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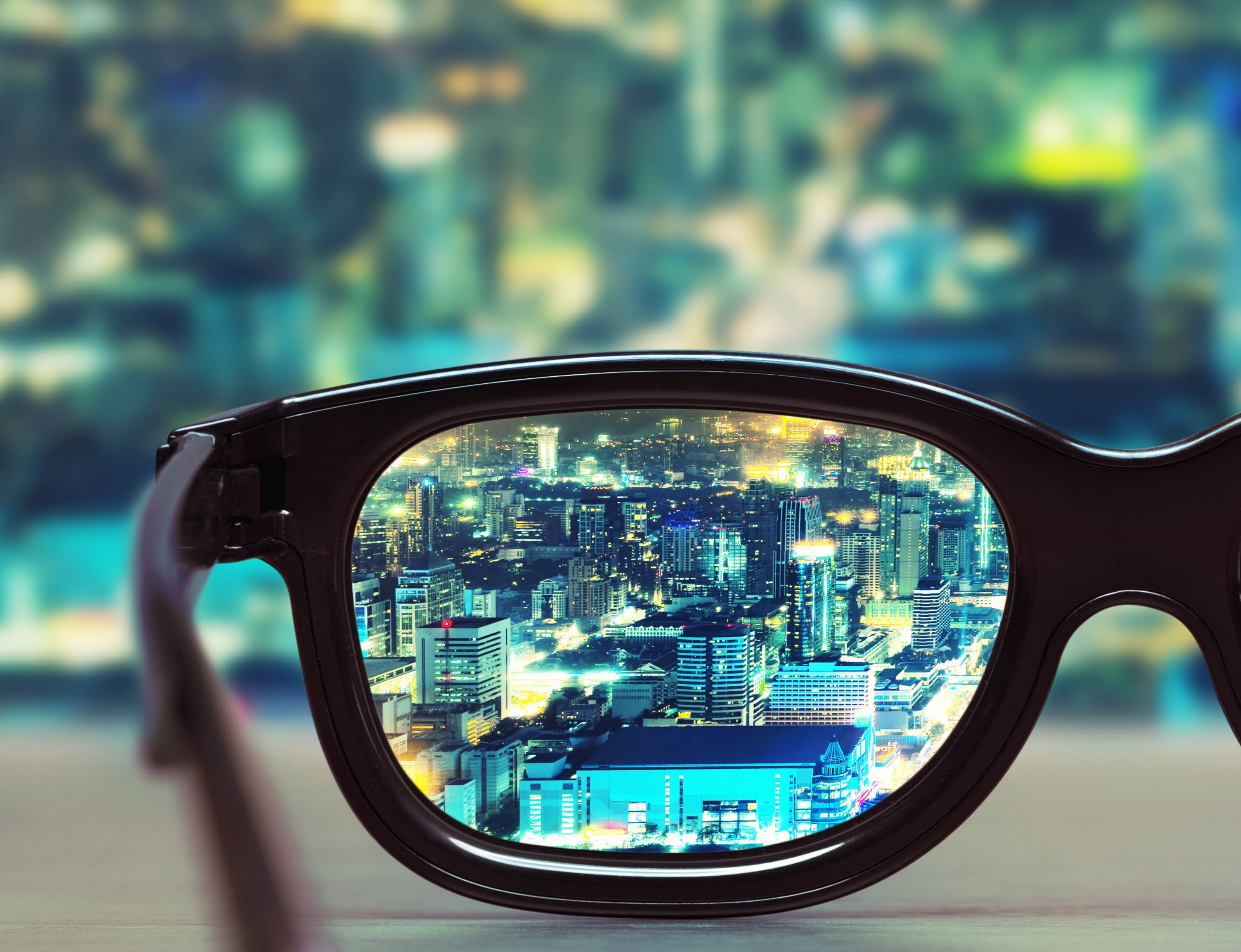

