MONTHLY UPDATE

Latest views from the investment team

UK Inflation Milestone

Global stock markets finished the first half of 2024 up over 10%, buoyed by strong earnings, wage growth and ongoing government spending. Central banks have not delivered as many rate cuts as expected but have adopted a supportive tone and initial rate cuts were delivered in June from the Bank of Canada and European Central Bank (ECB). However, for many, the notable event was UK inflation hitting its 2% target for the first time in three years.

The decline in UK inflation has been driven mostly by goods prices which, in aggregate, are 1% lower than a year ago. Supply disruptions, which have hit goods prices over the last two years, have largely unwound. However, some caution does remain as services inflation is proving sticky. A notable cause of this is stubborn growth in wages which remains around 6% and has been propped up by an increase in the national living wage and worker shortages. This raises doubts about the sustainability of the overall inflation move. However, UK unemployment has started to tick up which should dampen wage pressure and encourage the Bank of England to cut. Most economists did not expect a rate cut in June; this may have been viewed as a move, from the politically independent central bank, to influence the upcoming election by helping the incumbent Government. Nonetheless, with two out of nine members of the committee already voting for a rate cut, it seems likely that there will be action soon after the election. As consumer and business confidence is rising, this forms a good backdrop for UK growth and asset prices.

Both the Bank of Canada and the European Central Bank (ECB) cut interest rates in June citing that, while inflation in their respective regions remains above target, it has eased sufficiently to justify lowering rates. This is somewhat of a milestone for the ECB because the ECB has never cut before the US. Notably, each central bank stated that policy remains restrictive after the cut. This is important for messaging and has heartening implications for other central banks – even if inflation is a little above target, rate cuts can still be justified.

In contrast, the US Federal Reserve kept rates unchanged last month as they released their quarterly Statement of Economic Projections. Their forecasts show they only expect to cut rates once this year, compared with the three cuts expected back in March. US inflation fell more than expected this month while unemployment edged up – a combination that was welcomed in US government bond prices. However, the Congressional Budget Office has predicted that the US budget deficit for 2024 will be much higher than previously expected as spending on student loan relief, healthcare and aid to Ukraine weighs on public finances. Heavy debt supply over the coming years may put upward pressure on bond yields, presenting some risks for bonds with long maturity dates that are highly sensitive to changes in yield. Ongoing spending, all else equal, does however provide support to corporate earnings.

Bottom line

The World Bank released its semi-annual flagship report on 'Global Economic Prospects' in June. Their 2024 global growth forecast was revised higher, due mainly to strength in the US. The prediction is then for growth to strengthen again next year as global trade rises and lower inflation allows rate cuts to proceed. This is a backdrop that should see the economic cycle continue for longer, and support returns for multi-asset portfolios.

Month by numbers

Change in various markets over the month:

Asset		Change / Value
Equities		
UK	↓	-1.04%
Europe	↓	-1.13%
US	↑	3.54%
Emerging Markets	↑	4.26%
Japan	↑	1.63%
Bonds/Rates		
***Absolute change (%)**		
UK Base Rates	-	0.00%
		5.25%
Fed Funds Rate	-	0.00%
		5.50%
UK 10-Year Yield	↓	-0.15%
		4.18%
US 10-Year Yield	↓	-0.12%
		4.37%
Currencies		
GBP/USD	↓	-0.63%
		1.27
GBP/EUR	↑	0.70%
		1.18
DXY (USD Index)	↑	1.14%
		105.87
Commodities		
Gold	↑	0.03%
		2,326.96
Oil (Brent)	↓	5.87%
		86.41
Noteworthy		
Ocado Group	↓	-22.00%

July 2024

As of 30 June 2024

Q&A

Are Indian equities still a good investment?

Indian equities now make up around 18% of the emerging market (EM) index compared with under 10% just five years ago. Whilst aggregate EM indices have lagged most developed markets over the last three years, India has outperformed and has seen its equity market grow more than 50% since June 2021. This performance has been backed by strong economic growth and corporate earnings. The country benefits from having a young, educated, and largely English-speaking population with a balanced geopolitical stance and, therefore, is a go-to destination for outsourcing customer and digital services. On a valuation basis, Indian equities appear expensive relative to other emerging markets but, with such a variation of earnings prospects across regions, comparisons are tricky. The Indian election is out of the way and investors have taken comfort after digesting the outcome, whereby Prime Minister Modi remains in charge and plans for growth-enhancing reforms continue. Combined with stable inflation and policy rates, as well as rising consumer confidence, this suggests the foundations for further returns are strong.

The Swiss cut rates again, why is the currency so strong?

The Swiss National Bank cut its policy rate by 0.25% to 1.25% in June. This is the second cut for the Swiss giving them the second lowest interest rate in the G10, only higher than Japan. Inflation never rose as sharply in Switzerland as it did in other European nations – Euro area inflation peaked at over 10% in 2022 while Swiss inflation peaked at under 4%. This was partly due to their different energy mix, with less reliance on fossil fuels, but also because of currency strength. Switzerland has a large export sector and so economic activity is sensitive to the currency. Global shocks and geopolitical instability tend to favour the Swiss Franc due to the country's political neutrality. As such, the Swiss Franc has strengthened by more than 10% against the Euro since the onset of the pandemic. This has pushed down import prices and so inflation has fallen below 2%. European elections have catalysed political uncertainty and, therefore, an even stronger Swiss Franc, prompting policymakers to cut rates again in June.

Nvidia is now the world's largest firm

After extremely strong gains this year (over 100%), on 18th June Nvidia surpassed Microsoft to briefly become the world's largest public company. Nvidia's market capitalization rose to over USD 3.3 trillion, accounting for around 6% of the value of the US stock market. In the subsequent weeks the stock has pulled back slightly. The company has benefitted from a surge in demand for chips that can power Artificial Intelligence (AI) models. The chief executive, Jensen Huang, sees the company at the centre of a world where AI can enhance all sectors with intelligent computing. While some draw comparisons to the late 1990's dot-com boom, comparisons are not fully valid. The market strength of the late 1990s was based on increases in the valuations of relatively new businesses that promised to boost earnings by having an online presence whereas Nvidia (and other megacap technology companies) have mature business models and strong earnings. Future earnings strength will be key for justifying valuations.

For more information, please contact your adviser.

Disclaimer

The value of investments and the income from them can go down as well as up and investors may not recover the amount of their original investment. The sterling value of overseas investments, and the income from them, will fluctuate as a result of currency movements. Past performance is not a guide to performance. The information in this document is believed to be correct but cannot be guaranteed. No representation or warranty (express or otherwise) is given as to the accuracy or completeness of the information contained in this publication.

This publication does not constitute professional advice and does not constitute an offer to sell or a solicitation of an offer to purchase any security or any other investment or product. Furthermore, this publication does not constitute tax or legal advice. You must consult with an independent tax adviser and/or legal adviser for specific advice before entering into, refraining from entering into or exiting any investment or structure or planning. North Capital Management as the regulated firm, will not accept any liability for the consequences of acting or not acting upon the information contained in this publication. Opinions expressed are solely the opinions of North Capital Management. All expressions of opinion are subject to change without notice. This document may not be reproduced or distributed in any format without the prior written consent of North Capital Management. North Capital Management Ltd is authorised and regulated by the Financial Conduct Authority (FRN 713442). Reg. in Scotland (SC509360).