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JULY 2024 MARKET REPORT

Economic commentary

In July, we learned that consumer prices in the UK rose by 2.0% in the 12 months to June – the same inflation rate as in May. At their 31st July meeting, the Bank of England's (BoE) Monetary Policy Committee lowered interest rates from 5.25% to 5%, which was significant as interest rates have not been cut since March 2020. BoE governor Andrew Bailey confirmed that lower inflation had paved the way for interest rate cuts, but stressed that caution will be exercised before further cuts. The main intention behind lower interest rates is to help stimulate economic growth. Additionally, lower rates are positive for many with mortgages. This month also saw a general election and change in leadership from Conservative to Labour, although this did not have a significant short-term impact on markets, as a Labour win was widely expected.

As mentioned last month, the European Central Bank cut its main interest rates by 0.25% in June. The effects of such a change in policy are difficult to attribute, but we have witnessed a pick-up in economic activity in the Eurozone. During the latest meeting in July, no further cuts were made to rates, because underlying inflation remains a concern, driven by pressures such as strong wage growth. In the US, the Federal Reserve (the Fed) made no changes to interest rates; inflation continued to fall to 3% in the 12 months to June, but it remained above the Fed's 2% target. The upcoming US election hangs in the balance after Joe Biden dropped out of the race, with Kamala Harris launching her own campaign in his place and receiving the Democratic nomination.

Market commentary

In July, stock markets were quite variable. UK stocks performed well due to strong service data and better-than-expected economic growth. In contrast, European stocks lagged, primarily due to poor economic data and heightened uncertainty regarding the French election. US stock market performance was relatively poor this month, especially considering the strong returns we have seen over the past few months. Investors began to fall out of love with the large tech stocks, as scepticism increased around the potential for future returns from investments in artificial intelligence. This slip began after the 'Magnificent 7' – the nickname for the seven largest American technology companies – reported disappointing earnings. Consequently, the technology sector ended the month with negative returns, which is significant as it has been a key driver of performance in recent times. Chinese stock markets also had it tough this month because of ongoing problems in the real estate sector, which hurt the broader economy. Things weren't all bad in Asia, though, as Japanese stocks delivered very strong returns for sterling investors. However, this was largely currency-driven, as a result of an appreciation in the yen following the raising of interest rates by the Bank of Japan. This is a notable policy departure from recent times.

The bond market performed well this month. In the US, weaker consumer prices and employment data led investors to strongly suspect that interest rates will soon be lowered. Interest rates and bond prices are inversely related, so this optimism led to an increase in bond prices.

There has been a great deal of volatility in markets recently, which has been driven by a reversal in the sentiment-fuelled rally of the last few months. While only brief, it has served as a reminder that optimism can unwind in rapid fashion – for assets that are 'priced for perfection', a small wobble can panic markets. We try to avoid investments that rely on lots of optimism. Instead, our strategy focuses on finding undervalued assets, avoiding excessive risk, and maintaining a long-term perspective, which we believe will lead to better returns.

	1m	3m	6m	YTD	1yr	3y pa	5y pa	10y pa
Equity Markets (£)								
UK	3.1%	4.3%	12.2%	10.7%	13.5%	8.3%	5.8%	6.3%
US	-0.4%	7.1%	13.5%	15.5%	21.7%	12.0%	13.0%	15.5%
Global	0.1%	5.7%	11.4%	12.9%	18.5%	9.6%	10.9%	12.4%
Emerging Markets	-1.4%	1.9%	11.5%	6.3%	5.3%	-0.9%	1.7%	4.9%
Europe ex UK	0.0%	1.8%	6.3%	6.9%	10.6%	6.1%	7.8%	8.9%
Japan	4.6%	3.9%	6.5%	10.8%	15.9%	7.1%	6.1%	8.6%
China	-3.1%	-2.9%	13.2%	1.6%	-14.0%	-12.3%	-5.8%	2.8%
UK Smaller Companies	6.2%	9.8%	13.0%	11.2%	16.3%	-1.7%	2.5%	5.3%
Bonds (£)								
Sterling Corporate Bonds	1.5%	3.0%	2.5%	1.1%	8.3%	-4.0%	-1.3%	2.0%
Global High Yield (Hedged)	1.4%	2.8%	3.2%	3.0%	9.3%	1.3%	2.5%	3.0%
Global Bonds (Hedged)	2.1%	3.8%	1.8%	1.5%	5.3%	-3.0%	-0.8%	1.2%
Other (£)								
Global Listed Property	4.4%	7.3%	5.5%	0.3%	7.0%	-1.6%	-0.6%	5.4%
UK Listed Property	3.4%	6.3%	3.9%	0.3%	12.1%	-6.7%	-0.3%	1.2%
Physical Gold	2.3%	2.7%	16.8%	16.1%	22.9%	12.7%	9.9%	9.3%

Economic Data	At date	3m ago	6m ago	1y ago	3y ago	5y ago	10y ago
Sterling/Dollar Rate	$1.28	$1.25	$1.27	$1.29	$1.39	$1.22	$1.69
Bank of England Base Rate	5.25%	5.25%	5.25%	5.00%	0.10%	0.75%	0.50%
UK CPI YoY		2.3%	4.0%	6.8%	2.0%	2.1%	1.6%
US Unemployment Rate	4.3%	3.9%	3.7%	3.5%	5.4%	3.7%	6.2%
UK Unemployment Rate		4.4%	4.2%	4.2%	4.6%	4.0%	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%	4.4%	3.9%	4.3%	0.6%	0.6%	2.7%
UK Corporate Bond Yield	5.3%	5.8%	5.4%	6.2%	1.6%	2.1%	3.8%

Data Sources: Data is at 31/07/2024. 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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