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Investment Commentary

April 2024

From Buoyancy to Showers in Equities and Bonds

A buoyant first quarter

After a quite buoyant first quarter of the year for most equity indices, it has been a case of April showers over the last month, both in terms of meteorological and market condition. Most equity markets gave up some ground over the month, although with brighter performance from emerging markets and the UK, how often have we been able to say that recently? Perhaps winds of change are finally blowing some positivity into these much-maligned markets.

US market down significantly

The FTSE, led by the largest companies within the FTSE 100 (+2.7%), along with emerging market (+0.9%) and Asian (+0.8%) equities were the only key equity markets to deliver positive returns over the month, with the Chinese equity index continuing to turn the corner after a positive March and leading all the above over April (+6.4%).

FTSE 100	China	US
+2.7%	+6.4%	-3.6%

The US, a market which has seemingly defied gravity over the prior 16 months, was down significantly over the month (-3.6%) but has still delivered a +7.7% return year to date for a sterling investor.

UK equity market outperforms US stock market

£ vs. $

In local currency terms (before adjusting for the conversion from US dollar to pound sterling) the UK equity market has outperformed the US stock market (5.9% vs. 5.5%) over the year to date.

It is only after adjusting for the continued strength of the US dollar this year, which gives the US returns a 'kicker' when viewed from a sterling investor's perspective, that the US is leading the way. This is a fact which is getting limited airtime, perhaps as it doesn't play into the 'death of the UK' market narrative which is increasingly popular at present. This narrative has been fuelled by recent comments from a number of companies around the location of their stock market listing, with Shell PLC, currently the largest company in the UK index, being the latest company to openly flirt with the idea of moving its market listing to the US. It is certainly true that such talk is unhelpful for sentiment around the UK market, and we have seen a handful of smaller companies leave the index recently to re-list elsewhere.

However, the UK market continues to be a home for many leading and globally competitive businesses, many of which trade at attractive valuations versus global peers.

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Dividend Yields: a key indicator

There is no clearer evidence of this than the current dividend yield of the UK index, which sits at above 4% for the benchmark FTSE 100 index, more than twice that of the equivalent measure in the US.

As investors in companies, remember that we are investing to enjoy a share of the earnings streams generated by those companies.

Dividends are a key way in which companies pay out their earnings to shareholders, and a higher dividend yield means that as an investor you are enjoying a higher share of those earnings sooner, which is received alongside any share price growth should market price of the shares rise. We must note that the higher dividend yield delivered by the UK market is also a function of the type of companies in the market, which within the FTSE 100 is tilted towards more mature companies that tend to pay out a larger share of their earnings to investors as dividends.

However, a stark fact currently is that small and medium sized companies in the UK market are currently paying out dividends as high as their larger peers within the FTSE 100. This is an unusual dynamic, as smaller companies tend to retain a greater portion of their earnings to invest in business growth for the future, rather than pay them out as dividends.

This dynamic could speak to the struggles of the share prices of small and medium sized companies in the UK recently (as share prices fall, dividend yields go up all else being equal) which serves to build our conviction in the fact that this part of the market is unusually undervalued.

Continued optimism for bonds

Pivoting to bonds, we talked last month about the positive outlook for this part of the market.

Nothing that has happened in the last month has changed our view here, albeit the jury is out on whether central banks will be able to cut interest rates as soon as it had been expected, given levels of inflation in the US that have remained stubbornly higher than hoped.

But much like the UK equity market we were discussing above, most bonds now pay an attractive level of income, much higher than at any point in the recent past which means as an investor you are being paid to wait for interest rates to come down (which would further benefit the value of that investment).

Investor optimism boosts demand for equity and bond funds

Interpreting the headlines

And finally on the subject of central banks, we have talked frequently of the perils of short term forecasting in markets.

Look no further than the trade press for evidence of the murkiness of some of the 'crystal balls' out there.

The below are headlines taken from two separate publications, released at the same time following US Federal Reserve chairman Jerome Powell's very recent press conference, where he announced there would be no change in US interest rate policy.

What the papers were interested in was the statement that accompanied this message, where chairman Powell guided on his expectations for the future.

Here were the two publications' interpretation of that statement:

> Fed's Powell keeps the door open for a July rate cut.

> Federal Reserve chair Jay Powell signals interest rates will remain higher for longer.

As this meeting happened just after the end of the month, we won't delve into it in too much analysis here, suffice to say we forecast to be talking about further twists and turns in this story for some months yet if the future is that unclear.

What's coming up?

Ascot Lloyd will soon release its latest 'Stay In Touch' newsletter, featuring how financial advice affects mental health, the benefits of setting up a lasting power of attorney, and the potential impact of marriage tax allowance.

#StayInTouch

Should you need any help or advice regarding your financial planning, please don't hesitate to get in touch with your financial advisers at Ascot Lloyd.

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