



Narrow stock market leadership continues

Q2 2024 review by Jake Winterton, Assistant Fund Manager, and Jasper Jogi, Multi Asset Analyst

Equity markets continued to advance over the second quarter of the year. Returns on global stocks are now in double-digit year-to-date territory (Table 1); this takes the performance since October's lows close to 30% in local currency terms. Commodities have also offered positive returns so far this year, while returns on bonds have been negative as markets reassess monetary policy expectations.

The recent leg higher for equities has been largely driven by continued positivity around AI-related stocks, with Nvidia being the clear winner of the narrative as the company's share price rose another 37% over the quarter. While the leadership in technology stocks has been severe, the strong performance has been backed by stellar earnings growth from these companies (Chart 1). While volatility in equity markets has dropped back towards historical lows, bond market volatility remains above the last 20-year average (Chart 2). As central bankers remain data-dependent in setting monetary policy, so do the markets, and bond yields continue to react sharply to any surprises in incoming data, especially on the inflation front.

On a tactical level, we continue to hold a positive view on equities, with economic activity remaining resilient and selected central banks already starting to ease policy, which should provide further support as the year progresses. More recently, we have turned more positive on US stocks in particular while maintaining a negative view on European shares amid political uncertainty around French snap elections.

Please see the [Investment Clock blog](#) for our latest views.

