Investment Outlook

A monthly round-up of global markets and trends

July 2024

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Investment outlook

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Looking into the second half of 2024

Like a football manager in the changing room at half time in the 2024 European Championships, it's time to assess financial market performance and consider tactics for the rest of the year. Although there is the risk of complacency, investors seem to be in a relatively buoyant mood, as global equities continue to rally, outperforming government bonds so far this year. We look at market drivers below.

Economic outlook: The global economy continues to chug along and is expected to expand by 2.6% this year, roughly in line with the long-term average.[1] Growth prospects have also improved through this year. For instance, economists surveyed by Bloomberg upgraded their forecast for 2024 US real GDP growth to 2.3% from 1.2% at the start of the year.[1] Loose fiscal policy, immigration and improving market conditions provide a bedrock of support to the US economy.

Over in China, the second largest economy, the consensus growth estimate for 2024 has also increased to 4.9% from 4.5% earlier in the year.[1] This has been supported by a stimulus program announced in May 2024 that aims to arrest the slowdown in the residential property market. These government measures include reducing the downpayment ratio for first-time buyers, encouraging local governments to buy up unsold housing stocks from developers to alleviate oversupply issues and providing government-backed commercial bank credit to ease liquidity stresses for developers.

Company earnings: Improving global growth has helped to lift Earnings Per Share (EPS) growth. Analysts currently expect 2024 EPS growth for global equities of 10%, up from a low 8.7% in March, and earnings for 2025 have been similarly upgraded to 13%.[1] Aside from economic growth, firms have found novel ways to lift profit margins through pricing power. An example of this is so-called 'shrinkflation', where the package size for goods is reduced, but prices charged stay the same to boost profitability.

Moreover, with the advance of 'big data', often collected covertly via apps, corporate pricing power has been supercharged. Using technological innovation (e.g. cloud computing, algorithms and artificial intelligence (AI)), firms have been able to collect personal information to estimate when a consumer may be looking to buy something and at what price they would be willing to pay. For instance, travel agents can utilise purchase history to set optimal hotel pricing for individual customers at the high end. With prices in the UK 20% higher than they were three years ago, it's not surprising that consumer confidence has not fully recovered back to pre-pandemic levels.

Balancing equity fundamentals with market risks: We expect risks related to inflation and interest rates to turn from a headwind into a tailwind in the second half of the year. Recent data show that inflation in the UK, US and Eurozone is moderating, while concerns that central banks will keep monetary policy tight for too long are dissipating. Indeed, the European Central Bank (ECB) kick-started the central bank easing cycle with an interest rate cut in June. Look for the Bank of England (BoE) and the US Federal Reserve (Fed) to follow suit later in the year, which should lessen investors' concerns over the economic impact from higher interest rates.

However, sporadic risks relating to elections are worth watching. For instance, Indian stocks initially sold off after Prime Minister Narendra Modi's ruling Bharatiya Janata Party (BJP) surprisingly lost its majority in the Lok Sabha (parliament) in June, but they have since recovered to record highs. Meanwhile, in Europe, stocks were volatile as right-leaning parties won 22% of the seats in the European Parliament, versus 19% in 2019. Though they did come up short of polling expectations (see our February Investment Outlook). Even so, the poor performance of his party spooked French President Emmanuel Macron into calling a snap parliamentary election, which has led to volatility in the European bond market. Similarly, the upcoming US election is a key risk for markets. A tight presidential election result could entail significant risk if it were disputed, potentially leading to social unrest. In contrast, a landslide for either side would probably lead to a relief rally.

Arguably, the biggest equity market risk is from the market itself. Market breadth is poor, with just five stocks (Nvidia, Microsoft, Alphabet – the parent owner of Google, Meta – formerly Facebook, Amazon and Apple) accounting for more than half of the returns in the US market so far this year.[1] Aside from rising earnings expectations, these companies have also seen their valuation multiples expand from greater investor interest in the AI theme.

Given the risks around the current lack of market breadth and higher AI-led valuations, there may be opportunities in other sectors that are still connected to the AI theme, like industrials. This sector includes companies that manufacture electrical equipment that is used to power AI. It is noteworthy that a ChatGPT query uses 10 times more electricity than a standard Google search.[2]

Overall, we think the second half of the year will be characterised by relatively solid economic growth and sustained high profit margins, which will enable firms to deliver on earnings' expectations. Lower inflation and interest rates should also add another level of support to mitigate market risks. While elections are likely to increase market volatility, we recommend that investors look through these events and focus on the fundamental performance drivers.

