ALBERT E SHARP

INVESTMENT MANAGEMENT & STOCKBROKING

Market Commentary

December 2024

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Monthly returns and summary

Index	Portfolio Benchmark Risk Level	31/12/2024	1 Month	3 Months	1 Year	3 Years	5 Years
ARC Cautious	Low Risk	206.62	-0.6%	+0.5%	+4.4%	-0.0%	+8.6%
ARC Balanced	Medium Risk	262.63	-0.6%	+1.1%	+6.8%	-2.7%	+15.3%
ARC Steady Growth	Medium High Risk	320.06	-0.6%	+1.6%	+8.4%	+4.3%	+20.1%
ARC Equity Risk	High Risk	380.59	-0.7%	+2.1%	+9.8%	+5.4%	+25.2%

Source: Figures based on ARC estimates.

Index	Region / Asset Class	31/12/2024	1 Month	3 Months	1 Year	3 Years	5 Years
UK 100	UK	8173.02	-1.4%	-0.8%	5.7%	10.7%	8.4%
UK All Share	UK	4467.80	-1.3%	-1.0%	5.6%	6.2%	6.5%
Dow Jones Ind Avg	US	42544.22	-5.3%	0.5%	12.9%	17.1%	49.1%
S&P 500 Index	US	5881.63	-2.5%	2.1%	23.3%	23.4%	82.0%
Nikkei 225	Japan	39894.54	4.4%	5.2%	19.2%	38.6%	68.6%
MSCI Europe Ex UK	Europe	200.38	-0.4%	-3.8%	4.4%	2.6%	25.4%
MSCI Asia Ex Japan	Asia	704.09	0.1%	-7.6%	9.7%	-10.8%	2.3%
MSCI Emg Mkts (£)	Emg Mkts	684.50	1.3%	-1.5%	9.4%	2.0%	15.1%
MSCI World Index (£)	Global	3707.84	-2.7%	-0.4%	17.0%	14.7%	57.2%
UK Conventional	Gilts	3025.46	-2.2%	-3.1%	-3.3%	-23.6%	-21.6%
UK Index-linked	Gilts	3701.53	-4.3%	-6.0%	-8.3%	-38.6%	-28.9%
UK Real Estate Investment Trusts	Property	1816.54	-7.0%	-15.8%	-16.0%	-41.2%	-39.8%
WTI Crude ($/Barrel)	Oil	71.72	5.5%	5.2%	0.1%	-4.6%	17.5%
Gold Spot $/Oz	Commodities	2624.50	-0.7%	-0.4%	27.2%	43.5%	73.0%
£1 = US$	Currencies	1.2516	-1.7%	-6.4%	-1.7%	-7.5%	-5.6%
£1 = €	Currencies	1.2085	0.4%	0.6%	4.8%	1.6%	2.2%
£1 = Yen	Currencies	196.76	3.1%	2.4%	9.6%	26.3%	36.6%

Source: Bloomberg. NB: Price returns only, excluding dividends

Index	Region / Asset Class	31/12/2024	1 Month	3 Months	1 Year	3 Years	5 Years
UK Investment Companies	Diversified	12,477.44	0.5%	1.5%	5.6%	-12.5%	11.0%
Latest Weighted Average Discount	-16.0%						
12 Month Weighted Average Discount	-14.8%						

Source: Bloomberg, Refinitiv. NB: Price returns only, excluding dividends

General Comments

Alas, there was no “Santa rally” to speak of in 2024 with markets generally selling off slightly in the final month of the year. Investors, particularly those with US equity exposure (as almost everyone seems to have these days), will not be too disheartened by this disappointing finish to the year as the overall returns were strong in 2024.

In commodities news, the oil price continued to appreciate over the month, while gold seems to have found a level around the $2,600 mark. Gold did, however, fare better than other metals such as silver and copper which sold off over the course of the month.

In currency markets, the US dollar remained in favour, strengthening against every major peer. Sterling fared better than most, however, with the likes of the Japanese yen faring particularly poorly.

UK Commentary

It was revealed that the exodus from equity funds prior to the recent budget was most likely a tax-related decision, as those funds returned shortly after, with November seeing strong equity fund inflows. In fact, November's inflow of just over £3 billion eclipsed the circa £2.7 billion of sales seen earlier. These data from Calastone highlight investors' desires to avoid the impacts of a hike in capital gains tax, and proved to be a wise move as the rate was in fact increased by Chancellor Reeves, effective as of the day of the budget.

The Bank of England opted to hold interest rates at the 4.75% level. The vote was split once again, with a majority of six versus three; the three preferring a 0.25 percentage point cut. This underlines the difficult decisions for the committee with growth being somewhat slow and inflation above target.

We saw good news for energy security and power prices as the first nuclear reactor was installed at a British power station in over three decades. Hinkley point C in Somerset is expected to provide about 7% of the nation's power, according to French state energy behemoth EDF, who are behind the project.

The UK officially became the twelfth member of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). The nation joins Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, and Vietnam in the agreement, which was first laid out by the US, before Donald Trump withdrew them from the arrangement. These nations account for nearly 15% of global GDP, and this partnership helps reduce, and in some case eliminates, trade tariffs between them.

North America Commentary

America's healthcare system and business world were in focus with the "assassination" of UnitedHealth's CEO Brian Thompson, who was shot on his way to an investor conference. The alleged murderer was reportedly vexed by corporate America in general, and especially with the US health system. Many point out that the company, and others like it, are vital to the US system which relies on private funding.

The Federal Reserve once again reduced interest rates by a quarter of a percentage point. This was accompanied by comments from policy makers that the pace of cuts would be slower next year, which pushed the US dollar to multi year highs. This came as US GDP was upwardly revised for the third quarter, making output in that period 3.1% higher than in 2023, significantly above the 2.8% growth reported previously.