Chart 1: Tech stock rally has been backed by earnings

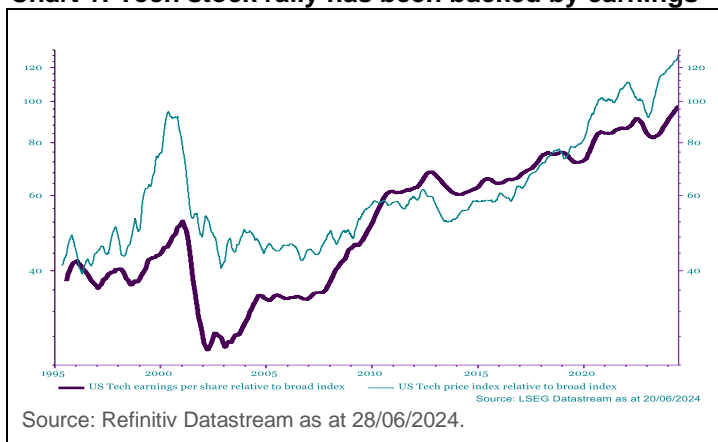


Chart 2: Bond market volatility remains elevated

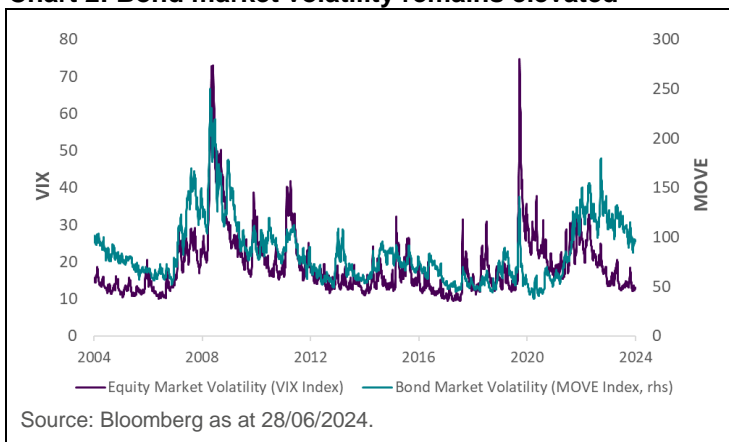


Table 1: Sterling-based annual returns from major asset classes 2017 – Q2 2024

Year	2017	2018	2019	2020	2021	2022	2023	YTD
1	EM Stocks +21.1%	Property +7.5%	Global Stocks +22.6%	Global Stocks +14.3%	Commodities +28.3%	Commodities +30.7%	Global Stocks +16.0%	Global Stocks +12.4%
2	Global Stocks +14.0%	Cash +0.6%	UK Stocks +19.2%	EM Stocks +11.9%	Global Stocks +20.0%	Cash +1.0%	UK Stocks +7.9%	EM Stocks +9.3%
3	UK Stocks +13.1%	Gilts +0.6%	EM Stocks +15.9%	Gilts +8.3%	Property +19.9%	UK Stocks +0.3%	Multi Asset +6.9%	UK Stocks +7.4%
4	Property +11.2%	Multi Asset -1.6%	Multi Asset +10.0%	Multi Asset +4.9%	UK Stocks +18.3%	EM Stocks -6.4%	Cash +4.4%	Commodities +6.0%
5	Multi Asset +6.3%	Global Stocks -3.1%	Gilts +6.9%	Cash +0.3%	Multi Asset +8.3%	Multi Asset -7.3%	Gilts +3.7%	Multi Asset +4.3%
6	Gilts +1.8%	Commodities -5.7%	Commodities +3.5%	Property -1.0%	EM Stocks +1.0%	Global Stocks -7.8%	EM Stocks +2.9%	Cash +2.6%
7	Cash +0.3%	EM Stocks -7.6%	Property +2.1%	Commodities -6.1%	Cash +0.0%	Property -10.1%	Property -0.1%	Property +1.7%
8	Commodities -7.1%	UK Stocks -9.5%	Cash +0.7%	UK Stocks -9.8%	Gilts -5.2%	Gilts -23.8%	Commodities -13.1%	Gilts -2.5%

Past performance is not a reliable indicator of future results. Source: RLAM, Refinitiv Datastream as at June 2024; property as at May 2024. 'Multi Asset' returns are based a mixture of 8.12% UK equities, 21.13% in global equities, 3.25% in EM equities, 7.5% in property, 5% in commodities, 5% in global high yield, 6.25% in UK IG credit, 2.5% in global IG credit, 10% in UK SD IG credit, 2.5% in UK linkers, 1.5% in UK SD linkers, 3.5% in global SD linkers, 6.75% in gilts, 2% in overseas government bonds, 5% in SD gilts and 10% in cash. Indices used are FTSE All Share, FTSE World, MSCI Emerging Markets ESG Leaders, MSCI/AREF UK All Balanced Quarterly Property Fund, Bloomberg Commodity Index, BoAML BB-B Global Non-Financial High Yield Constrained Index, iBoxx Sterling Non-Gilt Index, Bloomberg Barclays Global Aggregate Corporate Index, FTSE Actuaries UK Index Linked Gilts, Bloomberg Barclays UK Government Inflation Linked Bond 1-10 year Index, Bloomberg Barclays World Government Inflation Linked Bond (ex UK) 1-10 year, FTSE Actuaries UK Conventional Gilts Index, JPM Global ex-UK Traded Index, FTSE Actuaries UK Conventional Gilts up to 5 Years Index, SONIA. Total returns in sterling terms.

Markets: Technology sector continues to rally despite rising yields

- 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.
- Bond yields ended higher in a volatile quarter as markets continued to price out some of previously expected rate cuts from the main central banks for the rest of the year. ECB delivered a 25bps rate cut in June.
- Commodity prices rose. Metals were a main contributor, as gold made new all-time highs above \$2300/oz and base metals rallied by 24% over the first half of the quarter. Prices did retrace over the second half of Q2 though.
- In FX, yen fell to the weakest level against the US dollar since 1986, as support from Japan's MoF interventions proved to be short-lived. Euro weakened on political risk.

FX	1 GBP buys	%chg Q2 (vs GBP)	%chg 2024
USD	1.26	-0.2	0.7
EUR	1.18	-0.9	-2.3
CHF	1.14	0.1	-5.7
JPY	203.4	-6.1	-11.7
AUD	1.90	2.3	-1.5
CAD	1.73	-1.1	-2.4

CB rates	Rate (%)	chg in Q2 (%)	chg 2024 (%)
Fed	5.50	0.00	0.00
BoE	5.25	0.00	0.00
ECB	3.75	-0.25	-0.25
BoJ	0.08	0.00	0.12

Bond Yield	Yield (%)	chg in Q2 (bps)	chg 2024 (bps)
US 10 Year	4.40	20	52
UK 10 Year	4.17	24	64
EU 10 Year	2.50	20	48
JP 10 Year	1.05	32	43

Multi Asset

	Local Currency		GBP	
	Q2	2024	Q2	2024
UK Stocks	3.7	7.4	3.7	7.4
Global ex UK Stocks	3.6	13.5	2.9	12.4
Gilts	-0.9	-2.5	-0.9	-2.5
UK Cash	1.3	2.6	1.3	2.6
UK Property	1.0	1.7	1.0	1.7
Commodities	2.9	5.1	2.8	6.0