Global Matters | Monthly

Market review & outlook

December 2024

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Contents

Global market review & outlook

For the second year in a row, global equities are on course for double-digit gains, far out-pacing returns from bond markets. So far this year, only gold of the major asset classes has outshone equities, with a gain of close to 30%. Within equities, the US has become all-dominant, driven by its megacap tech stocks. The top 10 stocks in the MSCI World index are all American and represent 25% of its total market capitalisation. The biggest non-US stock is Novo Nordisk, the Danish pharmaceutical company, placed 23rd. Diversification across asset classes, regions and stocks has not paid off. A key question for investors as we move towards year end is whether US exceptionalism and its corporate dominance can persist, with 2025 shaping up to be a pivotal year politically, not only in the US but also in Europe.

Uncertainty is a given in the investing world, but the change of leadership in the free world in the new year brings considerably more uncertainty than is usual, economically and geopolitically. That uncertainty is amplified by Donald Trump's selections for senior roles in his administration, which point to an intent not merely to change, but to transform, the policy agenda. The appointment of anti-establishment loyalists and China hawks suggests that Trump wants full control to implement his disruptive agenda. With this caveat in mind, and the inevitable volatility that is to be expected, we set out our views for financial markets in the year ahead.

Despite Trump's unpredictability, key elements of his domestic policy seem clear:

- Tax cuts, at the very least extending his 2017 tax cuts beyond their scheduled expiry at end 2025, worth, according to many forecasts, over 1% of GDP, and probably followed by additional cuts.
- Looser regulation, including the relaxation of environmental rules to allow more oil and gas drilling (Trump has promised to take the US out of the Paris Agreement – as he briefly did during his last presidency).
- Higher tariffs and protectionism, with a particular focus on China, but also encompassing Mexico, Canada and Europe.
- Reduced fiscal spending compared with the Democrats - the nomination of Scott Bessent for Treasury Secretary, who advocates spending cuts to reduce the fiscal deficit to 3% of GDP, introduces a moderating voice and has helped to calm the worst fears about the burgeoning Federal deficit ($1.8tn, 6.4% of GDP, in the latest year to 30 September 2024).
- Tighter immigration policy, including the threatened mass deportation of millions of illegal immigrants.

Foreign policy implications are less clear; a more isolationist policy is likely, but the constraints of realpolitik would suggest continuing support for Israel and Ukraine, albeit with a greater focus on negotiated settlements, and, critically, support for NATO, but with intensified pressure on EU nations to share more fully in defence commitments.

The net result is likely to result in stronger growth in the US, boosted by tax cuts and deregulation, offset in part by higher tariffs/protectionism and lower immigration; continuing high fiscal deficits but with a focus on cost cutting and productivity improvements across the public sector, with Elon Musk to head up Trump's Department of Government Efficiency (DOGE). On the balance of probabilities, it improves prospects for corporate earnings, supports equities, requires continuing high Treasury bond issuance, but risks stoking upward pressure on inflation, leading to a slower pace of rate cuts from the Fed and a stronger dollar.

Whereas the US economy is a clear beneficiary of Trump's policies, China, Europe and Mexico are the obvious losers. While the tariffs threatened by Trump are most likely negotiating tactics, there are only downside risks to growth in these countries, and in Europe's case a deal on tariffs might well be accompanied by commitments to materially higher defence spending. This combination can only exacerbate the problems of high fiscal deficits in many member states and the EU's structurally weak economy, not helped by the political leadership vacuum across Europe, especially in its two largest economies, Germany and France. The UK is less vulnerable to US tariffs, but has chosen to follow the same high tax, big state, tight regulatory model as the EU, with almost certainly the same outcome of moribund growth. While Europe and the UK largely stagnate, and China struggles with its well-known headwinds, US exceptionalism is alive and well.

