Another strong year for stock markets

2024 Q4 review by Jake Winterton, Assistant Fund Manager

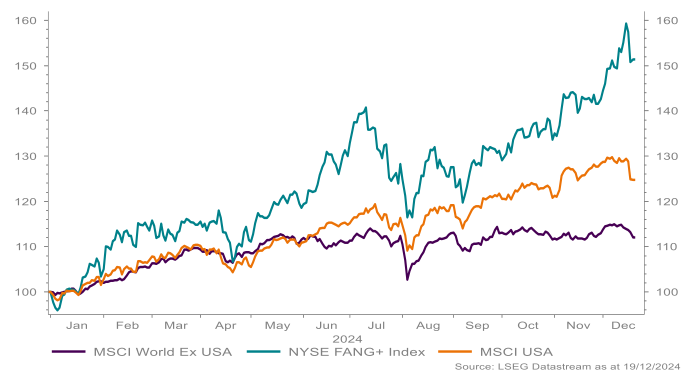
Equity markets continued their advance over 2024, ending the year close to all-time highs following consecutive years of double-digit returns. The S&P 500 index gained over 25% on the year, after gaining over 26% in 2023, marking the best two-year performance for the index since the late 1990s. The year also proved to be positive for commodities and UK property (Table 1).

A notable theme over the final quarter of 2024 was the continued narrow leadership which drove the advance in equities, with a small handful of megacap technology stocks in the US responsible for a large portion of the overall market gains (Chart 1). The FAANG+ index ended the year up over 50% while the so-called 'Magnificent 7' ended the year up 67%, a trend which accelerated in the fourth quarter following the US election. Bond yields were choppy but ended higher even as most central banks cut policy rates over the year. Policy uncertainty grew following the UK budget, where concern lingered around inflation pressures. In the US, the election and a more hawkish sounding Federal Reserve helped see US 10-year yields ultimately end at 4.57% following their largest quarterly rise in over two years (Chart 2). Commodities were rather mixed, but precious metals outperformed over the year with geopolitical tensions remaining high and central banks continuing to increase their allocation to gold.

On a tactical level, we have added back to risk assets over recent months. The Investment Clock is in the equity-friendly Recovery quadrant and the technical backdrop is supportive. With inflation at lower levels, central banks are cutting rates globally, which should provide a boost to business confidence and earnings, potentially offsetting negatives from any tariffs imposed by a Donald Trump administration. We were overweight US equities going into the election and remain so, with earnings and economic data looking more resilient in the region.

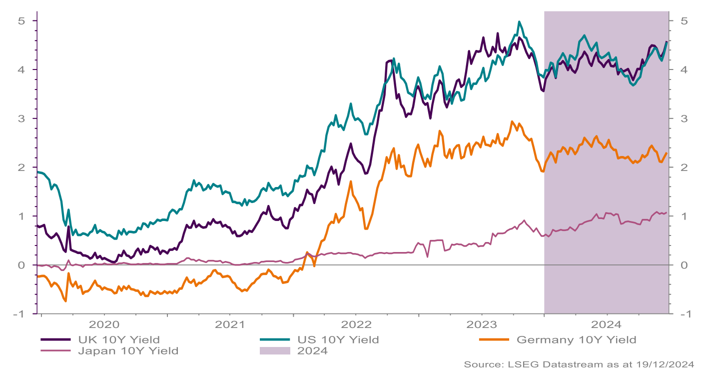
Please see the Investment Clock blog for our latest views.

Chart 1: Select number of US stocks led the rally



Source: Refinitiv Datastream as at 31/12/2024.

Chart 2: Bond yields ended a choppy year higher



Source: LSEG Datastream as at 31/12/2024.

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

Year	2017	2018	2019	2020	2021	2022	2023	2024
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 +20.2%
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 +14.8%
3	UK Stocks +13.1%	Gilts +0.6%	EM Stocks +15.9%	Gilts +8.3%	Property +19.9%	UK Stocks +0.3%	**Multi Asset +7.0%**	UK Stocks +9.5%
4	Property +11.2%	**Multi Asset -1.5%**	**Multi Asset +10.0%**	**Multi Asset +5.2%**	UK Stocks +18.3%	EM Stocks -6.4%	Cash +4.4%	**Multi Asset +7.7%**
5	**Multi Asset +6.3%**	Global Stocks -3.1%	Gilts +6.9%	Cash +0.3%	**Multi Asset +8.4%**	**Multi Asset -7.4%**	Gilts +3.7%	Commodities +7.3%
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%	Property +5.9%
7	Cash +0.3%	EM Stocks -7.6%	Property +2.1%	Commodities -6.1%	Cash +0.0%	Property -10.1%	Property -0.1%	Cash +5.3%
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 -3.3%

