THORNTONS INVESTMENTS

Markets Review - to end October 2024.

THORNTONS WEALTH

Market Returns

(Returns in £)	1 month	3 months	6 months	1 year
UK Equities	-1.8%	-3.4%	0.0%	12.1%
Global Equities	2.2%	2.0%	7.4%	24.1%
UK Gilts	-2.6%	-2.1%	0.1%	2.3%
UK Property	0.2%	1.0%	2.2%	2.2%
Gold	8.6%	13.1%	16.2%	29.6%
Commodities	2.9%	1.8%	-4.0%	-1.0%
Sterling	-1.0%	1.0%	2.7%	5.6%

Returns to 31st October 2024. Source: Refinitiv

Market Overview

October saw disquiet in bond markets leak into other financial assets. Despite a helpful trend in inflation and expectations of further interest rate cuts, bond yields rose across the duration curve as fiscal policy continues to inflate national debt. This was exemplified by the long-awaited UK Budget, which was characterised as one of higher spending, higher deficits and higher tax. Financial markets took badly to the size of projected deficits, with gilts selling off to raise yields to their highest levels for the year. Unhelpfully, this does not encourage growth; as the OBR stated, '..the net impact of Budget policies lowers business investment.'

Next up is the US election, which has a variety of outcomes depending on the President elect and composition of Congress. This may be known by the time this is read, but almost all outcomes see the budget deficit continuing to rapidly expand and trade tariffs likely to rise. Not particularly market friendly. US bond yields have also risen (although not as much as in the UK), in turn strengthening the dollar. Meanwhile third quarter company results provide some comfort that growth is still being eked out, and considerable growth in the case of the largest tech companies, whilst economic data prints show no real sign that recession is around the corner.

Inflation continues to ease and pave the way for further interest rate cuts, some of which are expected this week. The price of oil, which is still a dominant factor in global costs, has also eased; to the extent that OPEC+ has agreed to defer planned production increases. Israel's limited response to the Iranian missile attack, has slightly eased market nerves. Peaceful resolution, sadly, seems some way off, reflected in gold continuing to rally to new all-time highs on a diet of political uncertainty and military conflict.

Despite the UK budget unsettling markets and savers [if the many proposed measures have caused you consternation – please get in touch with your usual adviser to help you navigate them] the UK economic outlook has been gently upgraded and UK equity still offers substantial value compared to other markets.

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Energy prices, to which there is most economic sensitivity, drifted down to $70 per barrel of oil, helping ease inflation, however, the price remains volatile and sensitive to tensions in the Middle East. Meanwhile European gas prices have been creeping up despite full reserves ahead of winter. Industrial metal prices received a fillip from Chinese policy moves to aid property markets and re-energise economic activity, although they have since eased as activity remains muted. New mine projects in general are few and far between, so any pickup in demand could easily see prices rise further. Gold continues to be the standout beneficiary of heightened uncertainty and expected interest rates cuts.

The extended shipping times caused by attacks in the Red Sea notwithstanding, transport availability, as well as material and component supply are mostly back to normal. One notable exception is in aerospace, where multiple supply constraints are holding up delivery schedules. For European car manufactures the issue is demand, where government policy is grating against lack of infrastructure.

A global interest rate cutting cycle (bar Japan) is now well under way. Although there are different views on the pace and extent of cuts, they will help small companies and households with mortgages, albeit with delays reflecting the large use of fixed rate mortgages. The yields on long bonds, however, are moving in the opposite direction, reflecting the growing levels of government debt across the western world, with little sign of seriously tackling budget deficits. This continues to act as a headwind against long term investment financing.

Although more property funds are winding up, or merging, due to difficulties in offering sufficient liquidity, rental payments remain largely up-to-date, whilst repricing of properties settles down. The bond market turmoil has reduced valuations but many REITs still trade at discounts that are attracting interest. Listed infrastructure premiums have been replaced with discounts. Renewable energy focused ones still face uncertainty of energy prices, but new regulations should provide more certainty on long term pricing. Despite windfall taxes and higher debt costs there is still plenty of room to grow.

The biggest year ever for elections in history, is drawing to a close (although don't rule out one last possible twist in Germany). The US election on the 5th of November remains the focal one, with a bifurcated outcome between Kamala Harris or Donald Trump. Nationalist politics have been at the forefront, but many elections have produced uncertain coalitions, perhaps not best equipped for decisive action on domestic problems and the foreign conflicts requiring international cooperation.

The heavily predicted recession, last year, failed to arrive in the US, although small technical ones were recorded in the UK and Europe. Hopes of a 'soft landing' disguise the likelihood that growth will simply be disappointing. Supporting economies through Covid and the energy price spike, have a real cost and take away from other economic activity; the sharp rise in interest rate costs are still working their way through finances. Softness is now beginning to emerge in the employment market, although real wages are growing again after a long period of erosion and there is a significant cohort of savers who actually benefit from higher interest rates.

Company results have in general held up reasonably well, with aggregate reported profits moving ahead, however, individually there has been a wide dispersion, with companies that disappoint often seeing a sharp drop in their share price. Consumers have been showing greater price sensitivity and some industrial companies have reported demand weakness, this is particularly true of car companies, who have been slashing their forecasts.

Sadly the instances of armed conflict and human suffering show no sign of decreasing. The febrile nature of international politics makes a coordinated push for peaceful solution difficult, although diplomatic efforts are being made in the background. This volatile background necessitates well-diversified portfolios and as the recent moves in China demonstrate, a positive change in sentiment can result in some sharp market rallies. It is important to remain calm and keep the focus on picking out the winners and survivors.

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Market Outlook

Equities	Stock markets came under some pressure in October as bond yields rose. The UK budget has received a mixed market response, but the focus is now firmly on the US election. There is already uncertainty about the pace of interest rate cuts, but inflation has eased enough for further cuts to be made. Meanwhile third quarter earnings reports have, so far, provided support, although disappointments have been heavily punished. Evidence of economic growth recovering should see equities advance further.
Fixed Interest	With the Federal Reserve Bank cutting interest rates in September, along with another cut by the ECB and Chinese easing, markets are expecting a global series of further cuts into next year. However, the size and pace of increase in government deficits has led to renewed concern about the sustainability of fiscal policy, leaving bond yield curves significantly higher. This will not help encourage economic growth, which, as with equities, is the only way to make real progress.
Commercial Property	In contrast to housing, commercial property values have come down significantly, particularly office and retail values. With working and shopping patterns still settling into a new equilibrium, there is still some 'price discovery' ongoing and discounts on property trusts reflect the uncertainty. However, there has been very little new supply in recent years and demand is continuing to hold up. Debt costs are still a headwind but, selectively, there are some attractions.
Alternative Assets	Infrastructure investment funds offer benefits for exposure to physical assets, some with attractive inflation linked contracts, and growth tied to improved connectivity and de-carbonising economies; although build costs have risen. High debt costs that weighed on the valuations of private equity and infrastructure trusts, are still an issue. Absolute Return strategies have shown some defensiveness but generally offer low returns and we continue to choose sparingly.
Cash	The investment return on cash and cash like instruments has peaked and, whilst still attractive, is starting to decline.

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