The extent to which this outlook drives markets through 2025 is complicated by the depth of uncertainty and the moves that markets have already made both ahead of and since the US Presidential election. The 'Trump trade' has driven the US equity market higher while most markets in Europe and Asia have drifted lower in recent weeks, and the dollar has been strong. Inflation expectations have risen, bond yields have moved higher, and market expectations for lower rates in the US have shifted substantially, with only 3-4 Federal Reserve rate cuts of 25bps by the end of 2025 expected, meaning that expectations for rates at the end of 2025 have moved up by a full one percentage point since mid-September. The Trump trade might well have largely played out, and investors are in wait-and-see mode as the year-end approaches.

It is important in this uncertain environment to avoid complacency. Risks abound - policy errors, the possibility of the US economy weakening while growth outside the US is under pressure, high government debt levels constraining fiscal flexibility, and a deterioration in geopolitical tension points. Furthermore, pockets of exuberance and excess, in crypto currencies, and in valuations of some of the mega cap equity leaders, are perhaps warning signs. However, the policy easing cycle has further to run and provides a strong foundation for valuations of equities, while the sell-off in bond markets in the past few weeks brings better value into fixed income markets. There might well be a period of consolidation after the initial positive reaction to the Trump win, but we are cautiously constructive about markets in 2025 and see valuation opportunities in the US beyond the big tech stocks which have driven returns over the past two years, and in markets outside the US, where valuations are generally more attractive and offset some of the economic headwinds faced. A repeat of the exceptional returns in equity markets, especially the US, through 2023 and 2024 is unlikely, but we expect equities to make further progress in this cycle, albeit amidst greater volatility.

> ***“we are cautiously constructive about markets in 2025 and see valuation opportunities in the US beyond the big tech stocks and in markets outside the US, where valuations are generally more attractive and offset some of the economic headwinds faced”***

Market performance - Global (local returns) as at 29 November 2024

Asset Class / Region	Index	Ccy	1 month	3 months	YTD	12 months
Developed Markets Equities						
United States	S&P 500 NR	USD	5.8%	7.0%	27.6%	33.3%
United Kingdom	MSCI UK NR	GBP	2.5%	-0.9%	10.9%	14.6%
Continental Europe	MSCI Europe ex UK NR	EUR	0.1%	-3.6%	7.3%	11.4%
Japan	Topix TR	JPY	-0.5%	-0.2%	15.8%	15.5%
Asia Pacific (ex Japan)	MSCI AC Asia Pacific ex Japan NR	USD	-2.2%	0.2%	11.4%	16.6%
Global	MSCI World NR	USD	4.6%	4.4%	21.8%	27.8%
Emerging Markets Equities						
Emerging Europe	MSCI EM Europe NR	USD	1.1%	-7.8%	4.1%	6.3%
Emerging Asia	MSCI EM Asia NR	USD	-3.7%	-0.7%	11.7%	15.3%
Emerging Latin America	MSCI EM Latin America NR	USD	-5.5%	-10.3%	-21.6%	-15.1%
BRICs	MSCI BRIC NR	USD	-3.2%	1.4%	10.5%	12.8%
China	MSCI China NR	USD	-4.4%	11.4%	16.3%	13.5%
Global emerging markets	MSCI Emerging Markets NR	USD	-3.6%	-1.7%	7.7%	11.9%
Bonds						
US Treasuries	JP Morgan United States Government Bond TR	USD	0.8%	-0.4%	2.3%	5.7%
US Treasuries (inflation protected)	BBgBarc US Government Inflation Linked TR	USD	0.5%	0.2%	3.5%	6.3%
US Corporate (investment grade)	BBgBarc US Corporate Investment Grade TR	USD	1.3%	0.6%	4.1%	8.7%
US High Yield	BBgBarc US High Yield 2% Issuer Cap TR	USD	1.2%	2.2%	8.7%	12.7%
UK Gilts	JP Morgan UK Government Bond TR	GBP	1.7%	-0.9%	-1.3%	4.2%
UK Corporate (investment grade)	ICE BofAML Sterling Non-Gilt TR	GBP	1.6%	0.5%	2.3%	6.8%
Euro Government Bonds	ICE BofAML Euro Government TR	EUR	2.3%	2.6%	3.3%	7.1%
Euro Corporate (investment grade)	BBgBarc Euro Aggregate Corporate TR	EUR	1.6%	2.5%	5.1%	8.0%
Euro High Yield	BBgBarc European HY 3% Constrained TR	EUR	0.6%	2.1%	7.5%	10.7%
Japanese Government	JP Morgan Japan Government Bond TR	JPY	-0.7%	-0.9%	-3.1%	-2.6%
Australian Government	JP Morgan Australia GBI TR	AUD	1.2%	-0.9%	1.8%	4.7%
Global Government Bonds	JP Morgan Global GBI	USD	0.4%	-1.7%	-1.0%	3.3%
Global Bonds	ICE BofAML Global Broad Market	USD	0.5%	-1.4%	0.4%	4.7%
Global Convertible Bonds	ICE BofAML Global Convertibles	USD	4.3%	7.2%	12.9%	18.5%
Emerging Market Bonds	JP Morgan EMBI+ (Hard currency)	USD	1.9%	1.9%	9.3%	15.0%

