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Accountants & Financial Advisors

Market Commentary

4th Quarter 2024

QUARTERLY MARKET COMMENTARY

4th Quarter 2024

SNAPSHOT

- US equities continued to drive ahead.
- Bonds moved lower, except for Corporate bonds and High Yield.
- The US dollar led the way, while the Japanese yen dropped back.

All percentages below are quarterly returns unless indicated otherwise

EQUITIES

US MARKETS
Nasdaq strong, with modest gains elsewhere

2.1%
US 500

UK MARKETS
Equities closed lower

-1.0%
UK ALL SHARE

EMERGING MARKETS
Declined as China's stimulus faded

-8.2%
EM

BOND MARKETS

BONDS
High Yield led the way

UK GILTS	-3.1%
US TREASURIES	-3.1%
GLOBAL CORPORATE BONDS	2.8%
GLOBAL HIGH YIELD BONDS	6.7%

*Values represent bond index returns

CURRENCIES

CURRENCIES
Sterling lagged the strong dollar but gained elsewhere

Pound vs Other Currencies

GBP vs USD	-6.6%
GBP vs JPY	2.7%
GBP vs EUR	0.6%
GBP vs CNY	-2.7%

KEY INDICATORS

GOLD – XAU/USD
-0.5%

OIL – BRENT CRUDE
4.0%

COMMODITIES
11.2%

INFLATION – UK CPI (YOY)
2.6%

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GLOBAL MARKETS

Global markets made progress, led by US large cap tech shares, as the US election uncertainty was resolved. Elsewhere, performance was much more muted and broadly negative.

US MARKETS

Continued to lead global markets

US equity performance became increasingly bifurcated as the quarter progressed. US small caps bounced on the US election result, fuelled by hopes of tax cuts and deregulation. Large cap growth stocks, especially the tech-heavy Nasdaq, posted strong gains, closing the quarter up strongly. MSCI US Large Cap Value ended the quarter more than 12.2% behind MSCI US Large Cap Growth, reflecting a major rotation (particularly in the month of December). Consumer Discretionary proved the strongest sector, logging robust gains, over 13.6% ahead in dollar terms, while Materials was weakest, down 11.8%.

Up 2.1% (US 500)

UK MARKETS

Weak on economic data

As economic data continued to disappoint, UK stocks posted modest declines over the quarter. The Bank of England was more conservative than its peers, cutting rates by just 0.25%, compared to the Fed and ECB's two 0.25% cuts. The FTSE 100 declined the least, followed by small caps, while the FTSE 250 mid-caps lagged. Although sterling's easing should have supported the broader index, with higher dollar revenues acting as a tailwind for stocks like BP, Shell, Glaxo, and AstraZeneca, weak resources and healthcare stocks weighed on performance.

Down -1.0% (UK All Share)

EUROPEAN MARKETS

Political strife weighted on the region

European shares struggled, with broader indices posting declines. In contrast to the US, European large-cap value outperformed large-cap growth by around 1.5%. Reflecting the economic backdrop, the sentiment in Europe was more about 'the need to cut rates' rather than 'room to cut rates.' Overall, the economic data continued to disappoint, and France and Germany, central to Europe's economy and politics, faced growth struggles. Both countries were embroiled in political strife, with the French government pushing through the budget by decree, and collapsing after a no-confidence vote.

Down -3.6% (Euro 600 Index ex UK)

JAPAN MARKETS

Ahead on a weakened yen

Japanese stocks made gains in sterling terms as the yen weakened, and fared even better in local currency terms. The yen's effect was seen in a strong Nikkei, which has material international revenues, but the TOPIX performed strongly too, lagging only marginally. Honda and Nissan announced a merger. The Bank of Japan kept interest rates steady at 0.25%, but continued to signal their expectation of further rate increases ahead, with inflation recently picking up to 2.9% from 2.3%.

