Investment Outlook

A monthly round-up of global markets and trends

June 2024

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Investment outlook

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Global equities are supported by stealth stimuli in the US

Global stock markets continue to rally. Investors have looked past a number of concerns, ranging from geopolitical tensions to stubborn inflation and the uncertainty over how higher interest rates would affect global output growth. Arguably investor optimism has been led by a favourable US economic environment, which has driven company earnings and encouraged share buybacks. For example, in May, Apple authorised an additional $110 billion share buyback programme, the largest on record.[1]

We believe US economic resilience can be traced back to stealth stimuli coming from fiscal easing and record immigration. These support the economy via private demand. Meanwhile, improving market liquidity has dampened the full impact of higher interest rates on financial markets.

Fiscal easing: The US government continues to spend more than it receives in revenues, that is it runs a sizeable budget deficit (fiscal easing). The non-partisan Congressional Budget Office (CBO) projects deficits of 5.6% and 6.1% of GDP in 2024 and 2025 respectively, against the average 3.7% gap for 1974 to 2023.[2]

The Democrats' willingness to run large budget deficits can be partly traced back to the 2010 congressional midterm elections, when they recorded heavy losses. Commentators have suggested that this is because they did not spend enough to fully deliver on the liberal policies they campaigned on. Similarly, should Donald Trump win the November presidential election he will likely push Congress to make the Republican tax cuts passed in 2017 permanent, given they are due to expire by the end of 2025. So, regardless of who gets the keys to the White House, and which party controls the balance of power in Congress, there appears to be no political appetite to reduce the fiscal deficit.

Record immigration: CBO data show that net immigration into the US was 2.6 million and 3.3 million in 2022 and 2023, respectively, as immigration controls were loosened under the Biden administration. This compares to less than 1 million per year in the decade preceding the pandemic. The CBO projects another 3.3 million net immigrants in 2024 before slowing to 2.6 million in 2025.

Immigration impacts both demand and supply. On the demand side, migrants increase demand for goods and services, which drives economic output. For instance, in the US service sector, housing vacancy rates have remained low as new entrants require accommodation. On the supply side, immigrants have found jobs in industries, such as food and construction, that had a high number of vacancies post the pandemic. This has helped to alleviate upward pressure on wages and mitigated the need for the US Federal Reserve (Fed) to tighten monetary policy further.

Improving market liquidity: While the Fed has been tightening monetary policy through higher interest rates, the net impact has been partly offset by money returning to financial markets. Since the Covid pandemic, savings have increasingly been parked in money market funds (MMFs), which invest in cash-like products, such as the Fed's overnight Reverse Repo Agreements (RRPs). These RRPs paid higher interest rates than T-bills, so demand rose from nothing in March 2021 to a record peak of $2.4 trillion in January 2023. However, as T-bill rates rose, RRPs held at the Fed have fallen to $438 billion in May and may fall further. This allocation shift has improved market liquidity and lessened the full impact of Fed interest rate hikes on the economy and equities.[3]

Market risks aplenty: Nevertheless, there are cyclical risks to worry about, such as whether investors baulk at the stretched valuations in certain areas of the stock market (i.e. in the tech sector) and a re-acceleration in inflation forcing central banks to tighten policy some more.

Other tail risks come from geopolitics and elections. On geopolitics, it was significant that in a visit to Beijing in May to mark the 75-year anniversary of the normalisation of relations between China and Russia, President Putin referenced being "brothers forever" with President Xi. This will only intensify the rivalry between the West and countries allied to the China-Russian axis.

On elections, there are risks from a possible change in government. In the UK, should Labour win the general election, this could include some readjustment. Shadow chancellor Rachel Reeves' speech at the annual Mais lecture in March provides some clues on her intended direction of travel. Her speech mentioned greater state involvement in the economy to encourage business investment in areas it believes the UK will have a strategic competitive advantage. Ms Reeves recognises that unlocking private investment requires institutional reform to encourage UK financial companies to invest in domestic productive assets (e.g. green technology). This will be crucial as, following the scrapping of the dividend tax credit by Chancellor Gordon Brown in 1997, the share of UK equities owned by pension and insurance companies has fallen from around 46% then to 4% in 2022.[4] Only time will tell if Labour policies succeed in raising the long-term relative attractiveness of UK stocks.