Asset Class / Region	Index	Ccy	1 month	3 months	YTD	12 months
Property						
US Property Securities	MSCI US REIT NR	USD	4.3%	3.8%	16.3%	27.5%
Australian Property Securities	S&P/ASX 200 A-REIT Index TR	AUD	2.5%	6.4%	22.9%	35.3%
Asia Property Securities	S&P Asia Property 40 Index NR	USD	-3.6%	-5.9%	-6.3%	-0.7%
Global Property Securities	S&P Global Property USD TR	USD	1.9%	0.6%	10.1%	20.0%
Currencies						
Euro		USD	-2.8%	-4.3%	-4.2%	-2.9%
UK Pound Sterling		USD	-1.3%	-3.0%	0.0%	0.9%
Japanese Yen		USD	1.5%	-2.4%	-5.8%	-1.1%
Australian Dollar		USD	-1.1%	-3.7%	-4.4%	-1.4%
South African Rand		USD	-2.5%	-1.3%	1.7%	4.4%
Commodities & Alternatives						
Commodities	RICI TR	USD	0.1%	1.6%	4.6%	2.5%
Agricultural Commodities	RICI Agriculture TR	USD	0.9%	3.9%	3.6%	2.2%
Oil	Brent Crude Oil	USD	-0.3%	-7.4%	-5.3%	-11.9%
Gold	Gold Spot	USD	-3.7%	5.6%	28.1%	29.8%

Interest Rates	Current Rate
United States	4.75%
United Kingdom	4.75%
Eurozone	3.40%
Japan	-0.10%
Australia	4.35%
South Africa	7.75%

Source: Bloomberg Finance L.P. , Momentum Global Investment Management. Past performance is not indicative of future returns.