The Bank of Canada also made a significant reduction to their base interest rates with a half percentage point cut to 3.25%. Bank governor Tiff Macklem implied rate cuts would be more gradual from here, while also suggesting Donald Trump's potentially protectionist agenda in the US presents extra uncertainty for Canada.

Alphabet CEO Sundar Pichai announced the company had tested their new "state-of-the-art" quantum computing chip, named Willow, and that the results were astounding. He announced that Willow had solved a problem in under 5 minutes that would take a current leading supercomputer longer than the age of the universe to complete. While this is entirely self-reported data, it is a potentially very significant moment for the supposed age of quantum computing.

Europe Commentary

France continues to see political upheaval as its parliament voted to oust Prime Minister Michel Barnier. A motion of no confidence was comfortably passed and Barnier became the nation's shortest-serving PM by some margin. Proposed tax increases and spending cuts were vastly unpopular with both parliament and the electorate alike, so this is perhaps little surprise. However, many argue these are necessary steps with France's deficit approaching of 6% of GDP, which is very much in contravention of EU rules.

Germany is also undergoing political upheaval and is now heading for early elections. Chancellor Olaf Scholz also lost a vote of no confidence as his fragile coalition collapsed. In further similarities, the breakdown was the result of an argument centred around future financial plans.

The European Central Bank cut interest rates by a quarter-point to 3.0%. Christine Lagarde, ECB president, stated some policy makers had preferred a larger rate cut, highlighting both that they believe inflation to be somewhat under control and that they are now turning their attention to stimulative measures to try and boost economic activity in the bloc.

Notably, the Swiss National Bank cut their primary policy rate in half, to 0.5%. Switzerland saw the levels of inflation fall for both goods and services. Rate setters here seem concerned about appreciation of the Swiss franc. As a result, some commentators predict they are heading back towards a zero-interest rate environment. The move seems to have worked as by the end of the month the currency had weakened against major peers such as the US dollar, the euro, and the British pound.

Asia Pacific Commentary

A significant corporate story came when it was announced that car makers Nissan and Honda are exploring the possibility of merging their businesses. Such a deal would create a company in excess of $50 billion in size, making it one of Japan's biggest firms. These two well-known and established entities are facing many of the same issues as European peers, with cheap Chinese electric vehicles proving hard to compete with.

Meanwhile, the Bank of Japan opted to hold its interest rates steady at 0.25%, as was widely predicted. Governor Ueda said they required "one more notch" of information before committing to any interest rate rise from here. Key points of difference in their decision are likely to be Japanese wage growth and the degree of Donald Trump's protectionist agenda.

Emerging Market Commentary

China moved their monetary policy to "moderately loose" for the first time in 14 years. Its previous designation had been "prudent". This switch highlights policy maker's worries about deflation and their desire to stimulate growth. This initially drove equity prices higher, but many gains were pared by the end of the month as the initial excitement faded.

This came as Chinese policy makers also reportedly agreed to increase their budget deficit to 4% of GDP This would be their largest deficit target ever and represents a significant increase on the 3% mark for 2024. There is clearly a significant focus on stimulating economic growth within the Chinese government.

Chart(s) of the month – 2024 Equity Markets Returns

The above data from Bloomberg show total returns to global stocks in 2024 in sterling terms. Not many will be surprised to see the US' S&P 500 led the way over the year, returning just shy of 28%.

UK, Japanese, and Emerging Market stocks had reasonably normal years relative to historic returns. Meanwhile, European stocks were perhaps slightly disappointing, offering just under 7% to investors.

The strong returns of the MSCI World Index highlights that 2024 was a pretty good year for investors, but it also highlights just how reliant upon the US that index has become. In fact, three quarters of the world index are now listed in the US. This is a remarkable and unprecedented level of concentration.

While the US continues to deliver strong economic data, and US companies continue to generate strong profits, it may still be wise for investors to keep in mind that there are other markets as well. We absolutely want our clients to have captured the exceptional returns on offer from US stocks, but we also are mindful of mitigating the concentration risk which has arisen in recent times.

Investment Profile – Herald Investment Trust

Launched by Katie Potts in 1994, and still run by her today, Herald focusses on smaller companies within the technology sector. The trust has compounded at around 11.2% per annum since IPO; an impressive record. The strategy initially focussed on the UK, but has since broadened to be a global technology specialist fund.

Herald has come into focus in recent times thanks to an ongoing campaign by New York based hedge fund Saba Capital, who have been targeting investment trusts trading at discounts. In what is seen by many as a hostile attack on the investment trust sector, the US activist is aiming to take control of seven vehicles (of which Herald is one) and realign the portfolios to their own investment style.

Boards, independent researchers, and independent voting advisers alike are suggesting shareholders vote against Saba's resolutions. We understand why they have taken this stance; however, we also welcome the presence of activist investors as they help keep companies honest and ensure discounts are not allowed to drift too wide.

There is an argument that many investment trusts have invited activist attention by not being more proactive in controlling their discounts in recent times. That said, we would also be sad to see Herald taken over. We hope that this activist attack helps to sharpen the minds of boards and managers to upholding high standards of corporate governance in the future.

Investment Team's thoughts

Regular readers will be unsurprised that we are unsurprised by the slower than expected pace of interest rate cuts across the developed world in 2024. Looking ahead to 2025, expectations have shifted dramatically in the past year, and now expect some modest reductions in interest rates, but no particularly significant changes.

We look ahead to 2025 with continued optimism, particularly regarding some assets which have not shone as brightly in 2024. We note that returns to US equities in 2024 were historically abnormal, and would expect some broadening out of returns in the future.