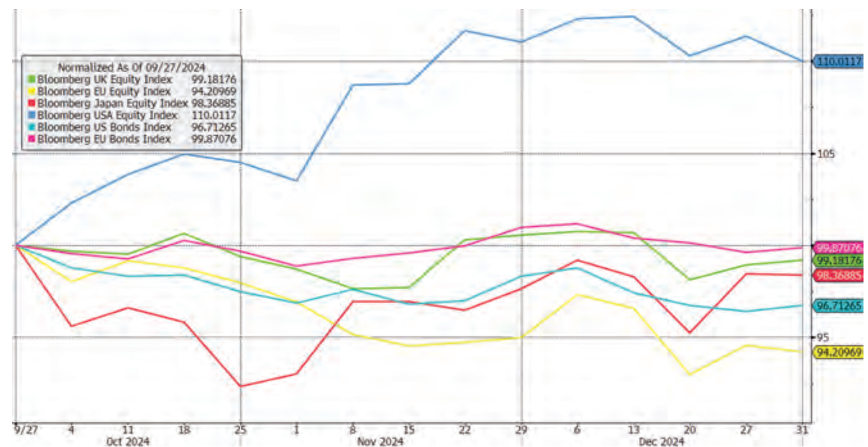
This hawkish sentiment contributed to a stronger US dollar and rising bond yields over the quarter. Higher yields pushed bond prices lower, creating headwinds for fixed-income investors. Market expectations now project only two additional Fed rate cuts in 2025, further highlighting the central bank's cautious stance.

US equity markets experienced a notable divergence in performance during the quarter. While the Nasdaq posted strong gains, driven by renewed strength in large-cap technology stocks, other indices struggled. The S&P 500 saw gains concentrated in these technology leaders, while the Dow Jones Industrial Average, with its limited exposure to the Mag 7, endured a historic ten-day losing streak, its longest in over 50 years.

Globally, equity markets were broadly flat to down. The renewed concentration of returns in US large-cap technology stocks reversed the broadening trend observed earlier in the year. This highlighted the ongoing challenges for investors seeking diversification beyond a handful of dominant names.

Performance of major equity and bond markets in Q4 2024 (rebased to 100)

Source: Bloomberg



In the UK, Labour's first budget since re-election was met with scepticism from the business community. Viewed as broadly anti-business, the budget's measures compounded existing economic challenges. Data released during the quarter showed that UK GDP growth was flat in the third quarter, with a 0.2% contraction in October, dampening market sentiment further.

UK equities faced additional headwinds from subdued growth and limited investor confidence. Despite attractive valuations, political uncertainty and tepid economic momentum kept performance muted. Corporate activity, however, remained a bright spot, with mergers and acquisitions providing some support to specific sectors.

As we conclude 2024, global markets offer plenty of potential in 2025, especially if we look away from the Mag 7. Further monetary easing, particularly by the Fed, remains a critical driver. While challenges persist, including inflationary pressures and geopolitical risks, the resilience demonstrated by businesses and consumers this year provides a foundation for cautious optimism.

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