Market performance - UK (all returns GBP) as at 29 November 2024

Asset Class / Region	Index	Local Ccy	1 month	3 months	YTD	12 months
Equities						
UK - All Cap	MSCI UK NR	GBP	2.5%	-0.9%	10.9%	14.6%
UK - Large Cap	MSCI UK Large Cap NR	GBP	2.1%	-0.8%	12.3%	15.7%
UK - Mid Cap	MSCI UK Mid Cap NR	GBP	4.8%	-0.8%	0.7%	7.7%
UK - Small Cap	MSCI Small Cap NR	GBP	2.0%	-1.6%	8.6%	17.8%
United States	S&P 500 NR	USD	7.0%	10.4%	28.0%	32.3%
Continental Europe	MSCI Europe ex UK NR	EUR	-1.5%	-5.0%	2.8%	7.2%
Japan	Topix TR	JPY	2.3%	0.6%	9.4%	13.5%
Asia Pacific (ex Japan)	MSCI AC Asia Pacific ex Japan NR	USD	-1.2%	3.3%	11.8%	15.7%
Global developed markets	MSCI World NR	USD	5.7%	7.6%	22.2%	26.8%
Global emerging markets	MSCI Emerging Markets NR	USD	-2.6%	1.3%	8.0%	10.9%
Bonds						
Gilts - All	ICE BofAML UK Gilt TR	GBP	1.8%	-1.0%	-1.6%	4.1%
Gilts - Under 5 years	ICE BofAML UK Gilt TR 0-5 years	GBP	0.8%	0.7%	2.6%	4.4%
Gilts - 5 to 15 years	ICE BofAML UK Gilt TR 5-15 years	GBP	1.8%	-0.8%	-1.1%	4.2%
Gilts - Over 15 years	ICE BofAML UK Gilt TR 15+ years	GBP	2.5%	-2.7%	-5.7%	3.4%
Index Linked Gilts - All	ICE BofAML UK Gilt Inflation-Linked TR	GBP	0.3%	-2.1%	-4.7%	2.0%
Index Linked Gilts - 5 to 15 years	ICE BofAML UK Gilt Inflation-Linked TR 5-15 years	GBP	0.8%	-0.9%	-1.5%	3.1%
Index Linked Gilts - Over 15 years	ICE BofAML UK Gilt Inflation-Linked TR 15+ years	GBP	-0.2%	-3.8%	-9.0%	0.2%
UK Corporate (investment grade)	ICE BofAML Sterling Non-Gilt TR	GBP	1.6%	0.5%	2.3%	6.8%
US Treasuries	JP Morgan US Government Bond TR	USD	2.0%	3.0%	2.6%	5.3%
US Corporate (investment grade)	BBgBarc US Corporate Investment Grade TR	USD	2.5%	4.1%	4.4%	8.2%
US High Yield	BBgBarc US High Yield 2% Issuer Cap TR	USD	1.2%	2.2%	8.7%	12.7%
Euro Government Bonds	ICE BofAML Euro Government TR	EUR	2.3%	2.6%	3.3%	7.1%
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Euro High Yield	BBgBarc European High Yield 3% Constrained TR	EUR	0.6%	2.1%	7.5%	10.7%
Global Government Bonds	JP Morgan Global GBI	GBP	1.5%	1.3%	-0.7%	2.4%
Global Bonds	ICE BofAML Global Broad Market	GBP	0.5%	-1.4%	0.4%	4.7%
Global Convertible Bonds	ICE BofAML Global Convertibles	GBP	4.3%	7.2%	12.9%	18.5%
Emerging Market Bonds	JP Morgan EMBI+ (Hard currency)	GBP	3.0%	5.0%	9.6%	14.0%

Asset Class / Region	Index	Local Ccy	1 month	3 months	YTD	12 months
Property						
Global Property Securities	S&P Global Property TR	GBP	3.0%	3.8%	10.4%	19.0%
Currencies						
Euro		GBP	-1.6%	-1.3%	-4.2%	-3.7%
US Dollar		GBP	1.3%	3.1%	0.0%	-0.9%
Japanese Yen		GBP	2.9%	0.7%	-5.8%	-1.9%
Commodities & Alternatives						
Commodities	Rogers International Commodity (RICI) TR	GBP	1.2%	4.7%	4.9%	1.6%
Agricultural Commodities	Rogers International Commodity (RICI) Agriculture TR	GBP	2.0%	7.1%	3.9%	1.4%
Oil	Brent Crude Oil	GBP	0.8%	-4.6%	-5.0%	-12.7%
Gold	Gold Spot	GBP	-2.6%	8.9%	28.5%	28.7%
Interest Rates				Current Rate		
United Kingdom				4.75%		

Source: Bloomberg Finance L.P., Momentum Global Investment Management. Past performance is not indicative of future returns.

