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Accountants & Financial Advisors

Market Commentary

January 2025

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SNAPSHOT

- Traditional 'Santa Claus' rally failed to materialise, with equities flat overall
- Bonds eased further into year end
- US dollar led currencies, while the Japanese yen dropped back

All percentages below are monthly returns for December 2024

EQUITIES

US MARKETS
The Dow and small caps dipped

-2.5%
US 500

UK MARKETS
Lower overall except for small caps

-1.3%
UK ALL SHARE

EMERGING MARKETS
China recovery helped markets somewhat

-0.3%
EM

BOND MARKETS

BONDS
Credit, especially High-Yield, led the way

UK GILTS	-2.2%
US TREASURIES	-1.5%
GLOBAL CORPORATE BONDS	-0.3%
GLOBAL HIGH YIELD BONDS	1.2%

*Values represent bond index returns

CURRENCIES

CURRENCIES
Sterling lagged the dollar

Pound vs Other Currencies

GBP vs USD	GBP vs JPY	GBP vs EUR	GBP vs CNY
-1.7%	3.3%	0.5%	-1.0%

KEY INDICATORS

GOLD – XAU/USD
-1.1%

OIL – BRENT CRUDE
2.3%

COMMODITIES
4.8%

INFLATION – UK CPI (YOY)
2.6%

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GLOBAL MARKETS

The traditional 'Santa Claus' rally failed to materialise, but US tech stocks still posted gains, driving growth outperformance over value, globally, from a style perspective.

US MARKETS

Witnessed a month of winners and losers

The US market was sharply divided in December. Large-cap growth stocks extended gains, while large-cap value and small-cap shares saw sharp declines, even after the mid-December Fed rate cut. The performance gap between MSCI USA Large Growth and MSCI USA Large Value reached an extraordinary 9.2%. Telecom Services, including Alphabet, Meta, and Netflix, rose 3.4%, while I.T. and Consumer Discretionary also posted gains. In contrast, the other eight GICS (Global Industrial Classification Standard) sectors declined 5–11%, with Materials performing the worst.

Down -2.5% (US 500)

UK MARKETS

Disappointing economic data weighed on markets

UK economic data remained disappointing, with Q2 and Q3 2024 GDP figures revised lower by about 0.1% each, while inflation ticked higher – a troubling combination. Although the Fed and ECB cut rates, the BoE's ability to stimulate growth appears constrained. Business confidence fell sharply, and UK borrowing costs rose, with the 30-year gilt briefly reaching 5.16%, its highest level since 1998. Globally, the weakest sectors were real estate, materials, energy, and healthcare—an unfavourable mix for the UK equity index.

Down -1.3% (UK All Share)

EUROPEAN MARKETS

Political strife contributed to weak market performance

European shares struggled in December as the ECB cut its three main rates by 0.25%, bringing the headline rate to 3.15%, despite a slight uptick in inflation to 2.2% from 2.0%. Growth appeared to slow in Q4, even as the ECB reiterated its perennial forecast for higher growth ahead. European mid-cap shares outperformed, while the Europe 600 ex. UK dipped 0.3%. Political strife in France and Germany added to the markets' malaise.

Down -0.3% (Euro 600 Index ex UK)

JAPAN MARKETS

Yen decline helped propel markets

Japanese stocks performed well in local currency terms, supported by a roughly 5% yen decline against the dollar, boosting profits repatriated to yen. Retail sales, services and manufacturing PMIs, and consumer confidence all improved. The Bank of Japan held rates steady at 0.25%, stating that rate hikes will continue if the economy aligns with forecasts, though the pace remains unclear. Large-cap stocks outperformed small-caps, while the Topix slightly lagged the Nikkei.