Up 5.3% (Japan Index)

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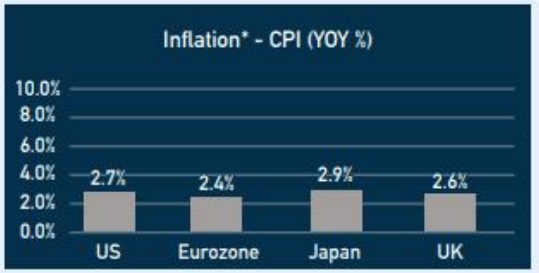
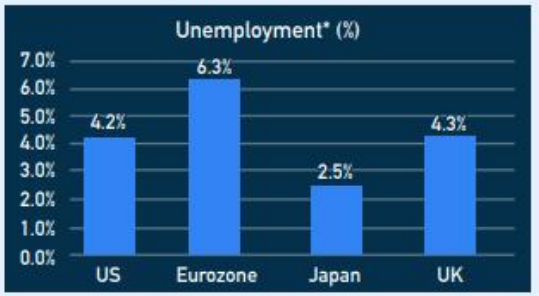
THE WORLD AT A GLANCE

	2024	2024 Q4	2023	2022	2021	2020
UK Cash	5.2	1.2	4.7	1.4	0.1	0.2
US Dollar	7.1	7.6	-2.1	8.2	6.4	-6.7
UK Gilts	-3.3	-3.1	3.7	-23.8	-5.2	8.3
US Treasuries	0.6	-3.1	4.1	-12.5	-2.3	8.0
Global Corporate Bonds	2.8	2.8	4.0	-6.8	-1.9	7.1
Global High Yield Bonds	11.0	6.7	8.2	-2.3	2.0	3.8
US 500	23.3	2.1	24.2	-19.4	26.9	16.3
UK ALL SHARES INDEX	5.6	-1.0	3.9	-3.2	14.6	-12.5
EURO 600 INDEX EX UK	4.5	-3.6	14.9	-15.0	22.5	1.0
JAPAN INDEX	17.7	5.3	25.1	-5.1	10.4	4.8
Asia Ex Japan	16.2	-4.5	6.4	-15.4	-3.1	22.4
Emerging Markets	5.1	-8.2	7.0	-22.4	-4.6	15.8
Commodities	11.2	11.2	-9.7	41.9	41.7	-26.1
Gold	26.6	-0.5	12.8	-0.7	-4.3	21.0
Hedge Funds	5.3	0.1	2.7	-4.4	3.0	5.9





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Key Points

- Global stocks gained, led by the dominance of US large cap growth stocks, with broad weakness everywhere else.
- After some equalisation in the previous quarters, tech again drove returns. Consumer Discretionary shares gained in the US, reflecting optimism that the Republicans will push forward on their platform to deregulate and cut taxes following the US election results.
- The European market was weighed down by political strife, while soft economic data added to the pessimism. Rate cuts should provide support, and more are expected, but higher inflation prints risk curtailing the central banks room to manoeuvre.
- After a strong close to September for EM stocks, driven by Chinese stimulus, optimism has waned as China's weak property sector continues to weigh on growth and sentiment, while India saw some profit taking.

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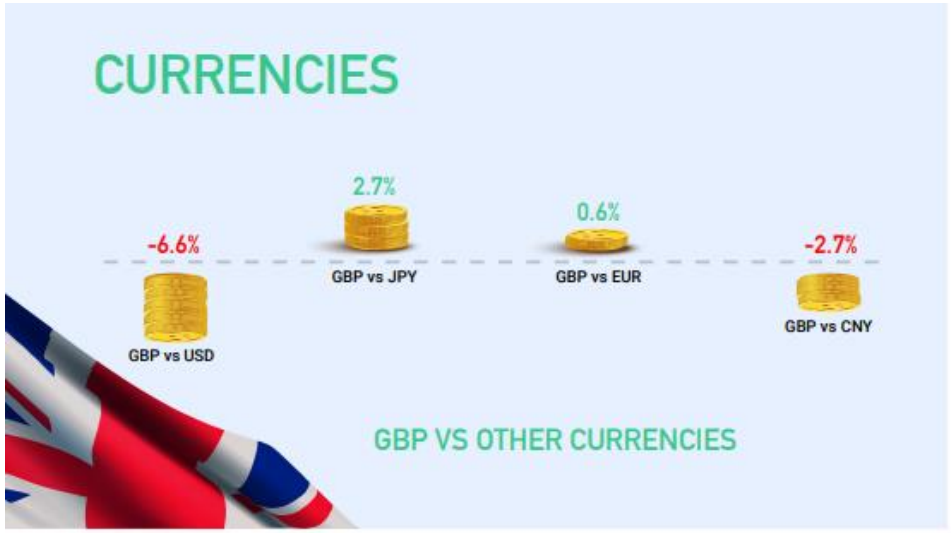

