2024 Year In Review

FOR FINANCIAL ADVISERS AND THEIR RETAIL CLIENTS

THE EXPERTS

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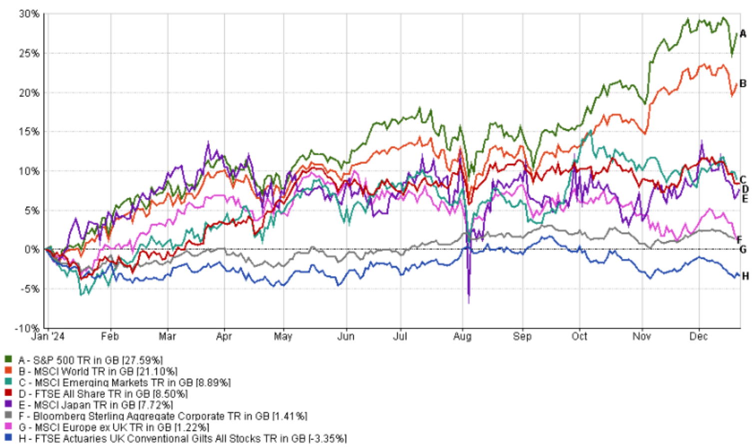
Introduction

This year has not been uneventful. This has been a generally good year for equities, especially in the US as optimism about artificial intelligence was supplemented by strong earnings growth. Central banks stopped hiking interest rates and are now cutting them, as inflation has been cooling and growth is the new worry. Japan has finally turned a corner and left the era of deflation and negative interest rates behind.

Politics and politicians had an outsized impact. In Britain this meant the end of Tory rule after 14 years, as investors looked for a return of political stability. In the US, the Republicans retained control of the House, retook control of the Senate and Donald Trump won the presidential election. This sent US equities climbing in the aftermath. In Europe, the rise of populist parties brought down incumbent, centrist governments in France and Germany as political instability caused weaker stock prices.

Geopolitics has also impacted markets. The world held its breath as Israel and Iran attacked each other, each vowing retaliation, putting exports of oil out of the Middle East at risk. War between Russia and Ukraine has dragged on with Russia making slow but steady progress.



Source: FE Analytics, December 2024

AI Optimism Lifts Global Equities

US equities continue to defy bearish calls and have broken record after record in 2024. Techno-optimism – belief that new AI breakthroughs will unlock ever higher profit margins and productivity – coupled with strong corporate earnings growth have led US stocks to add over 25% this year. Massive US government spending has also played a part. The S&P 500 is hovering near its all-time high as we draw closer to Christmas. The market's leaders have been the 'Magnificent Seven' – Amazon, Apple, Google, Microsoft, Meta, Nvidia and Tesla – which are pouring their record profits into AI - and US stockmarkets have shrugged off all bad news and jumped at any hint of good news.

European markets and the UK also gained in 2024. The FTSE rallied in the first half of the year but traded flat afterwards, as economic growth, business hiring and consumer spending slowed. European stocks also gained in the first half of the year but have pared returns as political turmoil within French and German governments combined with an ongoing economic crisis in Germany and falling revenues of European manufacturers.

Emerging markets performed well, with Indian and Taiwanese shares driving the index and cancelling drops in Latin American markets. Chinese equities had a bumpy ride as significant lag at the start of the year turned into signficant gains after the government announced significant stimulus.

Land Of The Rising Inflation

Japan stands out as the only developed economy with rising inflation, where it has been celebrated. The return of inflation, and with it the biggest pay rises for workers since 1991, enabled the Bank of Japan to end an era of negative interest rates by hiking for the first time since 2007.

The significant shift in monetary policy was welcomed by markets as the Nikkei 225 index surged past the high-water mark set 34 years ago. But the Nikkei's march was not uneventful. The divergence between US Federal Reserve and Bank of Japan policy also sent the yen to a 34-year low against the dollar in August and, coupled with jitters about US economic growth, led to a one-day 12% collapse in the Japanese stockmarket. It spilled over, dragging equities down across the globe. But prices rebounded rapidly, and Japanese equities are one of the best performing assets this year.

Chinese Government Aims For More Growth

Chinese shares have gone on a rollercoaster ride in 2024. Weak consumer spending, slowing growth, fears over debt and asset bubbles from its real estate market meant performance was poor for most of the year. Beijing finally acted at the end of September with monetary stimulus and the promise of substantial fiscal measures. This turned China from one of the worst performing markets into one of the best as major indices rallied more than 30% in the weeks following the announcement. The size of China's problems meant the initial rally

But China's weak consumer spending and increased push towards exporting more higher-end manufactured goods has had knock on effects, especially in Europe, where luxury-goods makers and automakers suffered falling sales and profits, dragging on eurozone stock returns.

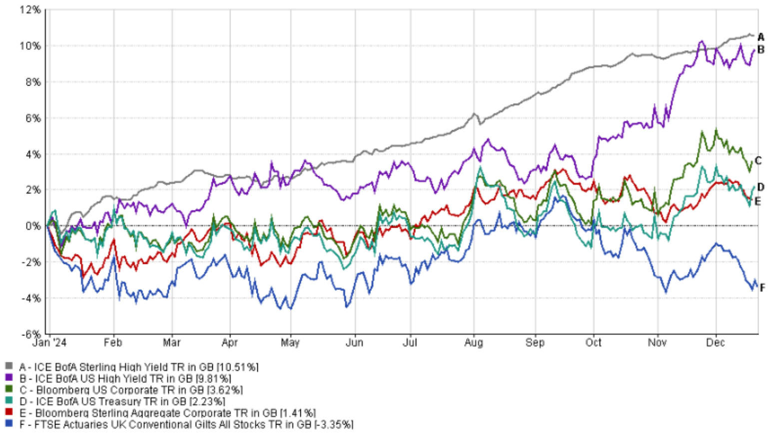
Commodities And Cash

Gold marched steadily higher in 2024 and hit a record high in November due to a surge in demand from retail nvestors and central banks. Energy markets have been volatile in 2024. Oil rallied at the start of the year following strong manufacturing data from the US and China, coupled with OPEC production cuts and attacks on shipping off the coast of Yemen. But, from then on, prices have eased as global manufacturing cools, ample supply from US shale, Saudi Arabia abandoning its US$100 per barrel target and Russia finding more ingenious ways to export its oil.

Money markets have performed well and provided real returns to investors throughout the year, because inflation declined far more and faster than short-term interest rates.

Bonds Buffeted By Changing Expectations

The experience for bond investors has been less favourable. Inflation fell steadily over most of this year and this allowed central banks to cut rates, however, progress has not been steady as economic growth stalled in the UK and Europe and inflation ticked up. Investors had to continually adjust their forecasts for the speed of interest rate cuts and this caused significant volatility.



Source: FE Analytics, December 2024

At the beginning of the year, and with fear of recession still much in evidence, markets were positioned for a series of swift rate cuts. However, the slow decline of inflation and strong economic activity in the US meant investors endured a prolonged period of disappointment and this was reflected in bond values. The start of rate cuts and weakening economic data spurred a rally in most sections of the market. Markets took another turn in the autumn as persistent inflation and concerns about higher level of government borrowing in the UK and US saw most bond markets give back their gains. The strength of the dollar has provided a tailwind for US government bonds but UK gilts have fallen in value this year. However, there were sections of value for bond investors as investment grade corporate bonds produced gains and high yield bonds performed well as default rates remained low.