Up 3.9% (Japan Index)

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THE WORLD AT A GLANCE

	2019	2020	2021	2022	2023	December 2024	2024
UK CASH	0.7%	0.2%	0%	1.4%	4.7%	0.4	5.2
US DOLLAR INDEX	0.2%	-6.7%	6.4%	8.2%	-2.1%	2.6	7.1
UK GILTS	6.9%	8.3%	-5.2%	-23.8%	3.7%	-2.2	-3.3
US TREASURIES	6.9%	8%	-2.3%	-12.5%	4.1%	-1.5	0.6
GLOBAL CORPORATE BONDS	7.3%	7.1%	-1.9%	-6.8%	4%	-0.3	2.8
GLOBAL HIGH YIELD BONDS	8.3%	3.8%	2%	-2.3%	8.2%	1.2	11.0
US 500	28.9%	16.3%	26.9%	-19.4%	24.2%	-2.5	23.3
UK ALL SHARE INDEX	14.2%	-12.5%	14.5%	-3.2%	3.8%	-1.3	5.6
EURO 600 INDEX EX UK	24.2%	1%	22.5%	-15%	14.9%	-0.3	4.5
JAPAN INDEX	15.2%	4.8%	10.4%	-5.1%	25.1%	3.9	17.7
ASIA EX JAPAN	17.9%	22.4%	-3.1%	-15.4%	6.4%	1.3	16.2
EMERGING MARKETS	15.4%	15.8%	-4.6%	-22.4%	7%	-0.3	5.1
COMMODITIES	13.1%	-26.1%	41.6%	41.9%	-9.7%	4.8	11.2
GOLD	18.0%	20.9%	-4.3%	-0.7%	12.8%	-1.1	26.6
HEDGE FUNDS	8.1%	5.8%	3%	-4.4%	2.7%	-0.1	5.3

Source: Bloomberg

Total Return – Local Currency

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Key Points

- Global stocks turned lower, as the post US election rally petered out and softer economic European data weighed on performance.
- Profit taking set in after a strong year, even as US data hinted at accelerating growth. That favoured technology-based shares which continued to gain ground, as investors rotated out of value.
- The European market was weighed down by political strife in France and Germany. Softer economic data added to the sense of pessimism.
- After lagging other emerging markets for most of the year, and experiencing a sell-off following September's stimulus, Chinese shares rebounded in December, gaining ground as their EM peers softened.

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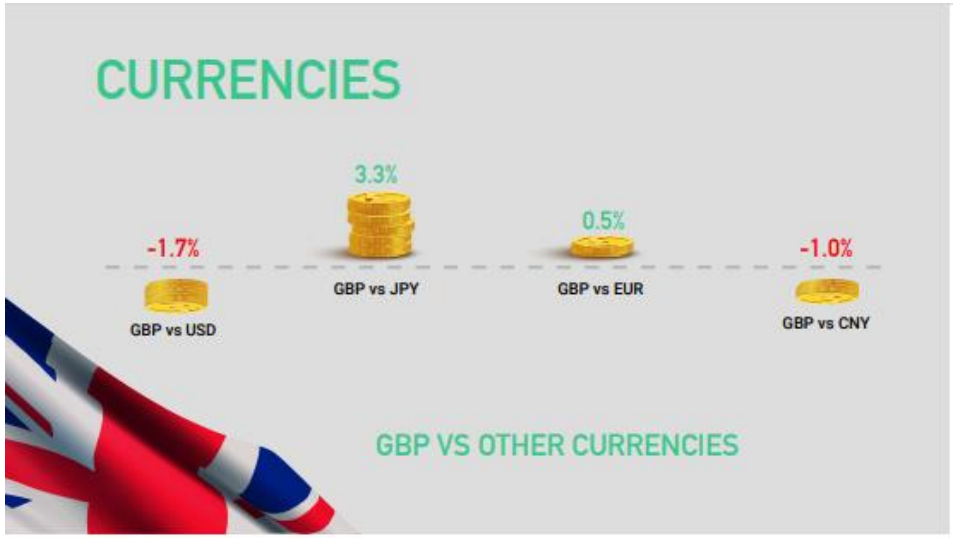

