

For professional clients only, not suitable for retail clients.



GMAPs

Quarterly Overview

30 June 2024

Overview

Market overview

The macro backdrop may appear not as worrying as it was a couple years ago but there is plenty of concerning developments below the surface, and political factors added another element of volatility this quarter. However, broadly speaking, the scene has been set with steady growth, sticky inflation and slow easing by central banks.

Data released in the UK in the second quarter confirmed that the country bounced out of technical recession in the first quarter and painted a picture of continued positive economic growth and with inflation falling back to the Bank of England's 2% target. First quarter GDP rose 0.7% quarter-on-quarter in real terms after falling 0.3% in the fourth quarter. The US Federal Reserve continued to keep rates on hold at 5.25-5.50% over the quarter against a still resilient labour market backdrop, and the relatively strong (core) CPI inflation seen over January to April. The European Central Bank cut rates 25bps in June, citing progress on inflation and in line with signalling from various ECB speakers. Signals for the outlook beyond June at that meeting were more ambiguous and data dependent. Euro area CPI moved from 2.4% year-on-year in March to 2.6% in May, with core at 2.9% in May after 2.9% in March.

Markets have once again been dominated by interest rates during the quarter, despite little or no movement in this area. 2024 started with expectations that central banks would cut early and cut often. However, as the year has progressed, those expectations have changed. Inflation has generally not come down quite as fast as hoped, with services inflation proving sticky, particularly in the UK, while growth has generally not been as weak as feared - particularly in the US. Interest rates were cut just once across the Federal Reserve, European Central Bank and Bank of England, with the ECB cutting rates in June. Most central bank forecasters now only expect one or two cuts from each of these banks over the course of 2024 as a whole.

Ahead of the US Presidential elections in November, snap parliamentary elections were called in the UK and France, providing reminders that voter dissatisfaction with the seeming consensus on economic policy and ongoing lack of consensus on longer-term issues such as climate change create an uncertain backdrop for businesses and consumers alike.

Global equities continued to rally over Q2, with stronger than expected earnings growth fuelled by AI demand helping markets look through risk of fewer than previously expected 2024 interest rate cuts. US stocks saw the best returns in the first half of an election year since 1976. Meanwhile European shares underperformed amid political risk arising from French snap elections. Emerging markets and Asia Pacific ex Japan were the best performers.

Some of the same trends that were driving markets during the first quarter continued into the second quarter of 2024. While the technology sector has continued to outperform, there has been underneath a rotation in market with sectors like financials or utilities also performed well. The technology sector has remained the best performing sector driven by artificial intelligence (AI) which is triggering significant investments in technology infrastructure particularly semiconductors. The financial sector benefitted from the diminished expectations of interest rates cuts. Finally, utilities benefitted from increased demand for electricity driven by the growth of datacentres. Cyclically sensitive sectors like industrials and consumer discretionary were among the worst performers impacted by deteriorating activity data.

The price of WTI crude oil lost 2.0% over the quarter to \$82 a barrel, stagnating after the strong gains made in the prior quarter. Copper futures meanwhile gained 8.3% in US dollar terms.

The US dollar appreciated by 6.3% against the yen, by 0.7% against the euro, and was flat against sterling.

Overview

Performance and activity

Asset allocation overview

At the tactical asset allocation level, we maintained an overweight position in equities which continued to benefit us as it did for most of 2023. However, as the Investment Clock moved away from the equity-friendly Recovery phase and into Overheat, we reduced the size of our overweight position, acknowledging the macro backdrop has become less favourable as we enter the volatile summer period. At the sector level, we added value from a broad preference towards growth sectors, funded from an underweight in defensives. With much uncertainty around the macroeconomic environment, we continue to see great benefits in a well-diversified multi asset approach which aims to deliver positive risk-adjusted returns over the medium to long term.

Equities

Global equity indices ended the quarter at all-time highs. Resilient macro data, strong corporate earnings results, and expectations of policy loosening this year all contributed to market optimism. While price momentum remains strong, we have taken some profits of late, driven by our Investment Clock moving away from equity-friendly Recovery phase into Overheat. Our overweight position continued to add value over the quarter.

Bonds

Bond yields ended only slightly higher on the quarter, while intra-period moves were very choppy, with yields reacting to any surprises to economic data – like central bankers, bond investors remained data-dependent. While ECB delivered their first interest rate cut of this cycle in June, expectations of rate cuts for other major central banks (Fed and BoE) for rest of the year were dialled back over the quarter. We initiated an underweight position in bonds in the beginning of the quarter but ended up losing a bit of performance in this volatile environment.

Equity regions

US stocks had a strong end to Q2 and have recorded their best first half year performance in an election year since 1976; we moved overweight the region which added value over the period. We closed our overweight in Japan over the quarter; the region started to struggle in relative terms as Japan's Ministry of Finance intervened in currency markets to try to stop the yen from weakening.

Equity sectors

The US technology sector, which led gains last year and in Q1 of this year on the back of high expectations around AI continued to outperform over Q2. We remained broadly overweight the growth sectors, technology and consumer discretionary, funding this primarily from defensives and energy, but took some profits into the quarter end. The recent move higher in the tech sector has been backed by strong earnings growth.

Property

We remain positive on the long-term prospects for property within a diversified multi asset portfolio. However, in the near term, we see better opportunities elsewhere. We remained tactically underweight property over the period; commercial property rose slightly but underperformed equities over the quarter. Lingering recession fears and the sluggish UK economy have continued to weigh on property relative to other risky assets, while hints of potential BoE rate cuts this year are seen as a positive signal for the asset class.

Outlook

While we expect headline inflation to continue to fall, we are not expecting a return to the previous disinflationary world. We see a more normal new regime characterised by periodic spikes in inflation and short boom-bust cycles. Tactical asset allocation is important when business cycles are shorter given inflation causing more movement in interest rates. Our funds have benefited from an overweight in equities since 2022 as the world economy proved much more resilient than expected to higher interest rates. However, we have taken profits of late, reducing our allocation to stocks as our Investment Clock has moved away from the equity friendly Recovery quadrant. We have now entered the summer months which tend to be more volatile for stock markets and the risk is elevated that macro data could create further challenges.

Further Information

Please click on the links below for further information:



Find out more

In an uncertain geopolitical and economic environment, we recognise the importance of keeping our clients updated on our current investment thinking.

Articles, videos, podcasts and webinars giving the latest views of our investment experts can be found in the Our Views section of www.rlam.com, including regular updates from our Fixed Income, Global Equity, Sustainable and Multi Asset teams.

Important information

Important information

For professional clients only, not suitable for retail clients.

This is a financial promotion and is not investment advice.

Telephone calls may be recorded. For further information please see the Privacy Policy at www.rlam.com.

Issued in July 2024 by Royal London Asset Management Limited, 80 Fenchurch Street, London EC3M 4BY. Authorised and regulated by the Financial Conduct Authority, firm reference number 141665. A subsidiary of The Royal London Mutual Insurance Society Limited.