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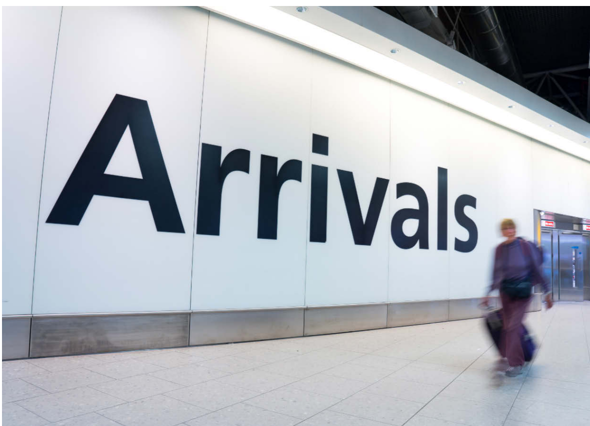
Investment Commentary
June 2024

A mid-2024 market review

The first half of 2024 seems to have been dominated by global politics, rather than economics. The UK now has a Labour Government by virtue of a record-breaking majority, yet unsurprisingly (given the result was a virtual foregone conclusion) markets were essentially unmoved.

UK economic and political landscape

We have had plenty of time to prepare for this result and consider the likely outlook for the UK economy. There are clues as to what the new government will try to address – since 2010 productivity growth has declined from 2% pa to 0.5%, and average weekly earnings have barely changed. Debt as a share of GDP has ballooned to 100% while Taxes' share is the highest in 70 years. The NHS waiting list has more than tripled, troops in the armed forces have shrunk by 40,000, and net migration is 3 times what it was in 2016.



For investors, the obvious question is how this new, left-of-centre government might develop a relationship with commerce. Labour clearly has a lot to do, but don't expect a Truss-style 'go for growth' bout of midsummer madness. Rachel Reeves – the new Chancellor – is an ex-Bank of England economist who understands that if politicians try to break spending limits, the bond market will punish them by raising borrowing costs.

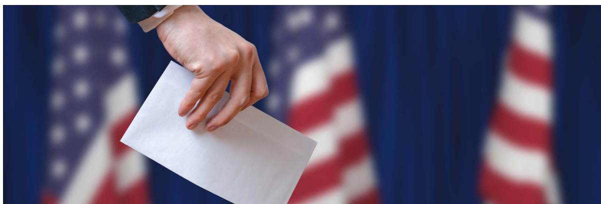
In a March lecture to the Bayes Business School, she argued for an economic approach guided by three imperatives: guaranteeing stability, stimulating investment through partnership with business, and "reform to unlock the contribution of working people and the untapped potential throughout our economy". Her central challenge was growth performance – if the UK economy had grown at the OECD average over the past decade, it would be £140 billion larger today, equivalent to £5,000 per household, thus producing an extra £50 billion in tax revenues.

The Truss experience was an important lesson - to see how the markets judge the new team, the bond market will be the barometer, not the equity market.

US political developments

In the US arena, following a disastrous televised debate performance, there have been increasing calls for Joe Biden to withdraw his candidacy for the Democrat nomination, with Vice-President Kamala Harris best placed (she gets his campaign donations - $240 million - by default as his running mate) to pick up the ticket. However, in any event the US population appears to have more to fear from a Trump triumph than the UK's has from a Labour leadership. Trump has promised to cut the higher rates of tax, and impose tariffs on imports, especially from China. Tariffs are arguably a tax on consumers, and we saw this effect during Trump's Presidency.

According to the Peterson Institute for International Economics, the lowest quintile of US earners would see no benefit from tax cuts (they're only for the highest earners) but lose ~8.5% of disposable income via tariff increases. The top 1% of earners would see after-tax income rise by over 13% offset by only a 2% impact from tariffs. 80% of Americans would be worse off. However, in the US partisan politics and facts seem to be mutually exclusive.



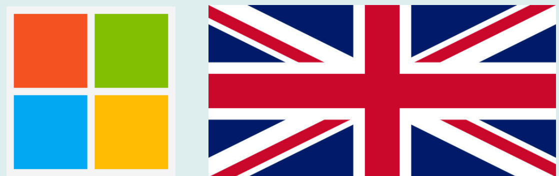
Global equity markets performance

Electioneering aside, the first half of this year has been positive for global equities, especially in the US; June saw US equities hit the 32nd all-time high of the year, while the six largest US companies (all technology companies) have driven a third of the market's total performance. This cannot be viewed as a broadly rising market, so may be vulnerable to negative sentiment on tech companies' expected earnings.

In the UK, the total market rose by a healthy 6%, however the media's tendency to focus on our index of the largest 100 companies (FTSE 100), can be misleading.

There are 1900 companies' shares available for investment on the UK stock exchange, worth around £3.4trn. The 569 largest of those make up the FTSE All share index, which is an aggregation of the FTSE 100 (100 largest), FTSE 250 (next 250 largest), and FTSE SmallCap (next 219 largest) indexes, and valued at £2.4trn. The 5 largest companies – Shell, AstraZeneca, HSBC, Unilever and BP drive 33% of the FTSE 100 index price, and 29% of the All-Share Index's.

The FTSE 100 rose nearly 8%, but that is not a fair representation of the 'health' of the UK economy, nor of its stock market as a whole, given there are 1900 companies our managers could invest in.



For context, the entire UK stock market is worth roughly the same as Microsoft.

If you were based in Japan and investing (and spending) in Yen, their stock market has been phenomenal through 2024, with companies' share prices rising by almost 20% so far. However, the Yen has been very weak, falling by ~12% versus the pound. If something was worth 100 and fell to 88, that 88 needs to grow by nearly 14% to get back to where it was. Hence the return for UK investors has been roughly 14% less, ie around the same as UK equities.

Bonds and interest rates

Finally, the first half of the year has been dismal for bonds, with virtually no increases in valuation, as hoped for cuts in US and UK interest rates failed to materialise. US Federal Reserve (Fed) Chair Jerome Powell suggested that the strength of the US economy means the Fed can take its time in cutting rates. This is risky given the relative collapse in inflation rates, ie if measured the same way as Europe does, the US rate would be at the 2% target that inspired cuts in the EU and Switzerland.