FLASH UPDATE

11 MARCH 2024

NORTH CAPITAL

US Stocks Tumble

What has happened in US stock markets so far this year?

Following two years of more than 20% gains in the US stock market, it has been a much more difficult start to 2025. At the time of writing, the US market is down over 8% from the peak last month and more than 7% since the start of the year for UK investors. Smaller companies, which reached their highs just after the US election, have been hit the hardest and are now down 16%, while technology-heavy indices are down about 13% from their recent peaks.

Why have US stocks been hit?

US stock valuations have screened expensively for some time, relative to history and other regions. However, other drivers have been more favourable. Government spending has remained high since the pandemic, supporting the jobs market and putting more money in people's pockets. The US Federal Reserve made clear throughout last year that their stance was supportive, and the committee cut interest rates by 1.0% between September and the end of the year, helping lower borrowing costs for both consumers and businesses. The US is also home to a large share of the world's most innovative and profitable companies.

However, over recent weeks, the new US administration have been taking steps to rein in government spending while increases in trade tariffs have catalysed further uncertainty and consumer confidence has fallen sharply. Trump is betting that recalibrations in global trade and defence will lead to long-term economic resilience and a revived manufacturing sector, even if there are temporary disruptions. However, if tax revenues disappoint there may have to be a change of direction. At the same time, the US Federal Reserve has paused its interest rate cutting cycle, citing inflation that remains stubbornly above target—a move that disappoints borrowers. Meanwhile, rapid advancements by Chinese technology companies have sparked concerns about the continued dominance of certain US stocks.

What has happened in other regions?

Other regions have fared much better following more favourable policy changes. In particular, both European stock markets and Chinese equities – which represent a substantial portion of Emerging Markets – have posted sharp gains since the start of the year. Statements from the US administration that they wish to pull back, at least to some degree, from historic defence alliances have triggered greater government spending commitments in Europe. A resolution in Ukraine, which remains uncertain, would also be likely to provide a tailwind as Russian energy supplies are restored. Authorities in Beijing have also announced more government spending this year, following a broad stimulus package enacted last September which included interest rate cuts and funding for share buybacks.

What is our position?

At North Capital, we believe it is important to build diversification and resilience into multi-asset portfolios. We hold a strategic overweight to UK equities as well as to real assets, including gold and broad commodities. The UK equity market, compared to the US, has a larger weighting to consumer staples, energy and materials - sectors with relatively low earnings sensitivity - and a lower weighting to technology. Gold offers multifunctionality within a broad portfolio - it is supply constrained and, therefore, should offer a degree of inflation-protection, it exhibits a low correlation to equities and bonds and has proved itself as a safe-haven asset over the long-term. Broad commodities tend to display resilience when there is geopolitical turmoil, due to concerns about supply disruptions. These allocations have all helped protect portfolios so far this year. Furthermore, to reflect the change in market drivers described above, we moved to an underweight position in global equities, which are dominated by US exposure, at the start of March (following a reduction to neutral at the beginning of January), in favour of both European equities and cash. Although we believe US stocks will ultimately benefit from a strong underlying economy and ongoing AI advancements and adoption, we believe a modest, tactical risk reduction is sensible while uncertainty is elevated.

Bottom line

We remain watchful of potential shifts in US policy – whether from the government or the Federal Reserve – that could influence asset prices. Occasional sharp declines remind us of the need for diversification within multi-asset portfolios, while divergence between regions and sectors highlights the importance of thoughtful portfolio construction. A long-term perspective reassures us not to be deterred by volatility or drawdowns; indeed, it pays to stay invested, as missing even a handful of the market's best-performing days can significantly reduce total returns.