Equity Regions

	Local Currency		GBP	
	Q2	2024	Q2	2024
UK	3.7	7.4	3.7	7.4
North America	3.9	14.5	3.8	15.3
Europe ex UK	1.1	9.5	0.3	7.1
Japan	2.0	20.4	-4.1	6.4
Pacific ex Japan	5.5	12.2	5.3	8.5
Emerging Markets	7.2	11.3	6.0	9.3

Global

Equity Sectors

	Local Currency		GBP	
	Q2	2024	Q2	2024
Consumer Discretionary	-0.7	6.5	-1.4	5.4
Industrials	-0.8	10.3	-1.7	8.3
Financials	0.9	11.9	0.3	10.8
Consumer Staples	0.6	4.8	0.0	3.7
Utilities	4.4	7.2	3.8	6.5
Healthcare	0.7	9.3	0.4	8.6
Energy	-0.1	10.6	-0.6	10.0
Materials	-2.4	1.6	-3.1	-0.3
Communication Services	3.2	9.6	1.8	6.7
Technology	12.0	26.4	11.5	26.0

Bonds

	Local Currency		GBP	
	Q2	2024	Q2	2024
Conventional Gilts	-0.9	-2.5	-0.9	-2.5
Index Linked Gilts	-2.1	-3.9	-2.1	-3.9
GBP Credit	-0.1	-0.1	-0.1	-0.1
Global High Yield	1.3	3.1	1.3	3.1

Commodities

	Local Currency		GBP	
	Q2	2024	Q2	2024
Energy	3.0	8.0	2.9	8.9
Agriculture	-3.4	-6.3	-3.5	-5.5
Industrial Metals	9.8	9.0	9.7	9.9
Precious Metals	7.9	15.0	7.9	16.0

Note: Standard indices sourced from DataStream and Bloomberg as at 28 June 2024; Property data as at 31 May 2024.

Jake Winterton is an assistant fund manager and Jasper Jogi is an analyst within Royal London Asset Management's multi asset team. The team manages portfolios including the Governed Range pension portfolios, the Global Multi Asset Portfolios (GMAPs), Multi Asset Strategies Fund (MAST) which is available on third party platforms and the euro based multi asset funds that form the core of the Royal London Irish pensions offering.

Investment risks – RL GMAP fund range

Investment risk: The value of investments and any income from them may go down as well as up and is not guaranteed. Investors may not get back the amount invested.

Credit risk: Should the issuer of a fixed income security become unable to make income or capital payments, or their rating is downgraded, the value of that investment will fall. Fixed income securities that have a lower credit rating can pay a higher level of income and have an increased risk of default.

Derivative risk: Derivatives are highly sensitive to changes in the value of the underlying asset which can increase both fund losses and gains. The impact to the fund can be greater where they are used in an extensive or complex manner, where the fund could lose significantly more than the amount invested in derivatives.

EPM Techniques: The fund may engage in EPM techniques including holdings of derivative instruments. Whilst intended to reduce risk, the use of these instruments may expose the fund to increased price volatility.

Exchange Rate risk: Changes in currency exchange rates may affect the value of your investment.

Interest Rate risk: Fixed interest securities are particularly affected by trends in interest rates and inflation. If interest rates go up, the value of capital may fall, and vice versa. Inflation will also decrease the real value of capital.

Emerging Markets risk: Investing in emerging markets may provide the potential for greater rewards but carries greater risk due to the possibility of high volatility, low liquidity, currency fluctuations, the adverse effect of social, political and economic instability, weak supervisory structures and accounting standards.

Counterparty risk: The insolvency of any institutions providing services such as safekeeping of assets or acting as counterparty to derivatives or other instruments, may expose the fund to financial loss.

Fund investing in Funds risk: The fund is valued using the latest available price for each underlying investment, however it may not fully reflect changing stock market conditions and the fund may apply a 'fair value price' to all or part of its portfolio to mitigate this risk. In extreme liquidity conditions, redemptions in the underlying investments, and/or the fund itself, may be deferred or suspended.

Liquidity and Dealing risk: The fund invests indirectly in assets that may at times be difficult to value, harder to sell, or sell at a fair price. This means that there may be occasions when you experience a delay in being able to deal in the fund, or receive less than may otherwise be expected when selling your investment.

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