MONTHLY UPDATE

Latest views from the investment team

All-Time Highs

In May, many assets reached fresh highs, reflecting a widespread positive trend. Notably, UK and US stocks, as well as copper and gold, surged to new peaks in recent weeks. The brief decline in US stocks during April was quickly reversed as central bankers signalled that the next move in interest rates is likely to be lower and corporate earnings reassured investors. While each market has its own individual drivers, the broad-based gains are encouraging and align with our expectation of continued economic strength.

UK and Chinese stocks have performed particularly well so far this quarter, driven by improved optimism in both regions. In the UK, stable policy rates and the Bank of England's inclination towards rate cuts have boosted business and consumer confidence, leading to improved market sentiment. UK growth in the first quarter, at 0.6%, surpassed expectations, marking a strong rebound from the brief recession experienced in the latter half of last year. Consequently, the International Monetary Fund has revised its UK growth forecast upward for the remainder of the year. UK stock valuations are below their long-term average and lower than that of many overseas markets, helping to catalyse more bids for London-listed companies, especially from overseas buyers. Together, the positive alignment of economic data, policy stance, valuations and positioning provide a tailwind for the UK market.

In China, investor sentiment may have hit rock bottom a few months ago, as evidenced by the surge in demand in 2023 for US-listed Exchange-Traded Funds which exclude Chinese equities. Disappointment in economic activity following China's post-Covid reopening last year, coupled with concerns about oversupply in the property sector, left investors wary. Economic data has recently proved better than (very low) expectations and, when combined with extreme positioning, the conditions emerged for equities to jolt higher. While lingering caution is understandable, given persistently weak consumer spending and the fact that rebuilding confidence takes time, the prospect of expanding global growth and appealing valuations offers a promising outlook.

Another area of the market which lagged in the first quarter, but has gained some traction in recent weeks, is listed infrastructure. The long-term need for infrastructure investment is vast. Rising global populations means ongoing investment is needed in transport, health, education, and utilities. Furthermore, the ongoing digitalisation trend demands growth in communication towers, data centres, and optical networks; while the transition towards renewable energy sources underscores the need for substantial investment in solar technology, wind turbines, and hydropower. Listed infrastructure has added benefits of having a low correlation to traditional equities and the underlying assets typically have inflation-linked cashflows, thus making listed infrastructure attractive within a broader multi-asset portfolio.

Bottom line

There have been many headlines about markets making new all-time highs. While this may trigger concern amongst some investors and lead to some volatility, if we adjust for inflation, equities are not at all-time highs. Economies remain in good shape, governments are continuing to splurge to win over their electorates, central bankers want to lower rates, corporate earnings continue to please – all good reasons to support further gains across equity markets.

Month by numbers

Change in various markets over the month:

Asset		Change Value
Equities		
UK	↑	1.87%
Europe	↑	3.64%
US	↑	4.73%
Emerging Markets	↑	0.48%
Japan	↑	1.20%
Bonds/Rates		
***Absolute change (%)**		
UK Base Rates	-	0.00%
		5.25%
Fed Funds Rate	-	0.00%
		5.50%
UK 10-Year Yield	↓	-0.03%
		4.32%
US 10-Year Yield	↓	-0.19%
		4.49%
Currencies		
GBP/USD	↑	1.75%
		1.27
GBP/EUR	↑	0.35%
		1.18
DXY (USD Index)	↓	-1.46%
		104.67
Commodities		
Gold	↑	1.77%
		2,326.33
Oil (Brent)	↓	-7.10%
		81.62
Noteworthy		
Marks & Spencer	↑	18.00%

Q&A

How was Q1 earnings season?

Over the last few weeks, we have been treated to the Q1 earnings of some of the largest companies in the world. Worries that lofty expectations for earnings were going to get a reality check were quashed as earnings were generally positive, confirming that the corporate profit backdrop remains a source of support for equity prices. In the United States the Q1 earnings growth rate of 8% exceeded the 5% expected at the conclusion of the first quarter, with nearly 78% of companies beating earnings estimates. Sectors such as communication services and IT had some of the strongest earnings growth with the further build out of A.I. infrastructure helping companies like NVIDIA who saw soaring demand for their graphics processing units. A key development to monitor as the year unfolds is the extent to which earnings growth broadens beyond these sectors.

Why are people talking about “GRANOLAS”?

Since October 2022, global equity market expansion has highlighted the importance of the "Magnificent Seven" group of US tech stocks. Amid this backdrop, investors have often overlooked the less sexy European "GRANOLAS": GSK, Roche, ASML, Nestlé, Novartis, Novo Nordisk, L’Oréal, LVMH, AstraZeneca, SAP, and Sanofi. Unlike the Mag Seven, this group encompasses multiple sectors, including pharmaceuticals, luxury and consumer goods, as well as technology. Moreover, these are high-quality, leading businesses: ASML manufactures crucial semiconductor equipment whilst LVMH dominates the luxury goods market. Unsurprisingly, this group has performed exceptionally, contributing to 60% of European stock gains over the past year and matching the 60% return of the Mag Seven since early 2021, with significantly lower volatility. Thus, European equities can present clear, but often underappreciated, opportunities for investors.

Should investors worry about the UK election?

Prime Minister Rishi Sunak has called a general election for 4th July, sooner than many expected. Natural sceptics may suggest that, by calling the election earlier than was necessary, he may think that his chances of victory would not have improved had he delayed. The election itself is not unexpected and will likely provide more stability after years of political turmoil. Most investors are working on the assumption that Keir Starmer, leader of the Labour party, will become the next Prime Minister. While the past is not a guarantee of the future, history is reassuring for investors when there is confidence about an election winner – for example, the stock market experienced strong gains in the run up to elections in 1997 and 2005, and further appreciation afterwards, following confirmation that the result was as expected. The current polls show Labour at circa 45%, more than 20% ahead of the Conservative party. Perhaps the real question is whether an outright majority can be achieved.

For more information, please contact your adviser.