Fiske

Investment Commentary

Q2
2024

Overview

This report will be bookended by politics, with 2024 already known as a year of exceptional election activity with nearly half of the world's population going to the polls. Prime Minister Rishi Sunak's decision to call a snap election on 4th July, despite trailing Sir Keir Starmer's Labour Party by over 20% in the opinion polls, came as a surprise. Not to be beaten to the post, France's President Macron also called a snap election, despite the far-right Rassemblement National Party polling strongly. India held elections over the quarter, with Prime Minister Modi returned to office, as predicted, but with a margin of victory that was lower than expected. The US election also had its first televised face-to-face debate between President Biden and Donald Trump, which, in American football terms, could be likened to the 81ers taking on the 78ers.

The other 'noise' affecting markets continues to centre around inflation and interest rates, with the former falling towards or below central bank targets to the extent that the European Central Bank (ECB) has managed a 0.25% interest rate cut. The inflation rate in the US persists at over 3%, which has stayed the hand of the Federal Reserve Bank and pushed expectations for an interest rate cut further out. In the UK, helped by a drop in energy and food prices, inflation has reached the 2% target. However, the Bank of England has remained on hold.

Other economic indicators have been moving slowly in the right direction. Service sector Purchasing Manager Indices (PMI) show expansion, while manufacturing, particularly in Europe, continues to contract. First-quarter GDP growth in the UK, revised up to 0.7%, was stronger than expected. In the US, while slowing from the exceptional pace of the second half of last year, the economy still grew by 1.3%. Growth in the Eurozone was 0.3%. Elsewhere, India grew by 2.1% and China by 1.6%. Japan continues to struggle, and the economy shrank by 0.5%. Employment numbers remain strong, with a shortage of workers being cited in many regions. This has inflationary implications, due to underlying wage pressures.

Geopolitical issues continue to cause unease as potential new trouble spots could flare up. Ukraine has struggled to resist modest Russian advances, partially due to a lack of weaponry arriving from the US following delays in agreement on financing. The conflict in Gaza seems no closer to a solution, with little give or take on either side. Whenever a helpful resolution has looked possible, one side or the other has found the terms unacceptable.

The following table sets out the market movements for the past quarter.

Index	31/03/2024	30/06/2024	Change
CBOE UK 100	796	814	2.3%
CBOE UK All Companies	13,928	14,234	2.2%
CBOE UK 250	17,337	17,625	1.7%
MSCI Private Balanced	1,866	1,888	1.2%
MSCI Private Growth	2,112	2,149	1.8%

Macro-economic picture

As can be seen from the table above, despite the political and geopolitical uncertainties around the world, equity markets have made modest gains during the quarter. Many of the world's equity market indices have touched new all-time highs during the period.

The UK's FTSE 100 Share Index reached a new high in May. There has been a broadly equal balance between winners and losers across the main market index, but four of the largest six companies – AstraZeneca (+16%), HSBC (+11%), Unilever (+9%) and Shell (+8%) – have certainly helped. Takeover activity continues to be a feature, with an offer – now withdrawn – for mining company Anglo American and pending offers for cyber-security business Darktrace and computer gaming software company Keyword Studios, to mention but a few. Bidders continue to recognise the excellent value in the UK which we have mentioned in previous reports.

The main sectors of the market have performed reasonably well, with banks (+11%) leading the way. Telecoms (+8%), pharmaceuticals (+6%) and oils (+4%) have also contributed. On the other hand, utilities (-3%) and housebuilders have been a drag. This time smaller companies and AIM have modestly outperformed their larger peers.

Internationally, the story has been pretty much on 'repeat'. The super-sized technology stocks in the US have made all the running, with Nvidia's unstoppable rise seeing its value briefly surpass that of Apple and Microsoft to make it the most highly valued company in the world. European markets seem to have fully discounted the ECB's interest rate cut, while Japan has held steady despite the yen continuing to fall to long-term lows.

The market in India suffered a brief wobble after the election result but returned to record levels by the end of the quarter. The Chinese market has been more challenged, as economic numbers have failed to impress.

Outlook

Sir Keir Starmer's resounding victory in the UK General Election removes the impasse in policy decision-making. Time will tell whether the Labour Party's expansionary plans for the UK economy will be successful, but in the short term the UK equity market is likely to respond positively. Fiscal restraints may later curb some of this enthusiasm.

Meanwhile, falling rates of inflation suggest that central banks will continue to lower interest rates this year. Against this background, we continue to favour a full weighting in equity markets. The relatively inexpensive ratings of UK equities and in particular smaller companies will continue to attract predators, and we expect to see further merger and acquisition activity.

The concentration of a handful of high-tech mega-companies held in index-tracking funds is increasing risk in the US. The market pullback could be very severe if growth estimates for these companies, which currently enjoy exceptional share-price performance, fail to meet expectations. We therefore prefer to invest either directly in selective US equites or in more diversified and actively managed funds that are likely to perform relatively well should share price momentum in companies such as Nvidia, Microsoft, Apple, Meta and Alphabet start to wane.

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