

January 2024 MARKET REPORT

Economic commentary

In December, the annual level of UK Consumer Price Inflation rose to 4%, up from 3.9% in November (with a rise in tobacco duty being a major driver), but still dramatically down from the 11.1% peak in October 2022. Interest rates have now been held at 5.25% by the Bank of England since August. On February 1st, the Bank's Governor, Andrew Bailey, said: *"We need to see more evidence that inflation is set to fall all the way to the 2 per cent target, and stay there, before we can lower interest rates."*

The decision to leave interest rates unchanged echoes recent decisions by other countries' central banks. The US Federal Reserve announced at its January 2024 meeting that it would hold interest rates within the current range of 5.25% to 5.5%, with its Chairman Jerome Powell making similar comments around needing more confidence that inflation would continue to decline. The US has seen inflation fall more aggressively than ours, with December inflation at 3.9%, but it still remains almost double their target (also 2%). As for the EU, the European Central Bank have a similar issue on their hands. There are difficult choices facing policymakers in all these economies – if they lower rates too quickly it could stoke inflation again (maybe causing a recession), but keeping them high will hurt households and businesses through higher borrowing costs.

China remains an outlier, still struggling with deflation (where price levels fall) for the third consecutive month. It remains to be seen if the economy will significantly rebound following a disappointing post-lockdown recovery, a failing housing market, and government economic stimulus measures that many have seen as inadequate.

Market commentary

Despite the strong performance that we saw in the back end of 2023, some stock markets ended this month on a weaker note, as investors realised that borrowing costs for companies were going to stay higher for longer, following the decisions not to lower interest rates, mentioned above. Bonds representing loans to governments and companies around the world suffered this month, too, as investors realised they may be able to enjoy higher rates on cash balances for longer than expected.

Chinese stocks continue to struggle on the back of their economic challenges and a loss of foreign investor confidence. Data shows, in fact, that c.10% of all foreign investment in mainland Chinese stocks since 2014 left in the last few months of 2023. China's weakness affected the wider emerging market stock performance numbers. Oil prices look to remain volatile as tensions in the Middle East have worsened, disruption to shipping through the Suez Canal has continued, and we have seen drone attacks on Russian energy infrastructure.

Following the excitement and strong performance enjoyed at the end of last year, January has brought mixed results for investors. But, in reality, little has changed, other than that the expectations of many investors have failed to materialise. This is why we do not engage in economic predictions – most market participants get these things wrong most of the time – nor try to invest on this basis. Instead, we try to focus on the investments that look cheap today, avoid those that look too risky, and hold assets for the long term where we believe we will be rewarded.

	1m	3m	6m	YTD	1yr	3y pa	5y pa	10y pa
Equity Markets (£)								
UK	-1.3%	6.2%	1.1%	-1.3%	1.9%	8.5%	5.5%	5.6%
US	1.8%	10.4%	7.3%	1.8%	16.3%	13.3%	14.1%	14.8%
Global	1.3%	10.6%	6.3%	1.3%	13.0%	10.7%	12.0%	11.8%
Emerging Markets	-4.6%	1.5%	-5.5%	-4.6%	-7.0%	-5.8%	1.0%	5.0%
Europe ex UK	0.5%	11.4%	4.0%	0.5%	8.3%	8.9%	9.8%	8.5%
Japan	4.1%	11.8%	8.8%	4.1%	13.3%	4.8%	6.5%	8.3%
China	-10.2%	-14.6%	-24.0%	-10.2%	-31.8%	-21.7%	-7.0%	2.6%
UK Smaller Companies	-1.6%	16.7%	3.0%	-1.6%	2.1%	-1.6%	1.4%	3.7%
Bonds (£)								
Sterling Corporate Bonds	-1.4%	4.9%	5.6%	-1.4%	2.7%	-5.1%	-0.6%	1.9%
Global High Yield (Hedged)	-0.2%	7.1%	2.9%	-0.2%	5.1%	0.3%	2.1%	2.6%
Global Bonds (Hedged)	-0.3%	6.8%	3.4%	-0.3%	3.2%	-3.6%	-0.2%	1.3%
Other (£)								
Global Listed Property	-4.7%	10.9%	1.6%	-4.7%	-6.5%	2.7%	0.6%	
UK Listed Property	-3.4%	19.2%	8.0%	-3.4%	-1.0%	-1.8%	-1.6%	1.3%
Physical Gold	-0.5%	-1.7%	5.3%	-0.5%	2.9%	5.9%	9.7%	7.7%
Economic Data								
	At date	3m ago	6m ago	1y ago	3y ago	5y ago	10y ago	
Sterling/Dollar Rate	\$1.27	\$1.21	\$1.29	\$1.23	\$1.37	\$1.32	\$1.64	
Bank of England Base Rate	5.25%	5.25%	5.00%	3.50%	0.10%	0.75%	0.50%	
UK CPI YoY		4.6%	6.8%	10.1%	0.7%	1.8%	1.9%	
US Unemployment Rate		3.8%	3.5%	3.4%	6.4%	4.0%	6.6%	
UK Unemployment Rate		4.2%	4.2%	3.8%	5.1%	3.9%	6.9%	
Bond yields								
	At date	3m ago	6m ago	1y ago	3y ago	5y ago	10y ago	
UK 10-Year Gilt Yield	3.9%	4.5%	4.3%	3.3%	0.3%	1.2%	2.7%	
UK Corporate Bond Yield	5.4%	6.4%	6.2%	5.2%	1.5%	2.9%	3.9%	

Data Sources: Data is at 31/01/2024. For the above asset class return data, we used passive funds to represent market returns, given that they represent an investible net-of-fee return achievable by an end client. Economic figures like unemployment and CPI rates may not have been available for latest month-end at the time of publication. All returns have been calculated by Fundhouse, with reference to data from Refinitiv, Morningstar and the Bank of England. This content cannot be distributed without the consent of Fundhouse.

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