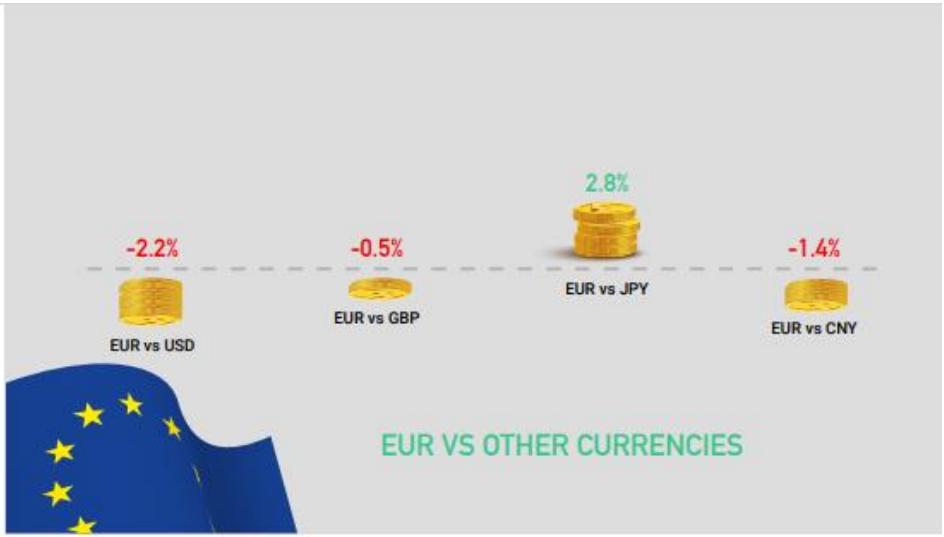

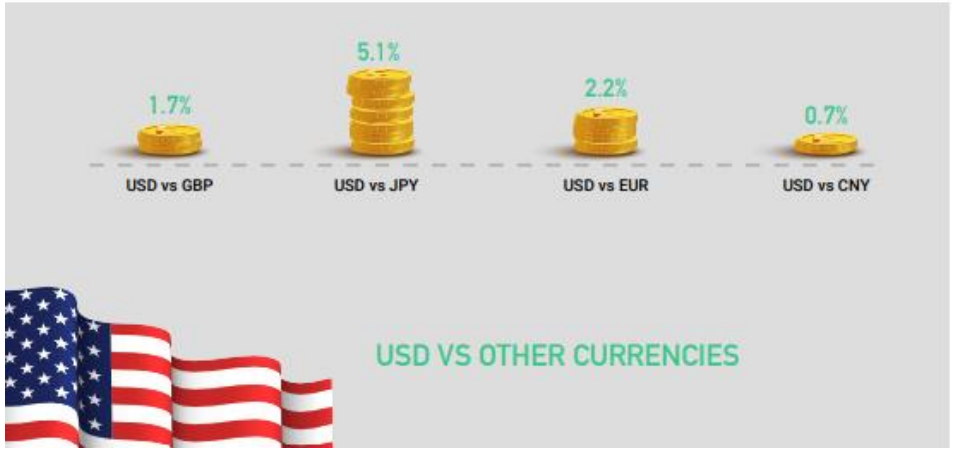

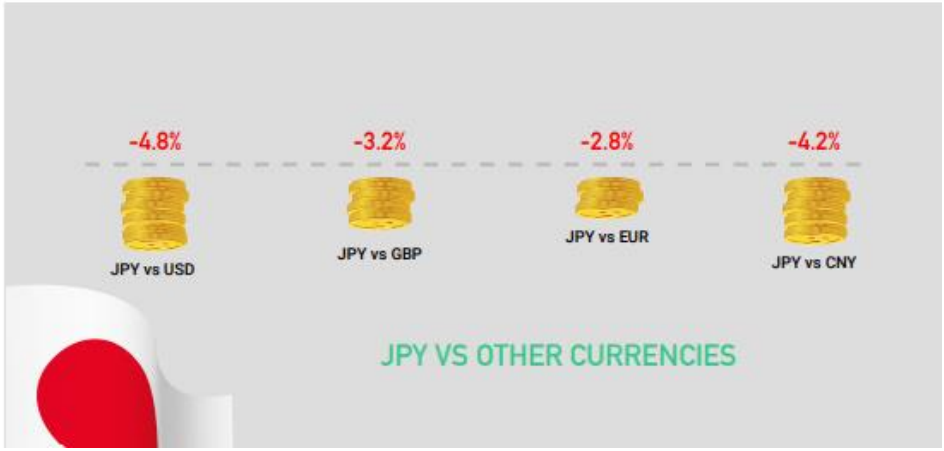

Key Points

- The dollar continued to lead, with growth in the US accelerating and outstripping peers, undermining the case for more US rate cuts, as did a small increase in inflation to 2.7%.
- The pound was pulled a little by (but lagged) the dollar, while higher bond yields bolstered the case for earning interest in sterling.