In summary, given ongoing US economic stimuli we think the world's largest economy can continue to chug along, which should support the global equity market. Statistically, the US stock market is still in the early stages of a bull market (defined as being up 20% from its low), which is less than two years old. This compares to an average of around five and a half years of the last seven bull markets going back to 1969.[5]

Sources:

[1,3,4,5] LSEG Datastream/Evelyn Partners, June 2024

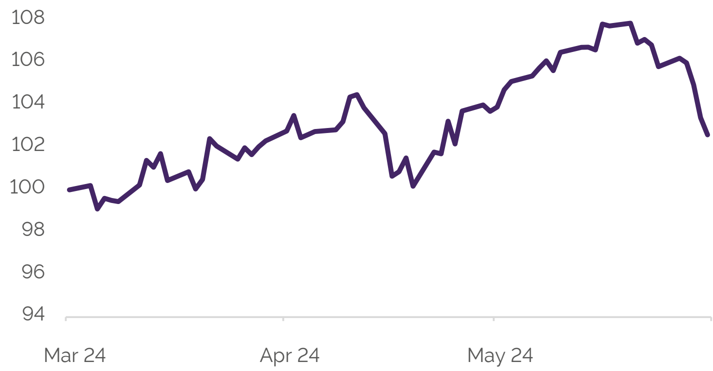
[2] Congressional Budget Office, June 2024

Market highlights

Equities

Since the start of 2024, global manufacturing PMIs (Purchasing Managers' Indices) have accelerated, pushing past the crucial '50' mark, which indicates increasing manufacturing activity. The cyclical nature of emerging market economies, which are largely driven by the manufacturing and industrial sectors, make them more correlated to the global business cycle than many developed economies. This helped emerging market equities rally 8% over the last 3 months and reach a new peak. However, they sold off at the end of May as rising treasury yields and lingering concerns around China's property market dampened investor sentiment, leaving emerging market equities up 3% over the last three months.

MSCI Emerging Markets Index (GBP, TR)



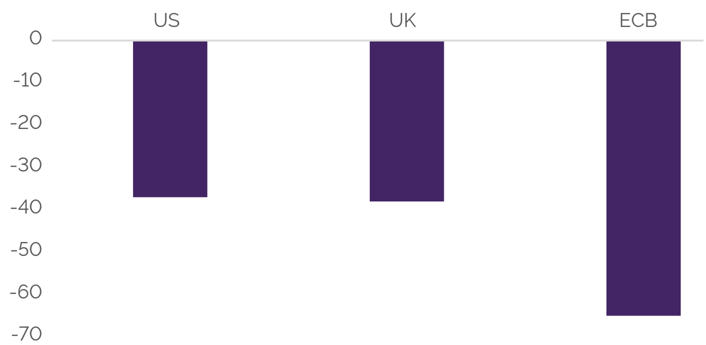
Source: LSEG Refinitiv/Evelyn Partners. Data as at 1 June 2024

Past performance is not a guide to future performance

Fixed income

Markets have been paying close attention to the timing of interest rate cuts by major central banks. The European Central Bank (ECB) was one of the first to start cutting interest rates on 6 June. With sluggish growth and inflation decelerating rapidly, markets expect the ECB to make at least one more cut before the end of the year. In contrast, US inflation has remained sticky and the economy is robust, prompting markets to be less dovish in their expectations for US rate cuts. Markets currently expect the Federal Reserve to cut rates only once this year by 0.25%, but not until September or November. This contrasts with the start of this year when markets were anticipating six rate cuts from the Fed in 2024.

