Marlborough

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Capital is at risk. Please read full risk warning at the end of this document.

*Yield: Yield is the annualised expected return of holding a bond to maturity

Monthly Commentary: December 2024

Multi-Asset

The US election results were the key focus for investors in November. The prospect of further tax cuts and other measures to stimulate economic growth, together with the implementation of a more nationalist trade policy, boosted US stock markets. However, outside US markets, Donald Trump's victory was met with some caution. The US dollar rally also had a significant impact on the relative performance of markets in November, with the MSCI Emerging Markets index underperforming the US S&P 500 index by more than 9%.

Central banks continued to cut interest rates during the month. The US Federal Reserve (the Fed) voted to lower the federal funds rate by 0.25% to a target range of 4.50%-4.75%. However, bond markets only benefitted marginally, as concerns that Trump's policy proposals could reignite inflation in 2025 reduced expectations for further US interest rate cuts.

As a team, we continue to believe that a benign global growth environment will be supportive across asset classes. There are ongoing signs of the 'broadening out' theme supporting other stock markets, which have previously been eclipsed by the largest quoted companies in the US.

UK

Another cut

The Bank of England cut interest rates by 0.25% to 4.75% in November, a move that had been widely anticipated by markets. Towards the end of the month, data was released showing the inflation rate increased from 1.7% in September to 2.3% in October. The rise, which was higher than expected, was due to rising energy prices. It is now more likely that the Bank of England will delay a further interest rate cut until next year.

US

Markets optimistic

The US election results took centre stage during the month, with Trump's victory and the Republican Party securing control of Congress driving optimism around pro-growth policies and fuelling a rally in US stock markets.

Domestically focused smaller companies were the standout performers, surging 11% for the month, because they were seen as likely to be key beneficiaries of the new government's policies.

Broader markets also gained support from cooling inflation data and the Fed's rate cut. Lower energy prices and a decline in US government bond yields* added to the positive sentiment as investors looked forward to tax cuts and other stimulus measures under the Trump administration.

Europe

Political instability

The Eurozone annual inflation rate rose to 2.3% in November, which was up from 2% in October, but in line with expectations. The rise was due in part to rising food and energy costs.

Europe is grappling with political instability in France and Germany and fears over the implications of Trump's threatened trade tariffs. The continent is also facing a weaker growth outlook. This was reflected in European stock markets in November and the euro also had its worst month so far this year.

Japan

Rate increases on the cards?

Japanese shares experienced modest declines in November, and while the Japanese yen has strengthened from its year-to-date lows, it continues to exhibit some volatility. Japan's unemployment rate edged up by 0.1 percentage points to 2.5%. The Bank of Japan has indicated its intention to consider interest rate increases in the future, dependent on favourable economic data. The bank currently projects GDP growth of 0.6% for the full year 2024.

Asia and Emerging Markets

Tariff threats and confidence concerns hit Asia

Trade policy concerns, a stronger US dollar and fears of less supportive monetary policy weighed heavily on Asia and emerging markets in November. In China, economic stimulus measures have provided some optimism. However, real confidence boosters like targeted fiscal policies, including support for consumer spending and the real estate sector, are still awaited. China's GDP growth, although slightly above expectations at 4.6% in the third quarter, remains below the 5% target and is heavily reliant on manufacturing and industrial production, which could face challenges from potential US tariffs. There is hope that the ongoing National People's Congress will bring clarity about well-targeted measures, such as recapitalising local governments and banks to complete unfinished properties. For China's economy to stabilise and grow sustainably, households need to shift from saving to spending.

Fixed Income

Diverging outlook

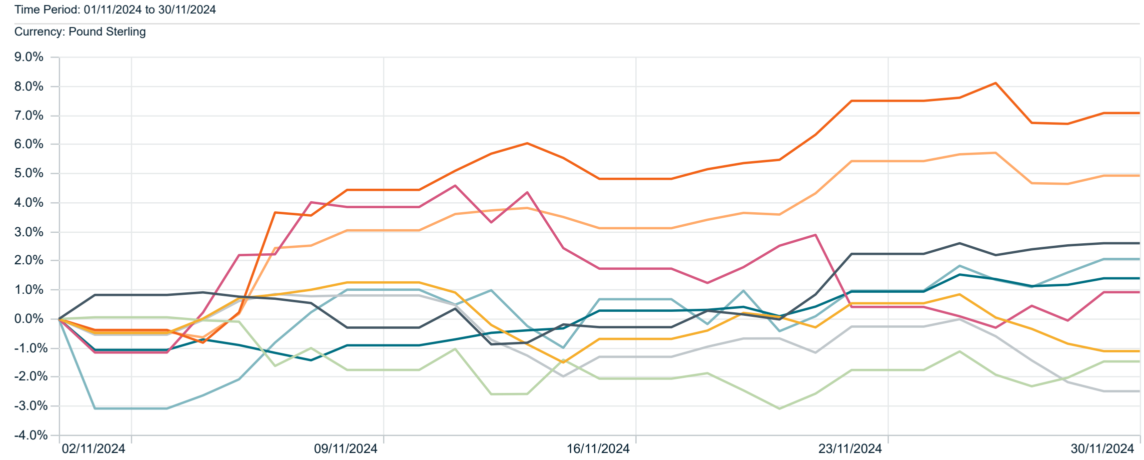
US government bond yields rose in the run up to, and immediately after, the election result as investors saw the potential for Trump's policies to stoke inflation. However, yields fell sharply after the President-elect announced Wall Street veteran Scott Bessent as his nomination for Treasury Secretary, in a move which reassured markets.

