THORNTONS INVESTMENTS

Markets Review - to end December 2024.

THORNTONS WEALTH

Market Returns

(Returns in £)	1 month	3 months	6 months	1 year
UK Equities	-1.3%	-1.0%	0.4%	5.6%
Global Equities	-1.1%	6.3%	6.0%	18.2%
UK Gilts	-2.3%	-5.0%	-2.8%	-6.7%
UK Property	0.4%	1.2%	2.4%	3.5%
Gold	0.2%	6.8%	13.9%	29.4%
Commodities	5.4%	12.8%	5.7%	20.5%
Sterling	-0.2%	-1.8%	1.0%	3.0%

Returns to 31st December 2024. Source: Refinitiv

Market Overview

Welcome to 2025 and a Happy New Year. Despite war, conflict and global electoral uncertainty (some of which is carrying into 2025), 2024 was a good year for investment returns. The year was dominated, again, by US stock market returns of over 20%, with the tech heavy NASDAQ market up nearly 30%. There were two dominant drivers of performance, hopes that Artificial Intelligence (AI) and President Elect Trump, or 'Trump 2.0', will drive productivity improvement and enhance growth. The US dollar also strengthened significantly as Europe continued to struggle with the war in Ukraine and adapting to the end of cheap Russian gas and China continues to be weighed down by their property market.

The UK stock market got off to a bright start in 2024, but got bogged down by the surprise election call and disappointment that the subsequent budget (but at least we got one, unlike Germany and France) would not do much to engender growth. Expectations of interest rate cuts were also disappointed with just 0.5% of cuts versus 1% in Europe and the US. Whilst bonds, especially long dated bonds, had a poor year, weighed down by rapidly expanding government deficits and anaemic growth outlooks. UK property staged a mild recovery, but returns were largely made up of the higher yields property now generates.

With the increasing enmity between the East and West, particularly China and the US, gold was the best performing financial asset class, perhaps reflecting that geopolitical risk remains elevated. Agricultural and energy prices generally saw rises, although crude oil was largely unchanged, whilst industrial metals were generally weak in line with the Chinese economy.

With the inauguration of President Trump just weeks away and the appointments of some unusual executive personnel, there is still plenty that could surprise. Hopefully, the threat of tariffs is more rhetoric than reality. Otherwise, there are plenty of things that could turn positive, such as peace agreements, and it might not take much to flip the biggest missing economic factor here, confidence. After a couple of years in which a handful of large US tech stocks have dominated investment returns, we would expect a broadening of positive returns.

Energy prices, to which there is most economic sensitivity, saw oil finish in the low $70s, slightly down on the year, but gas prices up in Europe as access to cheap Russian gas is increasingly denied. Industrial metal prices were notably weaker over the year as European growth proved anaemic and China struggled to get its economy much above stall speed. New mine projects in general are few and far between, so any pickup in demand could easily see prices recover. Gold has seen strong demand from central banks, particularly in Asia, offsetting the recent headwinds of a strong dollar and higher bond yields.

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 manufacturers the issue is demand, where government policy is grating against lack of infrastructure.

A global interest rate cutting cycle (bar Japan) is now 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, have moved 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.

A number of property funds merged or were wound up in 2024 due to difficulties in offering sufficient liquidity. However, 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 to quoted value, that are attracting interest. Listed infrastructure had a mixed year, with discounts widening. Renewable energy focused ones still face uncertainty on 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 election indigestion that beset 2024, did little to settle political turmoil, despite clear outcomes in the UK and US. The one clear shift was a continued swing towards nationalist politics. The uncertainty, however, remains, as policy pronouncements from the social ‘bully pulpit’ in the US have not all been consistent or necessarily sit comfortably with Congress. It is quite likely that much of it is positioning ahead of inauguration on 20th January; it is to be hoped that the full range of trade tariffs is not enacted.

The heavily predicted recession 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, especially mortgages. 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 have shown 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 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	After another year of US stock market dominance, the question for 2025 is, will we get a repeat? The US economy currently has the most robust outlook, of the major economies, but we will also get the policy reality of Trump 2.0. There is also the question of what returns can be generated from the vast investments in AI? Expectations for both AI and US growth are both high and any disappointment will be punished. Expectations elsewhere are much lower and a relative recovery by other markets feels like the more likely outcome.
Fixed Interest	Enthusiasm for interest rate cuts has cooled in the US with the election of President Trump and a Republican Congress, whilst the economic funk in Europe is pressuring the ECB to cut rates faster. The Bank of England is still likely to cut this year, but is waiting for signs of inflation falling again, and/or unemployment rising. With government debt levels high and in some cases rising, yield curves could well steepen (short term interest rates lower and long term bond yields remaining high).
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, remain an issue but de-gearing is taking place. 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.

Thorntons Investments **3rd January 2025**

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