Asset allocation views

Score	---	--	-	/	+	++	+++

Score	Change	---	--	-	/	+	++	+++
MAIN ASSET CLASSES	▲/▼/–							
Equities	–			X				
Fixed Income	–				X			
Alternatives	–					X		
Cash	–				X			

Overall View
We remain somewhat cautious on equity risk overall, mindful of the dominance of the US in the global equity context, and of the concentration within the US market. Our fixed income view remains largely constructive with sovereigns and credit still offering attractive nominal and real yields, but we recognize risk premia on some areas of corporate credit are thin today. Alternative assets including gold remain a good diversifier of returns, proving useful as market volatility has increased. Cash provides optionality on any pullback as well as a decent yield, but increasingly we prefer to lock in medium term rates by extending duration.

Score	Change	---	--	-	/	+	++	+++
EQUITIES	▲/▼/–							
Developed Equities	–			X				
UK Equities	–					X		
European Equities	▼			X				
US Equities	–		X					
Japanese Equities	–					X		
Emerging Market Equities	▼				X			

UK equities remain a favoured valuation call with the UK remaining one of the cheapest developed markets. The attractive earnings yields continue to draw in private and overseas buyers. Sentiment had appeared to be turning more constructive, but the recent autumn budget has knocked business confidence. Japan remains attractive both on improving fundamentals and in valuation terms. The lack of breadth in US equities should increasingly favour an active approach to stock selection, and opportunities outside of large cap tech which continue to ride high after Trump's presidential win. European equities have optically quite attractive valuations but mask some deep fundamental regional challenges. Emerging market equities remain cheap as China, the dominant index constituent, battles domestic growth concerns and policy measures to buoy the market fall short of expectations.

Score	Change	---	--	-	/	+	++	+++
FIXED INCOME	▲/▼/–							
Government	–				X			
Index-Linked	▲					X		
Investment Grade Corporate	–				X			
High Yield Corporate	–			X				
Emerging Market Debt	–				X			

Global treasury yields still look attractive today, despite recent tightening, and we maintain our constructive government view but pare back a notch after some near term strength and concerns over inflation and longer term debt funding. Inflation linked bonds offer reasonable real yields and with lingering inflation risk offer some protection. Despite offering alluring all in yields, we think the spreads offered today on investment grade and riskier high yield corporate bonds do not compensate investors adequately for the underlying fundamental credit risk. Although defaults remain low, the growth outlook has moderated, and financial conditions remain somewhat tight today. We prefer shorter duration bonds in both developed and emerging markets, particularly higher quality credit.

Score	Change	---	--	-	/	+	++	+++
SPECIALIST ASSETS/ALTERNATIVES	▲/▼/–							
Global Listed Property	–			X				
Global Listed Infrastructure	–			X				
Specialist Assets	–						X	
Liquid Alternatives	–		X					
Gold	–				X			

Alternatives continue to offer diversification benefits but compete today with higher yielding cash and quality sovereign bonds. Increasing discounts in NAVs in listed private equity appear overly pessimistic, which supports our constructive medium-term view. Infrastructure and specialist financials remain attractive, but we take listed infrastructure down a score on more modest future return expectations. Our liquid alternatives continue to offer attractive diversification benefits during periods of market uncertainty, but the bar has been raised for the performance from this sector after the resetting higher of global rates in recent years. Gold's status as a haven asset means it remains a useful diversifier, but its recent run higher makes it look somewhat expensive as a non-interest bearing asset today.

Score	Change	---	--	-	/	+	++	+++
CURRENCIES vs. USD	▲/▼/–							
GBP	–					X		
EUR	–				X			
JPY	–					X		

Against long term valuation metrics, the Yen remains cheap relative to the Dollar. The Bank of Japan's policy of yield curve control crushed the Yen in recent years, but their recent shift to a hiking bias has seen periods of rapid reappraisal as carry trades unwind. This should have further to run over the medium term. The higher for longer narrative in the US has buoyed the dollar, as has Trump's recent election victory, but as rates look set to fall its dominance may wane. Its safe haven status at a time of heightened geopolitical risk does however assure it a diversification premium.

The asset allocation views are updated at the end of each quarter unless otherwise stated.

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