MONTHLY UPDATE

Latest views from the investment team

Santa Rally Disappoints

December brought numerous central bank actions and political headlines, the most important of which was the Federal Reserve's central bank meeting. Although another 0.25% rate cut was delivered as expected, stocks and bonds both fell markedly as the Fed signalled a slower pace of interest rate reductions than previously signposted due to higher inflation forecasts. This injected some volatility, reminding investors of the need for vigilance, even in a year which has mostly been characterised by a mood of positivity and resilience. In the end, the world index was down 2% in December but rose 20% during 2024 as corporate earnings impressed and policymakers largely offered support. Bonds lagged equities in 2024, returning just 2%, despite central banks cutting rates, as persistent economic resilience dampened investor expectations for further cuts. Elections held last year in countries representing nearly half the world's population triggered episodes of volatility but ultimately did not disrupt the broader trend of resilient earnings and robust economic data, supported by favourable policies across much of the globe.

US stocks significantly outperformed other regions during 2024 and particularly in the last quarter of the year. Whilst the early part of the year was dominated by a handful of technology and internet companies, earnings growth has started to broaden across sectors and the incoming US administration has promised to cut back on regulation and lower corporate taxes. The Fed's December rate cut did trigger some volatility across markets as, due to a resilient economy, they are expecting fewer rate cuts in 2025 compared with their last set of projections in September. Further episodes of volatility appear likely moving forward, as the period of rapid inflation decline seems to be behind us. This brings more uncertainty over the scale of further support from the central bank and increasing fears about a slight resurgence in inflation during 2025, potentially exacerbated by Trump's economic agenda.

European stocks dragged their heels in 2024 relative to the US as various political upsets and economic weakness weighed on business confidence and markets. In December, however, stocks did outperform which is perhaps inconsistent with news that both the French and German governments have collapsed. The European Central Bank (ECB) helped by cutting rates again by 0.25% in December, taking the total cuts for 2024 to 1.35%, more than in the US (1.00%) or UK (0.50%). The ECB also downgraded their growth forecast, partly due to Trump's threats to impose tariffs of up to 20% on US imports from Europe. Lacklustre growth has helped European government bonds to outperform US and UK equivalents in 2024, and to weaken the Euro.

Despite further rate cuts from the major central banks, bond yields increased in December. Indeed, 10-year US yields are now around 0.8% higher since the first US rate cut in September. With data still pointing towards a healthy economy, investors are interpreting that more rate cuts now will stave off the need for further cuts later, and pricing in expectations of higher inflation as a result. The USD has also gained since the first US rate cut and this was detrimental for emerging market (EM) equity indices in October and November. EMs tend to benefit from a weaker USD as debt that has been issued in USD becomes easier to repay. Therefore, it has been encouraging to observe gains in EM equity indices in December, albeit not widespread across regions. Pledges from China's leaders to expand government spending have helped sentiment. Meanwhile, investor confidence in Brazil has dropped sharply, alongside stocks and the currency, despite robust economic growth, due to concerns that the government is over-spending and pushing up inflation again.

Bottom Line

Multi-asset portfolios delivered strong gains in 2024. Economic cycles tend to move slowly and, with ongoing support from government spending, low unemployment, and robust earnings, we believe it is likely that assets can continue to deliver positive returns in 2025 albeit with a little more volatility as the pace of rate cuts slows now that inflation is much closer to target. History shows it is best to look through any such episodes and that well-constructed diversified multi-asset portfolios smooth returns over the long-term.

NORTH CAPITAL

Month in Numbers

Change in various markets over the month:

ASSET NAME		CHANGE / VALUE
EQUITIES		
Local Currency		
United Kingdom	▼	-1.38%
Eurozone	▲	1.91%
United States	▼	-2.50%
Emerging Markets	▲	1.04%
Japan	▲	4.41%
BONDS/RATES		
Absolute change (%)		
Bank of England Base Rate	-	0.00% / 4.75%
Federal Reserve Funds Rate	▼	-0.25% / 4.50%
UK 10-Year Gilt Yield	▲	0.33% / 4.57%
US 10-Year Treasury Yield	▲	0.38% / 4.57%
CURRENCIES		
GBP/USD	▼	-1.77% / $1.25
GBP/EUR	▲	0.35% / €1.21
DXY (USD Index)	▲	2.60% / 108.49
COMMODITIES		
Gold (USD/ Troy Oz)	▼	-1.28% / $2,625.35
Brent Crude Oil (USD/Barrel)	▲	2.10% / $74.74
NOTEWORTHY		
Broadcom Inc	▲	43.04%

January 2025

As of 31 December 2024

Q&A

What is happening to the UK post budget?

It is probably fair to say that the immediate reaction, from businesses, to the UK budget has been negative. While voter polls are somewhat divided on whether the budget was fair, the combination of higher employer National Insurance, minimum wages and business rates have been met by widespread criticism from the business community. A survey of sentiment within the UK manufacturing sector has declined to its lowest level in nearly two years. Service sector surveys indicate some growth for the industry, but the pace has declined to the slowest observed since the current expansionary phase began a year ago. Job postings have declined throughout 2024 and seem unlikely to gain traction given the additional costs of hiring staff. Sterling has weakened over 2% since the budget while the UK stock market has lagged global indices by around 3% and UK government bond yields have increased, reaching a 34 year high versus German bond yields. It seems that the ball is in the government's court to raise confidence amongst business owners.

What happened to Novo Nordisk shares last month?

Novo Nordisk, the Danish pharmaceutical giant, saw its share price plummet nearly 20% last month, including a sharp 21% decline on December 20. This more than erased the year's gains for a stock that had surged 50% in the first half of 2024 and began December as Europe's most valuable public company. Historically a leader in diabetes treatments, Novo Nordisk has become a key player in the booming weight-loss drug market. Its flagship product, Ozempic, is increasingly used to treat obesity and shows potential against other ailments. Investors have been drawn to the immense earnings potential in this space, where Novo competes with Eli Lilly, the American pharmaceutical firm that recently became the world's most valuable drugmaker.

So, what went wrong? On December 20, Novo Nordisk released trial results for its new obesity drug, CagriSigma. Whilst participants in the study lost an average of 22.7% of their body weight, an impressive outcome but fell short of the 25% target that Novo had signalled to the market. The shortfall triggered a sharp sell-off, despite the drug's higher effectiveness compared to competitors. Analysts noted that the trial's flexible dosing protocol, which allowed patients to adjust their doses, could have influenced the results which may offer some reassurance to investors.

Despite the setback, long-term holders of Novo Nordisk stock have been richly rewarded, with shares up over 225% in the past five years. The strong reaction to the CagriSigma results underscores the risks of lofty market expectations for high-quality, high-valuation companies. For those confident in the weight-loss drug market's growth potential, it may be best to look through periods of volatility and focus on the long-term story.