MARKETS DROP AS CENTRAL BANKS FAIL TO DELIVER CHRISTMAS GIFTS

This week the Federal Reserve and Bank of England have firmly refused to get into the spirit of Christmas. Although there was a rate cut from the Fed, warnings about fewer rate cuts in future were about as welcome as a plate of cold Brussels sprouts on Boxing Day. Although several members of the BoE's Monetary Policy Committee pushed for a rate cut at its last meeting of 2024, in the end the bank decided against a late gift for markets. The warnings of higher inflation and fewer rate cuts in 2025 caused US stocks to pare some of their recent gains and forced government bonds to reset expectations again. European equities also dropped after Donald Trump expanded his threat of tariffs to the EU.

Despite this week's declines, it has been a good year for investors. It hasn't been the most straightforward year for bonds but, investors taking on higher risk have reaped the benefit – although they have had to weather volatility at times. Whilst it is customary to look back at the past year to try and draw some conclusions, it is important to remember that investing is for the long-term, not just for Christmas.

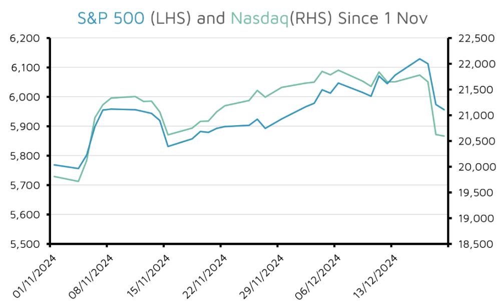
THE MARKETS THIS WEEK

FTSE 100	S&P 500	Nikkei 225	MSCI Europe	Hang Seng	US 10 Yr	UK 10 Yr	Brent Crude	Gold	Iron Ore	GBP USD
-3.08%	-3.04%	-1.95%	-3.22%	-1.25%	+0.22%	+0.22%	-2.09%	-1.20%	-1.34%	-1.07%

US: EQUITIES COOL AS FED SIGNALS LESS AGGRESSIVE PATH FOR RATE CUTS

The Federal Reserve cut its policy rate by 0.25 percentage points this week to support economic growth. However, chair Jay Powell signalled fewer rate cuts are likely next year, as the Fed now projects core inflation will persist above target in 2025. Powell said progress on getting inflation down to the Fed's 2% target had stalled and some Fed members have started considering the effect of inflationary policies of the new White House team. Markets are now pricing one or two cuts in 2025 and interest rates around 4% at the end of the year. The S&P 500 fell almost 3% and the Nasdaq Composite sank 3.6% in the aftermath of the rate decision.

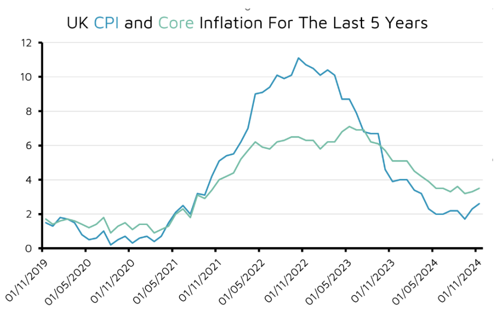
Inflation has edged up and lower rates and government deficit spending has been spurring consumer demand. Retail sales rose more than expected in November, at 0.7% with Americans spending over $10bn in Black Friday. Housing is showing recovery signs as US building permits jumped 6.1% in November 2024, reversing October's 0.4% decline.



UK: HIGHER INFLATION REDUCES PROSPECT OF FUTURE RATE CUTS

The Bank of England left interest rates unchanged at 4.75% at the final meeting of the Monetary Policy Committee this year. Three of nine voting members wanted a further rate cut, but more persistent inflation persuaded the majority that rates should remain elevated. Inflation accelerated to 2.6% in November, due to higher clothing and fuel prices. The core inflation rate (excluding food and energy costs) also increased. Despite a decline in new hiring, wage inflation also remains high as average wages, excluding bonuses, increased 5.2% over the previous 12 months.

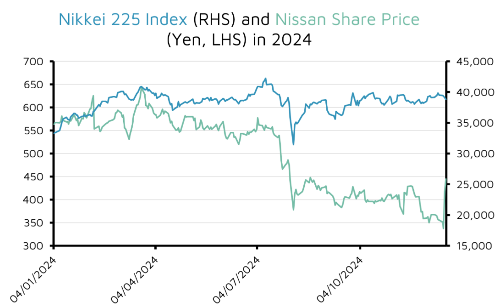
The Bank of England also revised down its growth forecast and said it expects no growth in the final three months of 2024. It said higher employment costs add uncertainty to the outlook. Recent gloomy news, including the UK's economic contraction in September and October, has helped push up UK borrowing costs as bond prices fall and yields rise. The 10-year gilt is now trading at the largest yield premium to German bunds since 1990.



EQUITIES: HONDA AND NISSAN CONSIDERING MERGER

Honda and Nissan have been discussing a merger as they attempt to deal with rising competition from Chinese rivals, a shrinking domestic market and potential US tariffs. A merger would create the world's third largest car maker. Nissan previously operated an alliance with Renault and has announced restructuring plans with 9,000 job cuts in the third quarter. Its shares have sunk 40% this year, cutting its market capitalisation to $8.2bn. Honda, a $44bn company, is in a better state, but both are lagging BYD and Tesla in the electric vehicle market, and see the merger as a way to leverage each other's strengths in EVs and software development.

Nissan's shares surged by 23.7% in Tokyo, reflecting investor optimism about the merger's prospects. Conversely, Honda's stock declined by over 3% on the news. VW is also struggling to deal with slowing demand in China and low EV sales. It is planning large job cuts in Germany and the Porsche-Piëch family, which control it, has backed plant closure plans.



Data sourced from Office for National Statistics and Investing.com