Sources:

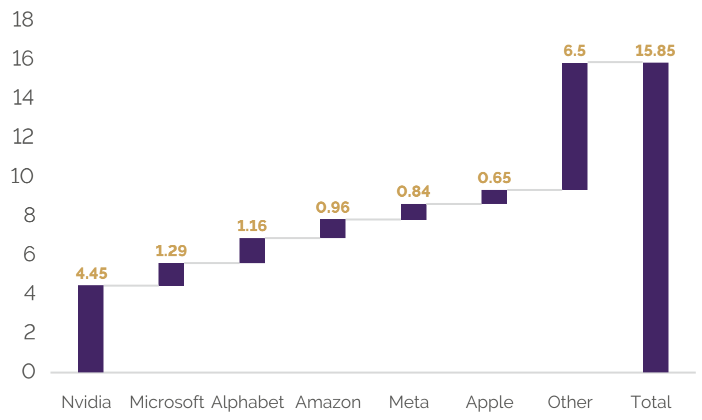
1 LSEG Datastream/Evelyn Partners, 30 June 2024

2 Goldman Sachs, Powering Up Europe: AI datacentres and electrification to drive +c.40%-50% growth in electricity consumption, 29 April 2024

Market highlights

Equities

During the first half of 2024, US equities gained 16% as measured by the MSCI US index (in sterling terms). The price of Nvidia, a chipmaker, increased by one and a half times, leading it to overtake Microsoft and become the world's largest stock by market capitalisation. Given its large weighting in the index, it contributed 4.5 percentage points toward the entire progress of the market – over a quarter of it. And it wasn't alone – hot on its heels were other stocks riding the wave of AI optimism. Microsoft, Alphabet (Google parent), Amazon, Meta (Facebook) and Apple, together with Nvidia contributed 9.4 percentage points of the total, with the remaining 614 names in the index making up the other 6.5 percentage points. Clearly, investor interest in the AI theme has been a key driver, but we remain optimistic about the rest of the market. Our read of global economic conditions is positive, and this positive backdrop tends to lead to market broadening, and more interest in cyclical sectors like industrials and materials.

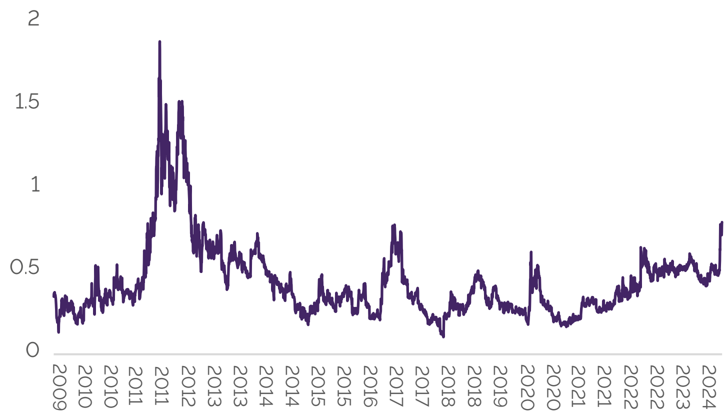


Source: LSEG Datastream/Evelyn Partners. Data as at 3 July 2024

Past performance is not a guide to future performance

Fixed income

French President Emmanuel Macron called a snap French parliamentary election following the poor performance of his Renaissance party in the recent European parliament elections. Some investors are fearful that if Marine Le Pen's National Rally party wins a parliamentary majority in France it could spark a Eurozone debt crisis, like in 2012. These fears have led to an increase in French government borrowing costs, with the spread between the yield of 10-year French government bonds and the equivalent German Bund rising from 50 to 80 basis points. Though Le Pen is not expected to push for France to leave the EU as she has argued for in the past. Moreover, the bar is high for her party to win a majority, which should limit her ability to pursue the expansionary fiscal policies she has previously touted in opposition.