Past performance is not a reliable indicator of future results. Source: RLAM, Refinitiv Datastream as at December 2024; property as at November 2024. 'Multi Asset' returns are based on the benchmark weights of Royal London GMAP Balanced Fund. 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: A slow end to a strong year for stock markets

- Global stocks had another strong year of returns. Despite slowing down towards year-end, global equity indices ended close to all-time highs. The S&P 500 also marked its strongest two-year performance since late 1990s.
- North American equities once again ended the year as the strongest performing equity region. Continued outperformance following the US election added to a strong beginning to the year; continued earnings strength saw US stocks outperform most of their global peers.
- A jump higher in US bond yields came late in the year, as policy uncertainty and hawkish Fed comments saw the largest rise in US 10-year yields since Q3 2022.
- Commodities were mixed over the year, however it was an exceptionally strong year for gold which posted its strongest yearly gain since 2010.
- The US dollar strengthened versus every G10 currency, posting its best annual return since 2015.

FX	1 GBP buys	%chg Q4 (vs GBP)	%chg 2024
USD	1.25	7.1	1.7
EUR	1.21	-0.6	-4.6
CHF	1.14	-0.4	-5.7
JPY	197.0	-2.6	-8.9
AUD	2.02	-4.6	-7.7
CAD	1.80	0.5	-6.3

CB rates	Rate (%)	chg in Q4 (%)	chg 2024 (%)
Fed	4.50	-0.50	-1.00
BoE	4.75	-0.25	-0.50
ECB	3.00	-0.50	-1.00
BoJ	0.23	0.00	0.27

Bond Yield	Yield (%)	chg in Q4 (bps)	chg 2024 (bps)
US 10 Year	4.57	79	69
UK 10 Year	4.57	57	103
EU 10 Year	2.37	24	34
JP 10 Year	1.09	22	47

	Local Currency		GBP	
Multi Asset	Q4	2024	Q4	2024
UK Stocks	-0.4	9.5	-0.4	9.5
Global ex UK Stocks	1.3	21.0	6.1	20.2
Gilts	-3.1	-3.3	-3.1	-3.3
UK Cash	1.2	5.3	1.2	5.3
UK Property	1.7	5.9	1.7	5.9
Commodities	-0.4	5.4	6.6	7.3

	Local Currency		GBP	
Equity Regions	Q4	2024	Q4	2024
UK	-0.4	9.5	-0.4	9.5
North America	2.8	25.0	9.9	26.9
Europe ex UK	-3.3	8.0	-3.9	3.0
Japan	5.4	20.6	2.8	10.1
Pacific ex Japan	-0.5	14.1	-1.0	7.8
Emerging Markets	-3.8	17.4	0.2	14.8

	Local Currency		GBP	
Global Equity Sectors	Q4	2024	Q4	2024
Consumer Discretionary	7.7	23.2	13.0	22.9
Industrials	-1.5	16.7	2.0	14.8
Financials	5.9	28.8	10.1	27.3
Consumer Staples	-4.4	7.5	-0.4	6.6
Utilities	-6.2	15.5	-2.1	14.7
Healthcare	-9.3	3.6	-5.0	3.4
Energy	-1.1	5.8	3.1	4.7
Materials	-11.1	-3.4	-9.0	-6.1
Communication Services	-0.6	19.3	2.2	16.3
Technology	5.5	33.7	11.7	34.2

	Local Currency		GBP	
Bonds	Q4	2024	Q4	2024
Conventional Gilts	-3.1	-3.3	-3.1	-3.3
Index Linked Gilts	-6.0	-8.3	-6.0	-8.3
GBP Credit	-0.5	1.7	-0.5	1.7
Global High Yield	0.2	7.7	0.2	7.7

	Local Currency		GBP	
Commodities	Q4	2024	Q4	2024
Energy	5.5	1.2	13.0	3.0
Agriculture	-1.2	-3.9	5.8	-2.2
Industrial Metals	-7.7	3.5	-1.2	5.4
Precious Metals	-2.1	25.3	4.8	27.5

Note: Standard indices sourced from DataStream and Bloomberg as at 31 December 2024; Property data as at November 2024.

Jake Winterton is the assistant fund manager 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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