QUILTER CHEVIOT

Market commentary June 2024

Monthly Comment: An aura of positivity across many markets

The global markets experienced a wave of optimism in May, as many key indices concluded the month on a high and the MSCI AC World Index coming in at a commendable 2.3% increase compared to the previous month.

US equities – particularly those in the tech sector – played their part. AI chip manufacturing leader NVIDIA saw its shares soar by over 9% following a stellar first-quarter earnings report that revealed a 262% revenue boost and an upcoming 10-for-1 stock split. This announcement highlighted NVIDIA's robust financial health and its significant contribution to the earnings-per-share of US large caps.

Earlier in May, the US Consumer Price Index hinted at a potential softening of inflation rates, which led to a surge in US equities by 1.6%, lifting the year-to-date figures to 11.8%. A historic milestone was achieved when the Industrial Average surpassed the 40,000 mark for the first time. Following the data, the US market indicators have proven positive, with the MSCI North America up by 2.9% and US Treasuries increasing by 1.5%.

In the UK, the markets rebounded strongly after a brief recession in the latter half of 2023. The UK economy reported an impressive 0.6% growth in the first quarter of 2024, outperforming all other G7 economies. The UK market's performance was robust, with the MSCI UK index up by 1.9% and UK Gilts yielding positive returns.

Rate cut expectations across the US, UK and EU

While May was a month that showcased cautious optimism in the financial markets, the Federal Reserve and the Bank of England remain cautiously vigilant regarding potential rate adjustments.

The Federal Reserve

The US Personal Consumption Expenditures (PCE) Price Index for April indicated persistent inflation pressures, yet core measures suggested a slight easing. The preferred inflation gauge of the Federal Reserve rose by 0.3% during the month,

Past performance is no guarantee of future returns.

Approver: Quilter Cheviot Limited 14 June 2024

in line with forecasts, maintaining the steady inflation rate seen in the previous month. The core PCE Price Index, which excludes the volatile food and energy sectors, rose by a modest 0.2%, slightly below the expected 0.3%, hinting at a potential softening in underlying inflationary trends.

The core PCE also saw a year-over-year rise of 2.8%, aligning with expectations and mirroring the previous month's rate. The modest improvement in core PCE offers a hint of optimism, but the overall persistence of inflation rates suggests that the Federal Reserve may continue to be cautious with monetary policy in the near future. Federal Reserve Chair Jerome Powell indicated that gaining confidence in inflation progress to begin rate cuts "will take longer than previously expected," referencing the Fed's earlier projections which included three rate cuts in 2024, while market expectations had already adjusted to just one cut prior to the latest meeting.

The Bank of England

In the UK, April's consumer price growth decelerated to 2.3%, the lowest in nearly three years, and slightly higher than the 2.1% prediction. This slower-than-expected decrease led to a recalibration of expectations for a midyear rate cut by the Bank of England. With core inflation at 3.9%, financial markets are now considering the likelihood of a single 25 basis point rate cut this year, adjusting from the previously anticipated two cuts.

The European Central Bank

The European Central Bank is likely to have announced its first reduction in interest rates in eight years this Thursday, with expectations to decrease by 0.25 percentage points to 4.25%. Should the ECB proceed with the rate cut, it will be the first among its peers, moving ahead of the Bank of England and the Federal Reserve, both of which have meetings scheduled in June.

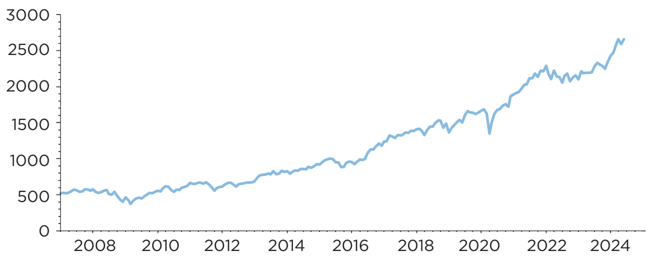
This anticipated move comes despite a recent uptick in eurozone consumer prices, which had previously been hovering around the bank's 2% target. Contrary to forecasts, both the headline and core inflation figures for May exceeded projections, marking the first month-on-month acceleration of the year. The year-on-year inflation rate climbed to 2.6% from April's 2.4%, while core inflation, excluding energy and food costs, also saw an increase to 2.9% from 2.7%.

Market expectations for EU interest rate cuts in 2024 have been scaled back to less than 0.6%, suggesting two potential cuts with a third being a possibility. This is a reduction from April's forecast of three cuts and a significant decrease from January, when the markets were bracing for at least five reductions.

MSCI UK IMI

iBOXX Sterling Gilts

MSCI All World £ – TOT Return



Source: Refinitiv Datastream 13/06/2024

Election called in the UK

In light of the unexpected announcement of an early general election set for Thursday 4 July, the UK financial markets have shown a remarkably calm response. Despite the potential for political upheaval, indicators such as sterling, the 10-year gilt yield, and the large cap markets have all experienced minimal fluctuations.

This subdued market reaction can be attributed to a combination of factors: the markets' growing resilience to political events and the absence of drastic fiscal policy changes proposed by the major political parties, largely due to inflation's impact on public spending. Consequently, the markets have maintained a 'business as usual' stance amidst the election news.

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