- The euro traded largely sideways against sterling, but lost ground to the dollar, despite quarter point rate cuts from both the Fed and ECB, as growth outlooks diverged.
- The Japanese yen was particularly weak, continuing its sell-off from September highs, and ending the year materially weaker after a volatile period.

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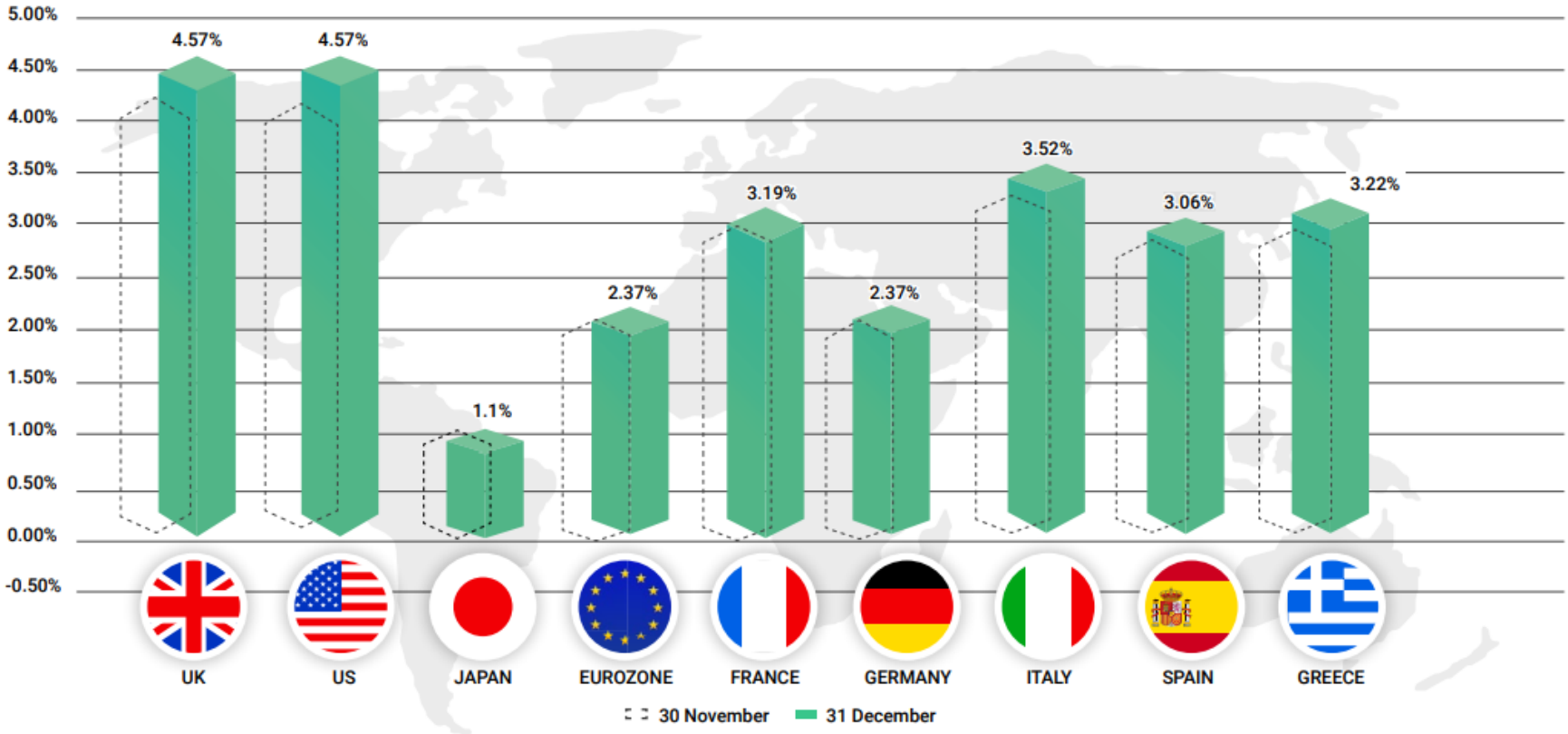
GENERIC 10-YEAR YIELDS*

