

AUTUMN INVESTMENT REVIEW 2024

Introduction



Financial markets have continued to show strong returns ahead of an important period of events leading into the year-end, to include the new UK government's first budget, and the US election. The outcome of the former will dictate the new tax landscape that investors have to navigate in the years to come. Investors and markets do not like uncertainty, and this has seen business owners and private investors take action on expectations for changes in capital gains tax and pension allowances.

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- The information is provided in good faith and is believed to be accurate, but as some data is provided by third parties this cannot be guaranteed.
- Past returns should not be seen as predictors of future returns.

Market Data

(ranked by year to date return to 30th September, in GBP)

Asset Class	Index	Q3 2024	Year to Date
Gold	S&P GSCI Gold Spot	6.4%	20.9%
North American Shares	S&P 500	-0.3%	15.7%
Asia Pacific Shares	MSCI AC Asia Pacific ex Japan	4.2%	14.0%
World Shares	FTSE World ex UK	0.2%	12.9%
Emerging Market Shares	MSCI Emerging Markets	2.5%	11.1%
UK Shares	FTSE All Share	2.3%	9.9%
European Shares	Euro STOXX 50	0.5%	8.6%
Japanese Shares	TSE Topix	0.6%	6.7%
UK Commercial Property	FE UK Property Proxy	1.2%	2.3%
Corporate Bonds	Bloomberg Sterling Aggregate Corporate	2.4%	2.0%
Commodities	S&P GSCI Commodities	-10.7%	0.0%
Hedge Funds	HFRX Global Hedge Fund	-3.8%	-0.1%
UK Gilts	Bloomberg Sterling Gilts	2.5%	-0.5%

Q3 Market Review

Another broadly strong quarter for most markets, with global equities continuing to provide above expectation returns year to date. The best performing asset class over Q3, and indeed over 2024, has however been physical gold. In Q2, we wrote that gold was often considered a defensive asset or safe haven, with a long history as a store of wealth with perceived inflation protection.

According to a popular Bank of America research note – “*Is gold a safer investment than Treasuries?*” – the recent interest in the asset class stems from concerns over the level of US public debt, which is expected to rise further given election campaign promises of tax cuts and greater spending. In addition, central banks around the world seem to be increasing the amount of gold held and, therefore, pushing the price higher. On the other hand, and without getting carried away with a story, another way to look at gold is that it provides no income, no fixed capital repayment date, and has only limited utility. With this inherent uncertainty, it is hard to consider gold in any way a defensive asset as it has no predictability of return.

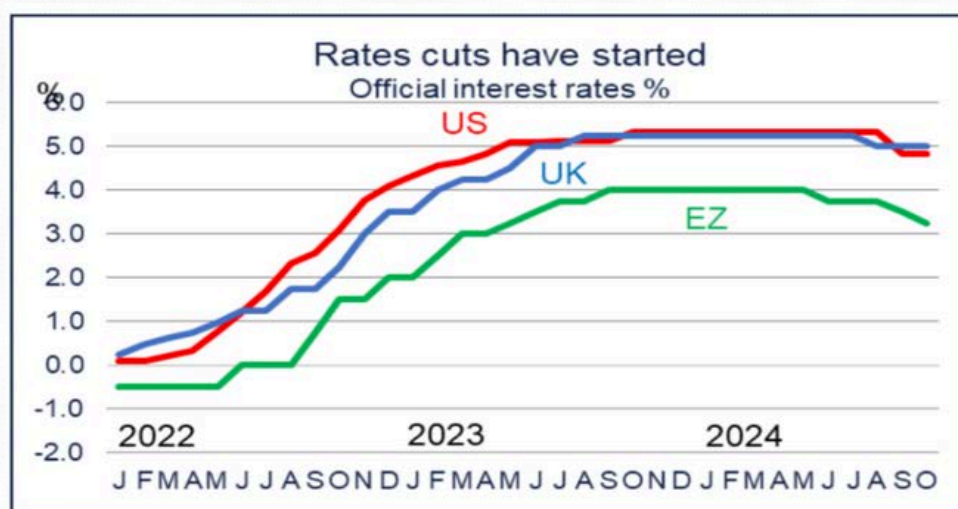
To this end, gold should be considered a risk asset and compared as such. Over the longer term, investors have been better off investing within equities, as head-to-head, the US S&P500 has provided a total return over twice that of gold (301% v 144%) over ten years.

Common knowledge is that ‘big tech’ has driven US markets over the past few years, with now more than a third of the S&P500 value in just ten technology/consumer companies. However, there has been a pause over the last quarter as Microsoft, Nvidia and Alphabet (Google), to name a few, have fallen in value in local currency terms. In fact, if you look over the previous year, you will see that both the financial service and industrial sectors have outperformed the broader technology sector.