Outside of the US, however, there are dark clouds on the horizon and Trump may well trigger the storm. French politics is clashing with both French economics and European Union fiscal rules to create a potential tinder box. Meanwhile, Germany's economy continues to deteriorate under the weight of Chinese competition, high energy prices, falling demand for key export goods, political paralysis and fears of a coming trade war.

Japan continues to march to its own tune as, in the face of robust wage and inflation pressures, policymakers look to normalise their decades-long experiment with near-zero, or even negative, interest rates.

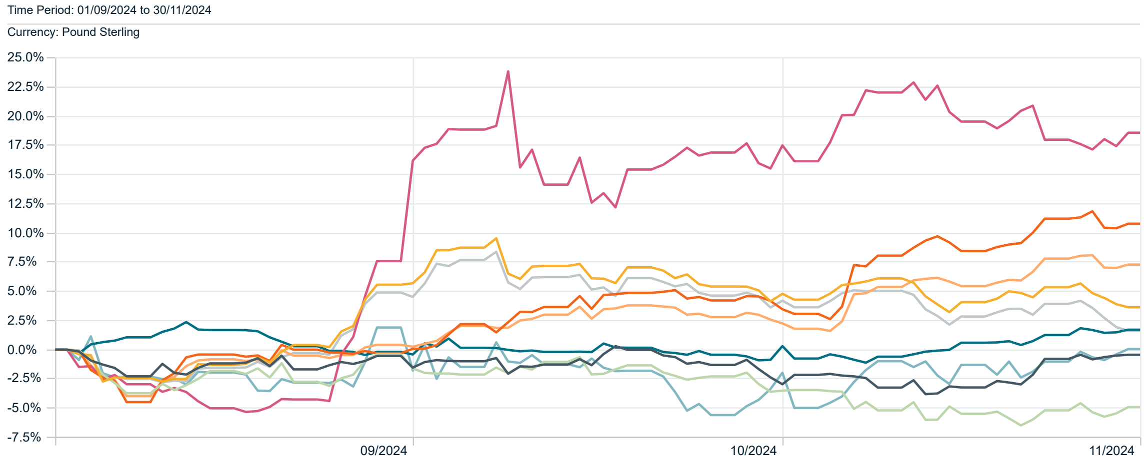
During the month, German government bonds significantly outperformed their US and French counterparts, and the value of the euro collapsed versus the US dollar and the Japanese yen. Overall, bond yields ended the month lower in most major markets despite significant volatility and uncertainty about government finances.

1 month performance



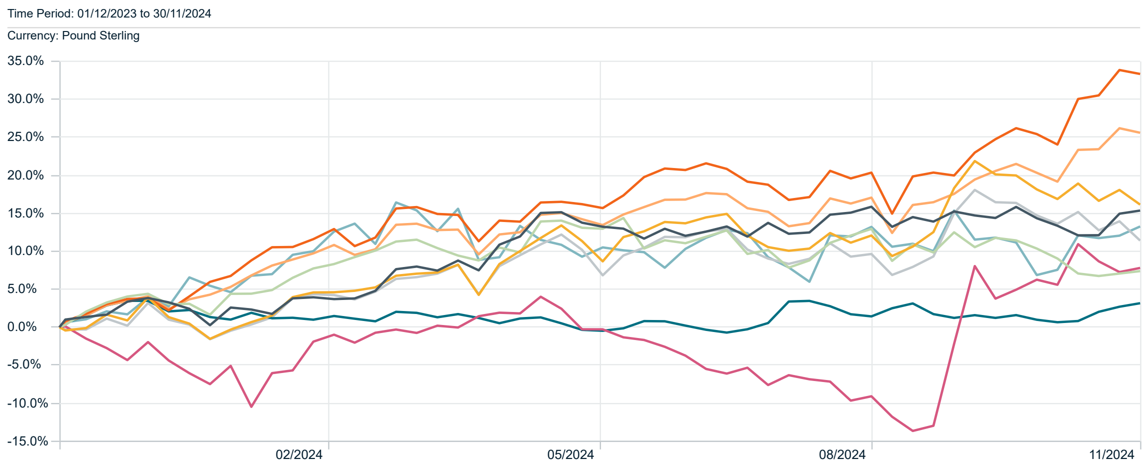
FTSE 100 TR GBP	2.6%	TOPIX TR JPY	2.1%	MSCI AC Asia Pac Ex JPN NR USD	-1.1%
S&P 500 TR USD	7.1%	MSCI Europe Ex UK NR EUR	-1.5%	SSE Composite Index PR CNY	0.9%
MSCI ACWI NR USD	4.9%	FTSE WGBI USD	1.4%	MSCI EM NR USD	-2.5%

3 month performance



FTSE 100 TR GBP	-0.4%	TOPIX TR JPY	0.1%	MSCI AC Asia Pac Ex JPN NR USD	3.6%
S&P 500 TR USD	10.8%	MSCI Europe Ex UK NR EUR	-4.9%	SSE Composite Index PR CNY	18.6%
MSCI ACWI NR USD	7.3%	FTSE WGBI USD	1.7%	MSCI EM NR USD	1.6%

12 month performance



FTSE 100 TR GBP	15.4%	TOPIX TR JPY	13.3%	MSCI AC Asia Pac Ex JPN NR USD	16.1%
S&P 500 TR USD	33.4%	MSCI Europe Ex UK NR EUR	7.4%	SSE Composite Index PR CNY	7.8%
MSCI ACWI NR USD	25.6%	FTSE WGBI USD	3.2%	MSCI EM NR USD	11.4%

Source: Morningstar Direct

Risk Warnings

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