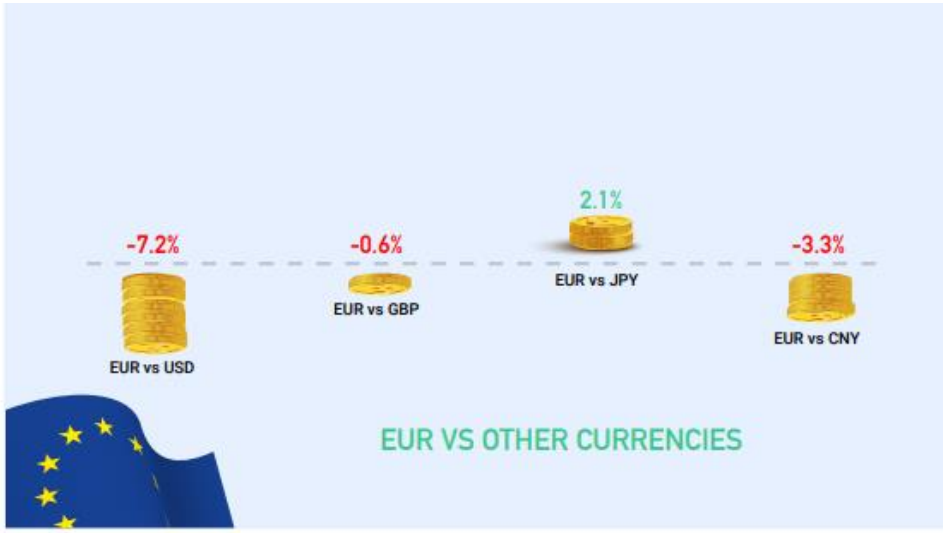

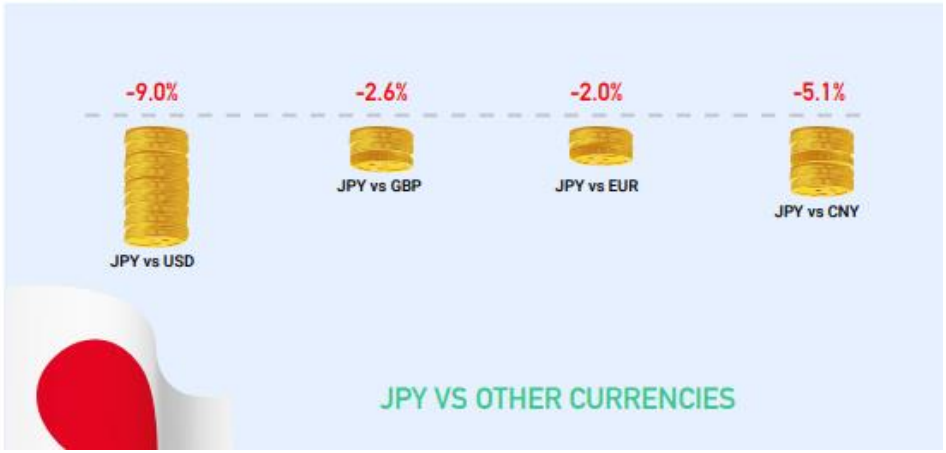

Key Points

- The US dollar dominated while the Japanese yen struggled. The US dollar gained 10% versus the yen, as well as against the commodity-heavy Australian dollar.
- Sterling was the best of the other major currencies, but still lost 6.6% to the greenback, as growth optimism faded.
- The euro traded largely sideways versus sterling, but lost ground against the dollar (despite the two quarter point rate cuts from both the Fed and ECB), as the growth outlook and political confidence of the two diverged.
- The Japanese yen was particularly weak, continuing to sell-off from the September highs.