We sensed in Q2 a potential shift in market leadership, which has continued over the past quarter, with Asian and Emerging Markets starting to perform relatively well. That is not to say that US dominance is over, which would be a brave call, but questions are certainly being raised over the valuations of some large companies popular with investors.

Over Q3 defensive assets such as UK gilts and investment grade corporate bonds provided positive returns as central banks in Europe, US and the UK started to cut interest rates, with the Bank of England (BoE) acting most cautiously. Gilts still remain in negative territory year to date, though we have not owned direct gilt holdings for a number of years, preferring corporate bonds for the additional yield. We have given thought to the inclusion of government gilts in client portfolios, especially at the lower risk end, but have so far decided against doing so.

With the forthcoming budget, and likely need for additional borrowing to stimulate growth we think that gilt issuance will rise significantly and yields may have to increase. We mentioned this back in our Spring newsletter, believing that not only would tax rises be needed to meet public spending requirements, but also a likely fix would be to relax the fiscal rules to allow for public investment projects and stimulate economic growth.



(Tricio Investment Advisers)

China

When we refer to Asian and Emerging Markets it is necessary to understand the importance of China. In each region, China comprises approximately 25% of total public company market value, ahead of India at around 19%. Hong Kong is stated separately but is closely aligned. One of the headlines over Q3 was the large economic stimulus package introduced by the Chinese government.

Faced with a bleak economic outlook, the country's central bank, the People's Bank of China (PBOC), provided stimulus to the economy at a level last seen during the financial crisis in 2008. The bank cut interest rates, increased lending availability, reduced the cost of existing mortgages, and incentivised companies to buy back their own shares in the stock market to boost confidence.

The Economist publication suggests the measures would save 50m households \$21bn a year and that there was additional economic stimulus to come. As a result, Chinese and Hong Kong listed share prices surged. Many international investors naturally shy away from direct ownership of Chinese companies (where even possible), but most funds operating in the region will have some exposure to the bigger names such as technology companies Tencent and Alibaba. It is more about understanding the stimulus impact on market sentiment, and what that will do for an economy that represents 18% of world GDP, according to 2023 International Monetary Fund (IMF) data. We might now expect to see a period in which Asian markets outperform.

Budget

All eyes are on the UK budget on 30th October and where the pain of tax rises is going to fall. There has been enough speculation around rising capital gains rates and reducing tax-free pension allowances, and many investors have taken action in advance just in case.

Some details have more recently been released, in particular about the possibility of borrowing more to fund public investment, which was previously seen as off the cards. At the annual IMF meeting, Chancellor Rachel Reeves provided firm guidance that the way in which the government measures public borrowing would be changed, allowing it to borrow more but not break existing fiscal rules. This was widely supported by other finance ministers at the IMF gathering. Further, the IMF upgraded UK economic growth estimates in 2024 to 1.1% from 0.7%. This means the UK will be the third fastest growing G7 economy, behind the US (2.8%) and Canada (1.3%).

You can understand why the BOE is maintaining a cautious stance in regard to interest rate cuts, more so

than other central banks, given the significance of the budget. Whilst inflation is now under target at a surprisingly quick rate, the possibility of additional public borrowing for future investment could lead to another inflation jolt. It might however just be a necessary consequence to see some higher inflation to stop the UK economy's weakness.

Pierre-Oliver Gourinchas, the IMF's Chief Economist said that "Monetary policy played a decisive role by keeping inflation expectations anchored, avoiding deleterious wage-price spirals, and a repeat of the disastrous inflation experience of the 1970s", and so for that we must, I suppose, be thankful for higher rates.

There can be an expectation in the budget that the Chancellor will speak of the IMF's backing for a better growth outlook, which will permit increased borrowing to fund budget requirements, on top of confirming how public borrowing will be calculated. It'll be interesting to see how the government bond market reacts, which will ultimately influence the BoE.

US Election

Remember, remember the 5th November, being the date of the US election between Donald Trump and Kamala Harris. A national poll by the New York Times suggested an incredibly tight outcome, with a very slight lead for Harris. Stock markets may react positively to a Trump victory, given the prospect of tax cuts and de-regulation, more so than Harris who with victory may struggle to enact much change.

Trump has led the campaign with threats over trade tariffs with China of up to 60% to protect US industry, which may well just be a threat, but would certainly be inflationary. That, combined with the prospect of even greater public spending from both parties (tax cuts from Trump, increased welfare from Harris), explains why US treasury yields are on the rise.

There is plenty to keep markets and investors busy over Q4, and whilst some volatility is perhaps inevitable, investors with diversified portfolios and long-term horizons should feel comfortable no matter the backdrop.



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