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AUGUST 2024 MARKET REPORT

Economic commentary

In August, we learned that consumer prices in the UK rose by 2.2% in the 12 months to July – up from 2.0% in June. The Bank of England's Monetary Policy Committee lowered interest rates from 5.25% to 5% on 1st August, which was significant as rates have not been reduced for over four years. The rate cut aimed to make borrowing cheaper for businesses and consumers, encouraging more spending and investment, against a backdrop of sluggish growth. On 27th August, Prime Minister Starmer spoke about the need for the government to make tough choices in the upcoming October Budget. The Labour government is preparing for potentially unpopular measures around tax and spending, with Starmer indicating that the wealthiest will bear most of the burden.

Inflation in the eurozone unexpectedly rose to 2.6% in July, above the European Central Bank's 2% target. The bank held rates steady in July but guided that a cut may come in September (which it since has). Meanwhile, the Bank of Japan increased interest rates to 0.25% from the previous range of 0% to 0.1%. This was done to help control rising inflation after several years of negative rates that were designed to boost spending. In the US, consumer price inflation stood at 2.9% in July, going below 3% for the first time since 2021. This was welcomed by the Federal Reserve (the Fed) as it was a step in the right direction to meet their target rate of 2%. They kept their main interest rate at 5.25% – a two-decade high – holding off on cuts pursued by other central banks in much of the West. However, this month, Fed Chairman Jerome Powell signalled that a rate cut may be on the horizon, saying the "time has come for policy to adjust". Investors are eagerly awaiting the next Fed meeting, which will be held in September.

Market commentary

August proved turbulent for stocks. In the first half, developed market investors reacted negatively to weak economic data in the US, which is a significant driver of global demand for goods and services. In Japan, their main stock index suffered badly, dropping 12% on 5th August (its most significant daily drop since Black Monday in 1987), but later recovered much of the loss. Chinese stocks struggled, too, amid ongoing real estate market problems, weak consumer spending, and rising unemployment, all hitting investor confidence.

Despite a shaky start, some stock markets performed better in the latter half, encouraged by positive news on corporate earnings and the improving prospect of lower US interest rates. The US market produced positive returns thanks to earnings growth outside the technology sector, which has dominated headlines for some time. European stocks performed well. The UK also yielded modest positive returns this month, with healthcare, consumer staples, and industrials being the key contributors. Bonds performed well in August – the month's market swings made investors seek safer investments, raising demand and, therefore, the price of bonds.

This month's stock market volatility reminds us of why we do not engage in short-term economic predictions. We are happy to hold slightly less of the most expensive investments that may go on to disappoint investors. Instead, we try to focus on the investments that look cheap today, avoid those that look too risky, and hold assets for the long term where we believe we will be rewarded.

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	1m	3m	6m	YTD	1yr	3y pa	5y pa	10y pa
Equity Markets (£)								
UK	0.5%	2.4%	12.5%	11.2%	16.9%	7.5%	6.7%	6.2%
US	0.1%	3.9%	7.1%	15.6%	22.0%	10.5%	13.3%	14.9%
Global	0.3%	3.2%	6.4%	13.2%	19.9%	8.5%	11.3%	12.0%
Emerging Markets	-1.0%	2.0%	4.8%	5.3%	9.5%	-2.3%	2.4%	4.4%
Europe ex UK	1.8%	0.0%	5.4%	8.8%	15.4%	5.7%	8.5%	8.9%
Japan	-2.0%	2.3%	1.3%	8.6%	14.2%	5.0%	5.8%	8.5%
China	-1.5%	-7.1%	3.7%	0.0%	-7.5%	-12.9%	-5.6%	2.3%
UK Smaller Companies	-1.0%	2.7%	14.6%	10.1%	20.0%	-3.7%	2.8%	5.0%
Bonds (£)								
Sterling Corporate Bonds	0.6%	3.5%	4.3%	1.7%	8.8%	-3.9%	-1.6%	1.8%
Global High Yield (Hedged)	1.4%	3.1%	4.6%	4.5%	10.6%	1.7%	2.7%	3.0%
Global Bonds (Hedged)	1.1%	3.9%	3.8%	2.6%	6.7%	-2.6%	-1.0%	1.2%
Other (£)								
Global Listed Property	3.8%	9.5%	9.5%	4.2%	13.2%	-1.1%	-0.3%	5.5%
UK Listed Property	0.0%	1.1%	10.9%	0.3%	15.5%	-8.0%	-0.7%	0.8%
Physical Gold	1.1%	4.0%	17.7%	17.5%	24.2%	13.0%	8.5%	9.2%

Economic Data	At date	3m ago	6m ago	1y ago	3y ago	5y ago	10y ago
Sterling/Dollar Rate	$1.31	$1.27	$1.27	$1.27	$1.38	$1.22	$1.66
Bank of England Base Rate	5.00%	5.25%	5.25%	5.25%	0.10%	0.75%	0.50%
UK CPI YoY		2.0%	3.4%	6.7%	3.2%	1.7%	1.5%
US Unemployment Rate	4.2%	4.0%	3.9%	3.8%	5.1%	3.6%	6.1%
UK Unemployment Rate		4.2%	4.3%	4.1%	4.4%	3.9%	6.0%

Bond yields	At date	3m ago	6m ago	1y ago	3y ago	5y ago	10y ago
UK 10-Year Gilt Yield	4.0%	4.3%	4.1%	4.4%	0.7%	0.4%	2.4%
UK Corporate Bond Yield	5.3%	5.7%	5.6%	6.3%	1.7%	2.0%	3.5%

Data Sources: Data is at 30/08/2024. For the above asset class return data, we used passive funds to represent market returns, given that they represent an investible net-of-fee return achievable by an end client. Economic figures like unemployment and CPI rates may not have been available for latest month-end at the time of publication. All returns have been calculated by Fundhouse, with reference to data from Refinitiv, Morningstar and the Bank of England. This content cannot be distributed without the consent of Fundhouse.

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