Markets Review - to end November 2024.

THORNTONS INVESTMENTS

Market Returns

(Returns in £)	1 month	3 months	6 months	1 year
UK Equities	2.1%	-1.1%	0.2%	11.6%
Global Equities	5.2%	7.1%	10.4%	24.5%
UK Gilts	-0.3%	-2.6%	0.7%	0.6%
UK Property	0.6%	1.3%	2.5%	2.3%
Gold	-1.9%	9.8%	14.3%	30.0%
Commodities	4.1%	8.4%	1.6%	10.0%
Sterling	0.3%	-0.5%	1.1%	2.8%

Returns to 30th November 2024. Source: Refinitiv

Market Overview

The year of the election (more people were eligible to vote in 2024, than any other year in history) almost drew to a close with the US elections with a result that might be more impactful than any other. The election of President Trump and a Republican Congress offers the potential of radical change, with an impact far beyond its borders. Certainly Trump's nominations for executive posts cannot be considered orthodox. Purely on the premise of lower taxes, less regulation and a push for US growth, US stocks rallied to new highs, whilst entities particularly close to Trump, such as Tesla and Bitcoin, surged.

The 'Trump Bump', however, did not extend much further as he vigorously waved the tariff flag. European stocks declined, partly over worries about potential tariffs and partly over political instability. The German coalition collapsed with a general election due next February, whilst at the time of writing France has just triggered a likely vote of no confidence, after forcing through a contested budget. With business confidence at a low ebb, confidence in general is missing across much of Europe. The UK sits somewhere between the two extremes, with a degree of political certainty, but some disappointment in the Budget and a lack of impetus to kick start economic growth.

One consistent theme, is that fiscal deficits remain untamed across the Western world, with even France's proposed 'austerity' budget having limited impact. In the face of continued deficits and high levels of government debt issuance, bonds sold off, although rallying later in the month as growth and inflation expectations remain subdued. Central banks are likely to continue down a path of cutting interest rates, but are unlikely to be rushed as unemployment remains below levels that normally cause concern and new policy pronouncements have yet to feed into economic data prints.

With multiple wars being fought across Europe and the Middle-East, it is natural to see risk everywhere, but the strong investment returns this year remind us that markets are adept at looking through risk. We remain alert, but as we approach the end of the year, would like to wish everyone a peaceful Christmas.

Energy prices, to which there is most economic sensitivity, drifted down to $70 per barrel of oil, helping inflation, driven by dull economic demand and the promise of increased US production under Trump. Meanwhile European gas prices have been creeping up despite full reserves ahead of winter. Industrial metal prices received a fillip from Chinese policy moves to aid property markets and re-energise economic activity, although they have since eased as activity remains muted. New mine projects in general are few and far between, so any pickup in demand could easily see prices recover. Gold eased back in November on expectations of higher-for-longer rates, but is still up strongly this year.

The extended shipping times caused by attacks in the Red Sea notwithstanding, transport availability, as well as material and component supply are mostly back to normal. One notable exception is in aerospace, where multiple supply constraints are holding up delivery schedules. For European car manufactures the issue is demand, where government policy is grating against lack of infrastructure.

A global interest rate cutting cycle (bar Japan) is now well under way. Although there are different views on the pace and extent of cuts, they will help small companies and households with mortgages, albeit with delays reflecting the large use of fixed rate mortgages. The yields on long bonds, however, have moved in the opposite direction, reflecting the growing levels of government debt across the western world, with little sign of seriously tackling budget deficits. This continues to act as a headwind against long term investment financing.

Although more property funds are winding up, or merging, due to difficulties in offering sufficient liquidity, rental payments remain largely up-to-date, whilst repricing of properties settles down. The bond market turmoil has reduced valuations but many REITs still trade at discounts to underlying value that are attracting interest. Listed infrastructure premiums have been replaced with discounts. Renewable energy focused ones still face uncertainty on energy prices, but new regulations should provide more certainty on long term pricing. Despite windfall taxes and higher debt costs there is still plenty of room to grow.

The biggest year ever for elections in history, is drawing to a close (although don't rule out one last possible twist in France). The US election on the 5th of November delivered a clear outcome and continued the swing towards nationalist politics. The uncertainty, however, remains, as policy pronouncements from the social 'bully pulpit' have not all been consistent or necessarily sit comfortably with Congress. It is quite likely that much of it is positioning ahead of inauguration on 20th January; it is to be hoped that the full range of trade tariffs is not enacted.

The heavily predicted recession failed to arrive in the US, although small technical ones were recorded in the UK and Europe. Hopes of a 'soft landing' disguise the likelihood that growth will simply be disappointing. Supporting economies through Covid and the energy price spike, have a real cost and take away from other economic activity; the sharp rise in interest rate costs are still working their way through finances. Softness is now beginning to emerge in the employment market, although real wages are growing again after a long period of erosion and there is a significant cohort of savers who actually benefit from higher interest rates.

Company results have in general held up reasonably well, with aggregate reported profits moving ahead, however, individually there has been a wide dispersion, with companies that disappoint often seeing a sharp drop in their share price. Consumers have been showing greater price sensitivity and some industrial companies have reported demand weakness, this is particularly true of car companies, who have been slashing their forecasts.

Sadly, the instances of armed conflict and human suffering show no sign of decreasing. The febrile nature of international politics makes a coordinated push for peaceful solution difficult, although diplomatic efforts are being made in the background. This volatile background necessitates well-diversified portfolios and a positive change in sentiment can result in some sharp market rallies. It is important to remain calm and keep the focus on picking out the winners and survivors.

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Market Outlook

Equities	The prospect of lower taxes and less regulation has given the US stock market a boost, whilst the threat of tariffs (and political discord) has pulled European stock back. The UK, meanwhile, seems to have adopted a mid-Atlantic position, with closer ties to the US, but still designated as part of the 'European basket'. With Trump's executive nominations raising eyebrows, markets are likely to trade sideways until we get some US policy certainty. As long as tariffs are more threat, than real, equity remains the most attractive investment.
Fixed Interest	Enthusiasm for interest rate cuts has cooled in the US with the election of President Trump and a Republican Congress, whilst the economic funk in Europe is pressuring the ECB to cut rates faster. Post the Autumn Budget, the Bank of England may be less inclined to cut speedily, but the general path for interest rates is still down. However, with fiscal deficits set to remain high, yields on government debt will need to remain high enough to attract buyers and this, in turn, may limit how far interest rates can be cut.
Commercial Property	In contrast to housing, commercial property values have come down significantly, particularly office and retail values. With working and shopping patterns still settling into a new equilibrium, there is still some 'price discovery' ongoing and discounts on property trusts reflect the uncertainty. However, there has been very little new supply in recent years and demand is continuing to hold up. Debt costs are still a headwind but, selectively, there are some attractions.
Alternative Assets	Infrastructure investment funds offer benefits for exposure to physical assets, some with attractive inflation linked contracts, and growth tied to improved connectivity and de-carbonising economies; although build costs have risen. High debt costs, that weighed on the valuations of private equity and infrastructure trusts, remain an issue and some de-gearing has taken place. Absolute Return strategies have shown some defensiveness but generally offer low returns and we continue to choose sparingly.
Cash	The investment return on cash and cash like instruments has peaked and, whilst still attractive, is starting to decline.

Thorntons Investments **3rd December 2024**