Source: LSEG Datastream/Evelyn Partners. Data as at 3 July 2024

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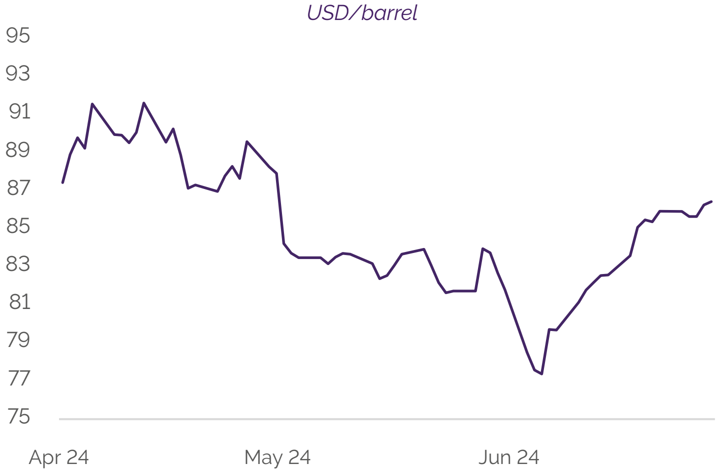
Currencies and commodities

Crude oil prices have been reasonably volatile over the second quarter. April and May saw oil prices fall by around 7%. The apparent cooling of geopolitical tensions in the Middle East between Israel and Iran helped temper the price of crude. However, during their June meeting, the Organization of the Petroleum Exporting Countries+, a group of oil exporting nations, agreed to maintain their deep cuts in oil production out to the end of 2025. This is in a bid to prop up prices amid weak global demand and increasing supply from other nations. This has driven the price of crude up by 5.7% in June.



Source: LSEG Datastream/Evelyn Partners. Data as at 3 July 2024

Past performance is not a guide to future performance

Market returns (Total return (%), sterling)	1 month	3 months	1 year	5 year
Equities				
MSCI All-Country World	3.0	2.9	20.6	71.8
MSCI UK	-1.0	3.6	13.2	33.1
MSCI UK Broad	-1.3	3.4	13.3	29.1
MSCI USA	4.3	4.0	25.4	102.2
MSCI Europe ex UK	-1.7	0.1	13.0	50.9
MSCI Japan	0.0	-4.3	14.2	41.3
MSCI Pacific ex Japan	1.0	2.4	7.6	14.1
MSCI Emerging Markets	4.8	5.0	13.6	19.5
Bonds				
iBoxx GBP Gilts	1.3	-1.2	4.5	-20.6
iBoxx USD Treasuries	1.8	0.0	1.9	-3.0
iBoxx GBP Corporate	0.7	-0.2	10.9	-2.5
Commodities and trade-weighted currencies				
Oil Brent Crude ($/barrel)	5.7	-1.1	16.0	29.3
Gold ($/ounce)	-0.2	5.1	21.4	64.7
GBPUSD	-0.7	0.1	-0.6	-0.7
GBPEUR	0.6	0.8	1.2	5.5
EURUSD	-1.3	-0.8	-1.8	-5.9
USDJPY	2.4	6.3	11.3	49.3

Past performance is not a guide to future performance.

Market commentary

Global equities posted another positive month of returns, gaining 3% as better than expected economic data from the US boosted investor sentiment. Emerging market equities posted the best performance of all major regions over the last month, gaining 4.8% in sterling terms as expanding global manufacturing activity proved a tailwind for these largely cyclical economies, who are more correlated to the global business cycle than many developed economies. After a year of strong performance, gold lost some of it's shine in June, contracting 0.2%. Despite this weakness, the yellow metal has gained 14% so far this year. Bonds ended the month in positive territory as hints of dovishness from central banks prompted markets to increase the likelihood of two rate cuts in 2024 from the BoE and Fed. This pushed government bond yields lower (yields move inversely to prices).

Key macro data	Latest	2024 Consensus forecast	Spot rates	30-Jun	Yields (%)	30-Jun
UK GDP (YoY%)	0.29	0.70	GBP/USD	1.26	MSCI UK	4.01
UK CPI Inflation (YoY%)	2.00	2.60	GBP/Euro	1.18	MSCI UK broad	3.93
Bank of England Base	5.25	4.65	Euro/USD	1.07	10 Year Gilt	4.25

The market commentary, values and charts as at 30 June 2024. Total returns in sterling. Returns are shown on a total return (TR) basis ie including dividends reinvested (unless otherwise stated). Net return (NR) is total return including dividends reinvested after the deduction of withholding tax. Source: LSEG Datastream/Bloomberg

Important information

Please remember the value of investments and the income from them can fall as well as rise and investors may not receive back the original amount invested.

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