FUNDHOUSE
investment clarity

2plan®
wealth management

# February 2024 MARKET REPORT

## Economic commentary

In February, we learned that UK Consumer Price Inflation remained at 4% in the twelve months to January. This was slightly lower than market expectations, as lower food prices helped to balance a rise in transport and household energy costs. Interest rates have now been held at 5.25% by the Bank of England since August 2023.

For several years, the Bank has kept interest rates at relatively high levels in order to combat high inflation, which peaked at 11% in 2022. In theory, this works because higher interest rates make borrowing more expensive for businesses and households, slowing spending and investment. The consequence of this, though, is that it hurts economic growth – in fact, in February, the UK's Office for National Statistics announced that the country had entered a recession, as output shrunk in each of the last two quarters of 2023. Although the Bank's Governor, Andrew Bailey, suggested in February that prices were showing "encouraging signs" of falling, inflation is still above the Bank's 2% target, so rates may remain elevated for a while yet.

Many other economies have been on a similar journey to fight inflation by raising interest rates, but are at different stages. In the US (which has seen inflation come under control more quickly than the UK), the Federal Reserve's Chairman Jerome Powell suggested that they are "not far" from having the confidence to start cutting interest rates. The European Central Bank is more conservative, suggesting that they need to see more evidence that inflation will stay at lower levels before touching interest rates. In China, they face different problems, with the economy having struggled to pick up since draconian Covid lockdowns and with very low inflation. In order to combat this, their economic policies have differed from other countries; China has recently cut some interest rates and has also hinted at further economic support plans to boost spending.

## Market commentary

February saw diverging fortunes in markets, with stock markets performing generally well, while bond markets (representing loans to governments and companies) were largely down. The Chinese stock market was a strong performer – local investors responded well to the economic news mentioned above, and foreign capital may be finding favour in the country again, following a poor 2023 that saw skittish overseas investors lose faith in the country. The US market performed well, too, as fascination around a few mega-cap tech/ecommerce stocks (especially those linked to 'artificial intelligence') dubbed the 'Magnificent 7' by the press, encouraged further buying in these companies despite them already looking expensive according to most sensible assessments of value. The UK's stock market lagged, as the poor economic outlook and weaker profits spooked investors.

In a world where economic growth remains challenging and the spectre of high inflation lingers, it may seem surprising that investors get excited over snippets of news about economic stimulus, or speculate on whether a handful of well-known technology companies will successfully catch the latest trend. This is often the case in investing – long-term economic fundamentals can appear to have little to do with month-to-month price movements. But eventually reality does bite, and assets that look expensive will usually come back to earth. That's why we focus on the long-term picture, and only act where we see clearly attractive valuation opportunities.

FUNDHOUSE
investment clarity

2plan wealth management

| | 1m | 3m | 6m | YTD | 1yr | 3y pa | 5y pa | 10y pa |
|---|---|---|---|---|---|---|---|---|
| **Equity Markets (£)** | | | | | | | | |
| UK | 0.2% | 3.3% | 3.9% | -1.1% | 0.6% | 7.8% | 5.1% | 5.1% |
| US | 6.0% | 11.9% | 13.8% | 7.8% | 24.3% | 15.1% | 15.0% | 15.2% |
| Global | 5.0% | 10.8% | 12.7% | 6.4% | 19.6% | 12.3% | 12.7% | 12.0% |
| Emerging Markets | 5.3% | 3.5% | 4.5% | 0.5% | 3.0% | -3.8% | 2.3% | 5.4% |
| Europe ex UK | 2.7% | 7.6% | 9.6% | 3.2% | 10.4% | 9.7% | 9.9% | 8.2% |
| Japan | 3.1% | 11.4% | 12.8% | 7.3% | 19.2% | 6.1% | 7.4% | 8.9% |
| China | 7.4% | -6.3% | -10.8% | -3.5% | -19.3% | -19.2% | -5.8% | 3.3% |
| UK Smaller Companies | -2.3% | 3.4% | 4.7% | -3.9% | -0.9% | -3.8% | 0.5% | 2.7% |
| **Bonds (£)** | | | | | | | | |
| Sterling Corporate Bonds | -1.1% | 1.2% | 4.3% | -2.5% | 3.9% | -4.4% | -0.9% | 1.8% |
| Global High Yield (Hedged) | 0.1% | 3.2% | 5.8% | -0.1% | 9.1% | 1.3% | 2.5% | 2.7% |
| Global Bonds (Hedged) | -1.0% | 2.1% | 2.7% | -1.2% | 4.3% | -3.4% | -0.3% | 1.2% |
| **Other (£)** | | | | | | | | |
| Global Listed Property | 0.1% | 4.5% | 3.4% | -4.8% | -3.8% | 2.0% | 0.8% | |
| UK Listed Property | -6.3% | -0.9% | 4.2% | -9.5% | -6.7% | -4.7% | -3.2% | 0.1% |
| Physical Gold | 0.3% | 0.4% | 5.5% | -0.2% | 7.2% | 9.2% | 10.2% | 7.2% |

| Economic Data | At date | 3m ago | 6m ago | 1y ago | 3y ago | 5y ago | 10y ago |
|---|---|---|---|---|---|---|---|
| Sterling/Dollar Rate | $1.27 | $1.27 | $1.27 | $1.21 | $1.40 | $1.33 | $1.68 |
| Bank of England Base Rate | 5.25% | 5.25% | 5.25% | 4.00% | 0.10% | 0.75% | 0.50% |
| UK CPI YoY | | 3.9% | 6.7% | 10.4% | 0.4% | 1.9% | 1.7% |
| US Unemployment Rate | 3.9% | 3.7% | 3.8% | 3.6% | 6.2% | 3.8% | 6.7% |
| UK Unemployment Rate | | 3.8% | 4.1% | 4.0% | 5.1% | 3.9% | 6.8% |

| Bond yields | At date | 3m ago | 6m ago | 1y ago | 3y ago | 5y ago | 10y ago |
|---|---|---|---|---|---|---|---|
| UK 10-Year Gilt Yield | 4.1% | 4.3% | 4.4% | 3.7% | 0.9% | 1.3% | 2.7% |
| UK Corporate Bond Yield | 5.6% | 5.9% | 6.3% | 5.7% | 1.8% | 2.9% | 3.8% |

*Data Sources: Data is at 29/02/2024. 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.*

FOR PROFESSIONAL INVESTORS ONLY

[END]