



## Overcoming January Blues

After an exuberant end to 2023, the year began with some hints of January Blues. However, despite losses during the initial days of the year, equities rebounded into positive territory across most developed markets following indications of robust economic growth and contained inflation. Bond yields mostly rose as investors reassessed how quickly interest rate cuts might materialise and commodity prices have, so far, resisted the implications of escalating disruptions in the Red Sea.

Geopolitical tensions remain elevated in the Middle East as Yemen's Houthi rebels continue to attack ships, causing many to be re-routed. With around a third of global container shipping typically passing through the Suez Canal, and no end in sight to tensions, it seems inevitable that supply disruptions will lead to some inflation pressure over the coming months. However, as inflation has declined so much since the disruptions of 2022, some upward pressure may not be overly worrisome for central banks. Central bankers in the US and UK have been keen to remind investors that, while they are open to the idea of policy rate cuts during 2024, they don't see the need for this to begin imminently. This has caused some pairing back in the expected speed of rate cuts and there will likely be ongoing fluctuations. Nonetheless, the shift in stance that central banks have taken over recent months to become more supportive remains in place and is a positive driver for asset prices.

From an economic perspective we continue to observe regional differences but, overall, reassuring signs are evident. In the US the consumer remains strong and growth continues to surpass expectations. The UK has trailed in comparison as savings have been prioritised over spending. However, UK consumer confidence is at its highest level since before the invasion of Ukraine and unemployment has been stable for several months, suggesting spending will soon pick up. This should provide a better environment for UK small cap stocks

China's stock market has languished recently, ending 2023 in negative territory, while global equity indices rose more than 20%. This underperformance continued into 2024 with further falls in January. Inflation in China has fallen below zero and consumer confidence is at historically low levels. A catalyst is likely needed to stimulate a revival with some measures, such as plans to cut interest rates and loosen lending requirements for the challenged property sector, designed to help limit further weakness. Meanwhile, flows from foreign investors have pushed Japanese stocks to 30 year highs. The Japanese Yen has depreciated again as the Bank of Japan maintains its ultra loose approach with policy rates below zero, supporting the economy and stocks but partially offsetting gains in sterling terms. Expectations are for the Bank of Japan to raise interest rates this year, but, with inflation falling back from recent highs, there seems little hurry to do so.

### Bottom Line

Valuations in some pockets of both equity and bond markets screen as expensive. Multiples for US equities in particular have increased to well above long-term averages, propelled by technology stocks. Geopolitics also present some risks. However, evidence points towards growing economies which are benefitting from reduced fears of interest rate rises. Therefore, we continue to expect returns above cash for multi-asset portfolios in 2024.

## Month by numbers

Change in various markets over the month:

Asset	Change Value
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### Equities

UK	↓	-1.23%
Europe	↑	1.94%
US	↑	1.53%
Emerging Markets	↓	-3.49%
Japan	↑	8.47%

### Bonds / Rates

\* Absolute change (%)

UK Base Rates	—	0.00%	5.25%
Fed Funds Rate	—	0.00%	5.5%
UK 10-Year Yield	↑	0.26%	3.80%
US 10-Year Yield	↑	0.08%	3.95%

### Currencies

GBP / USD	↓	-0.11%	\$1.27
GBP / EUR	↑	1.59%	€1.17
DXY (USD Index)	↑	1.92%	103.27

### Commodities

Gold	↓	-1.23%	\$2037.40
Oil (Brent)	↑	6.06%	\$81.71

### Noteworthy

JD Sports Fashion PLC	↓	-29.47%
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## Q&A

### What's on your mind?

#### Is Germany the sick man of Europe?

According to the IMF, Germany was the worst performing major economy in the world last year and the IFO Institute's survey of 5000 businesses in December indicated German companies have significantly reduced their investment plans for 2024. Germany's export-focused, energy-intensive manufacturing sector has suffered from a combination of the loss of cheap Russian energy, higher interest rates, a slowdown in demand from China, as well as a lack of investment in digitalisation and infrastructure. As we approach the end of winter, there is confidence that gas reserves are sufficient and gas prices in Europe have decreased as a result. Meanwhile, lower inflation has removed fears of more interest rate rises and Chinese authorities are embarking on stimulus measures to revive growth. All this points to a slowly improving outlook.

#### Should we focus on the US election?

The next US election will be on the 5th November 2024 and the presidential campaign is now well under way. Despite many citing Biden's mature age, he is largely expected to be the Democrat front-runner and, following early decisive wins for Donald Trump in Republican primaries, it seems likely that he will face the President. Both candidates divide opinion and recent polls show that Trump has opened a small lead. Turning to implications for financial markets, Biden would be a continuation of the status quo – which has not been disappointing. However, when Donald Trump won the election in November 2016, bond yields and US stocks both rose sharply on the expectation that his promised infrastructure spending and tax cuts would result in higher growth. If he wins later this year, his campaign promise of more tax cuts seems likely to push up US stocks and yields again.

#### Will US tech stocks falter this earnings season?

There is a lot of focus on technology stocks now that the so called "Magnificent 7" US stocks (Apple, Amazon, Alphabet, Meta Platforms, Microsoft, NVIDIA and Tesla) account for nearly a fifth of global benchmarks. The group are priced at thirty times earnings and are a key reason for US equity valuations appearing increasingly expensive compared with other regional markets. Microsoft, Nvidia and Meta Platforms all reached record highs in mid-January. A pullback in prices might be healthy following such a strong run and the current earnings season is a possible trigger. So far, we have observed mixed results but sentiment has weighed in the immediate aftermath of announcements. Given the dominance of these companies it may be dangerous to make a significant bet against these stocks, but recent broadening in participation of equity market performance is good to see.

**For more information, please contact your adviser.**

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