*A Generic bond is a theoretical bond that always has the specified tenor, unlike a Benchmark bond, which is a physical bond, with a decreasing tenor.



Key Points

- Bonds lost ground as yields backed-up, despite rate cuts from the Fed and ECB. Signs of a near-term floor in inflation data pushed up expectations for longer term rates.
- The supply overhang of debt from profligate western government borrowing continues to push up longer term borrowing costs, while corporate balance sheets are much healthier and their borrowing needs much lower, in general.
- Gilts were weak, again, hitting multi-decade high yields, but longer dated bonds struggled broadly. 7-15 year maturity US Treasuries fell in line with UK 10-year debt.
- Investment grade credit is more sensitive than High Yield to changes in interest rates, and its yields were pushed higher by the rises in longer dated interest rates, negatively impacting returns.
- High Yield credit fared better, boosted by optimism on lesser defaults in a US-tilted market. Short-dated High Yield just about broke-even, while the High Yield space overall made further gains.

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BoE	Bank of England – central bank of the United Kingdom
BoJ	Bank of Japan – central bank of Japan
Correlation	The degree to which the returns of financial assets or instruments move in relation to each other
CNY	Chinese renminbi (yuan) – currency of the People's Republic of China
CPI	Consumer Price Index – a measure of inflation in which a basket of goods and services is calculated over different time periods
Dovish	The approach in which central banks are likely to keep monetary policy "loose" or accommodative
ECB	European Central Bank – the central bank of the European Union countries which have adopted the euro
EUR	Euro, the official currency of the European Union for the 20 of 27 member states that have adopted this currency.
The 'Fed'	or the US Federal Reserve System – the central banking system of the United States of America, which includes the Federal Reserve Board and the twelve regional Federal Reserve Banks.
GBP	British Pound – sometimes referred to as 'sterling'

GDP	Gross Domestic Product – a monetary measure of the market value of all goods and services produced in a specific time period by a country or countries
Growth Stocks	Stocks which display specific characteristics – high price-to-earnings (P/E), high price-to-book (P/B), low to no dividend yield – which typically demonstrate revenue growth and tend to reinvest earnings rather than distribute them as dividends.
Hawkish	The approach in which central banks are likely to keep monetary policy "tight" or restrictive
JPY	Japanese Yen – currency of Japan
Macro	or Macroeconomics – a branch of economics that deals with the performance, structure, behavior, and decision-making of an economy as a whole
PMI	Purchasing Managers' Index – an economic indicator used to measure the activity of the manufacturing/service sectors of the economy
USD	US Dollar – currency of the United States of America
Value Stocks	Stocks which may trade at lower prices relative to their intrinsic value, as defined by traditional fundamental analysis, and typically include evaluation metrics such as lower price-to-earnings (P/E) and price-to-book (P/B) ratios, and higher dividend yields, compared to Growth stocks.
Yield Curve	a graph (line) which depicts how the yields on debt instruments – such as bonds – vary as a function of their years remaining to maturity
YoY	Year over year

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Sources: Collidr, Bloomberg. Indices: Barclays, FTSE, Bloomberg, STOXX, Japan Exchange Group, MSCI, S&P, New York Mercantile Exchange, Chicago Mercantile Exchange, Bureau of Labour Statistics, US and Office for National Statistics, UK.