Expected interest rate cuts for 2024 (basis points)



Source: LSEG Refinitiv/Evelyn Partners. Data as at 1 June 2024

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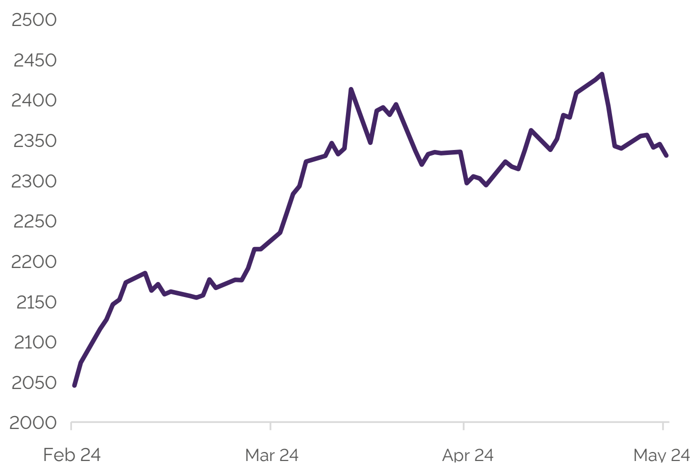
Currencies and commodities

Gold has rallied over the three months to May's end, gaining just under 14% (in sterling terms). Alongside increasing geopolitical risk, the gold price rally has been supported by EM central bank bullion purchases, which have picked up following Western financial sanctions against Russia. The private sector is also becoming more active in the gold market. Costco, a US wholesale retailer, has reported brisk sales of one-ounce 24-carat gold bars. Meanwhile, in China, many citizens are collecting "golden beans", which weigh around a gram. Costing around $80 each, they are more affordable than standard gold bars and have wider appeal. Similarly, Chinese jewellery demand grew 10% in 2023. The bottom line is that this structural demand has reduced the opportunity cost of owning zero-yielding assets like gold when rates have gone up.

Gold price (USD/troy oz)



Source: LSEG Refinitiv/Evelyn Partners. Data as at 1 June 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	2.4	3.3	20.8	76.1
MSCI UK	1.9	9.6	15.8	39.9
MSCI UK Broad	2.4	9.7	15.8	35.5
MSCI USA	3.0	3.0	25.0	105.4
MSCI Europe ex UK	3.7	5.6	17.7	63.2
MSCI Japan	-0.3	-1.2	15.9	45.1
MSCI Pacific ex Japan	1.7	2.8	8.2	18.9
MSCI Emerging Markets	-1.1	2.9	9.9	20.1
Bonds				
iBoxx GBP Gilts	0.8	-0.7	2.8	-21.5
iBoxx USD Treasuries	-0.2	-0.9	-3.1	-4.7
iBoxx GBP Corporate	0.9	0.8	8.7	-1.7
Commodities and trade-weighted currencies				
Oil Brent Crude ($/barrel)	-7.0	-2.4	11.2	26.0
Gold ($/ounce)	1.5	13.9	18.2	79.3
GBPUSD	1.7	0.7	2.7	1.0
GBPEUR	0.1	0.3	0.9	3.7
EURUSD	1.5	0.3	1.8	-2.6
USDJPY	-0.1	5.0	12.5	44.7

Past performance is not a guide to future performance.

Market commentary

Even as the uncertainty of the general election looms, the UK has been the best performing equity region over the last three months, returning just under 10%. The MSCI United Kingdom Index, a benchmark of the UK's largest listed companies, reached new all-time highs. Having lagged the broader equity market rally during the earlier stages of 2024, attractive UK valuations have finally made London-listed companies tempting to overseas investors.

Since its recent highs of $90 per barrel seen in mid-April, crude oil prices have fallen by around 7% over the last month. The apparent cooling of geopolitical tensions in the middle east between Israel and Iran has helped temper the price of crude.

Key macro data	Latest	2024 Consensus forecast	Spot rates	31-May	Yields (%)	31-May
UK GDP (YoY%)	0.21	0.60	GBP/USD	1.27	MSCI UK	3.91
UK CPI Inflation (YoY%)	2.30	2.50	GBP/Euro	1.17	MSCI UK broad	3.82
Bank of England Base	5.25	4.50	Euro/USD	1.09	10 Year Gilt	4.22

The market commentary, values and charts as at 31 May 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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