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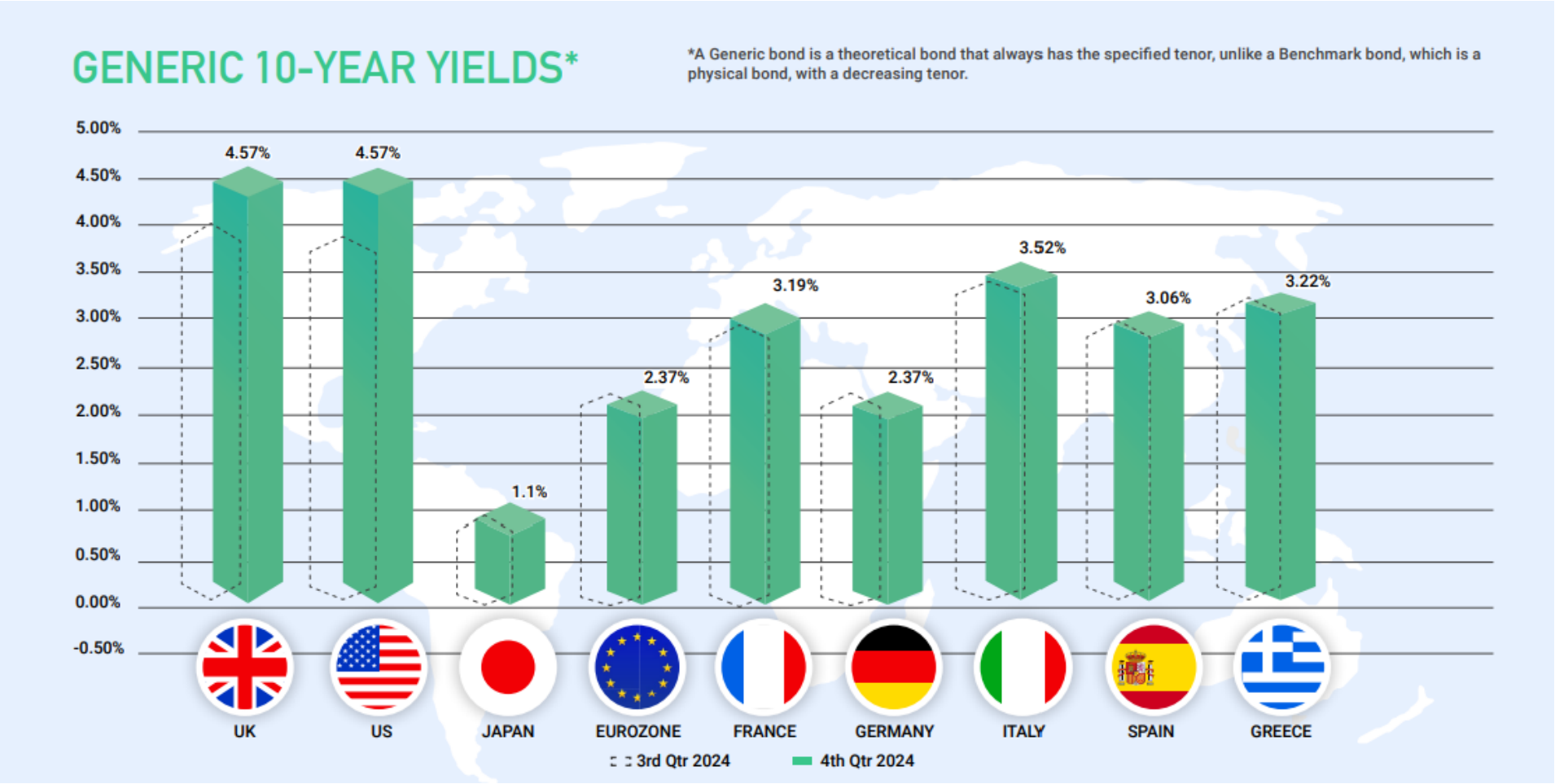

Key Points

- Despite the rate cuts from the Fed and ECB, bonds broadly lost ground as yields backed-up. Signs of a higher than desired near-term floor in inflation data pushed up expectations for longer-term rates, steepening the yield curve.
- The supply overhang of debt from government deficits, which are not likely to be curtailed any time soon, pushed up government borrowing costs. Corporate balance sheets are much healthier, supporting tighter credit spreads.
- Gilts were particularly weak, with yields hitting multi-decade highs, as the recent budget of tax increases and a hike to the minimum wage undermined growth optimism. This is expected to bring further inflationary pressure.
- As a result of France's budget strife, its bonds have struggled. The 10-year French government bond yield has risen to 3.19%, roughly equal to 10-year Greek bonds. Italy is having to pay even more, at 3.52%. By contrast, German 10-year bonds yield 2.37%.

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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.