



FINURA

YOUR MARKET REVIEW DECEMBER 2024



INFOGRAPHIC: THE GLOBAL ECONOMY

Outlook for global economy more uncertain than usual

There is great uncertainty as to what Donald Trump's second term as US President might mean for the global economy...



Odds we've ascribed new "baseline" scenario on which our growth and inflation forecasts are based



...an "aggressive Trump" scenario would result in more extreme protectionist policies than currently factored into our forecasts...



...which would be a "deflationary" force, slowing global growth and making it harder to keep inflation within a healthy range

Trump policies set to boost US growth



Schroders' US growth forecast for 2025

We expect Donald Trump's proposed "reflationary" fiscal policies to materially boost growth...



...however, these policies, which involve significant tax cuts, will likely come at the cost of higher inflation...

...so we've also increased our US inflation forecast to 2.4%

2025
inflation
forecast

%

Previously 2.1%

Schroders' new baseline growth and inflation forecasts



Source: [Schroders as at December 2024](#).



MULTI-ASSET INVESTMENT VIEWS

KEY

▲ Up from last month ▼ Down from last month

● Long / Positive

● Neutral

● Short / Negative

| | Category | View | Comments |
|--------------------|--------------------------------------|------|--|
| Main Asset Classes | Equities | ● | We remain positive as equities continue to be supported by strong earnings. However, with valuations being stretched we recognise their vulnerability. |
| | Government Bonds | ● ▲ | We are neutral on duration as despite valuations flagging as cheap, the US economy is not yet faltering. |
| | Commodities | ● | We remain neutral on broad commodities, where the muted outlook persists, and Chinese demand is subdued. We are positive on gold. |
| | Credit | ● | We retain our positive view, driven by ongoing rate cutting from central banks leading to benign growth and strong liquidity. There are regional differences, however, with European credit being favoured over US credit. |
| Equities | US | ● | We maintain our positive view on US equities due to the robust US economy, strong consumer demand and a healthy labour market. |
| | UK | ● | We remain neutral on the UK. Although valuations are attractive compared to some other markets, the recent budget has undermined business confidence, resulting in a weaker growth outlook. |
| | Europe ex UK | ● | We remain neutral. Weak manufacturing data and a lack of support from China has resulted in a considerable amount of negativity being priced into European markets. However, the current environment of negative sentiment may result in tactical opportunities arising. |
| | Japan | ● | We remain neutral. Economic growth is stagnant, and the country must deal with potential tariffs from the US. Additionally, the government's position is unstable, and the Bank of Japan (BoJ) persists with its efforts to normalise monetary policy. |
| | Global Emerging Markets ¹ | ● | We maintain a neutral outlook. The recent rally was driven by policy easing measures from the People's Bank of China, which were underwhelming. |
| | Asia ex-Japan: China | ● | We maintain a neutral position on Chinese equities due to expectations that Donald Trump will take a firm stance on China. Meanwhile, fiscal announcements have fallen short of expectations. |
| | EM Asia ex China | ● | We maintain a neutral stance. While the region stands to benefit from China's new stimulus measures, we prefer to gain exposure to China directly. |
| | | | |
| Government Bonds | US | ● | We remain neutral. Although yields are cheap, this is offset by the market reducing its expectations for rate cuts next year given the robust economic backdrop and inflation not falling further. |
| | UK | ● | We retain our neutral view. The environment suggests that UK bonds are lagging in the rate-cutting cycle and may soon benefit from central bank actions to normalise rates. However, this is balanced against an unfavourable supply/demand environment. |
| | Europe | ● | We maintain a neutral stance. Although European bonds should benefit from the ECB's initiatives to normalise rates amid easing inflation and a moderating labour market environment, this is already largely reflected in the price. |
| | Japan | ● | We remain neutral for now but are cautiously optimistic that Japanese bonds might benefit as Japan's central bank continues to move towards a more neutral stance. Expectations of continued fiscal and monetary adjustments support this outlook. |
| | US Inflation Linked (TIPS) | ● | Our stance remains neutral. Despite upgrades in other sectors, inflation-linked bonds have seen less change due to varying expectations on inflation. |
| | Emerging Markets Local | ● | We remain neutral on EM local bonds. Although valuations remain attractive, this is being challenged by a strengthening US dollar. |

¹ Global Emerging Markets includes Central and Eastern Europe, Latin America and Asia.

| | Category | View | Comments |
|---------------------------|----------------------|------|--|
| Investment Grade Credit | US | ● | We remain negative. Valuations are expensive and despite improved market liquidity, US IG is vulnerable due to its long duration and sensitivity to rate changes. |
| | Europe | ● | We remain neutral. EU IG benefits from relatively more attractive valuations compared to the US and a financial environment that is perceived as less uncertain in terms of interest rate policy. |
| | Emerging Markets USD | ● | We remain neutral. We acknowledge that the sector offers more value compared to developed markets, but we continue to consider the potential effects of rising US yields. |
| High Yield Bonds (Non-IG) | US | ● | We remain neutral as the emphasis remains on the vulnerability of US credit to rate-related uncertainties and inflation risks. |
| | Europe | ● | We maintain a positive outlook on European HY as it is more attractive compared to the US due to the ECB's supportive stance and less uncertainty over policy compared to the US. |
| Commodities | Energy | ● | We remain neutral. Although OPEC+ has postponed supply increases until 2026 to maintain balance, supply is set to exceed demand by 2025. Oil prices are stable, while natural gas prices have risen due to cold weather, indicating potential long-term supply imbalances. |
| | Gold | ● | We are positive on gold as it remains a preferred hedge against geopolitical and fiscal uncertainties, maintaining its appeal as a protective asset. |
| | Industrial Metals | ● | We remain neutral as although protectionist measures from China have led to higher prices for specific metals, the broader sector remains weak. |
| | Agriculture | ● | The agriculture sector is well-supplied and successful soybean and corn harvests have resulted in record stock levels. With no significant weather events, supply risks are reduced, maintaining a stable outlook. |
| Currencies | US \$ | ● | We remain positive. This is due to the strong recent performance and tailwinds including tariffs, further divergence in monetary policy, and equity inflows to the US. |
| | UK £ | ● ▲ | We have upgraded our view on the pound to neutral. This is largely based on the broader European context, where much of the bad news has already been priced in. Although there is no specific positive outlook, sentiment has shifted from negative to neutral. |
| | EU € | ● ▲ | Our view on the euro has been upgraded to neutral from negative. This reflects our belief that the bad news in Europe has been mostly factored in, and we don't expect the situation to worsen significantly in the near term. |
| | CNH ¥ | ● | Our view on the renminbi remains negative. We expect both stimulus and currency depreciation will be necessary to negate the downtrend in growth and the impact of tariffs. |
| | JAP ¥ | ● ▲ | We have upgraded our view to positive. |
| | Swiss F | ● ▲ | We have upgraded to neutral to align with the overall improved sentiment towards European currencies. |

Source: [Schroders, December 2024](#).

Past performance is not a guide to future performance and may not be repeated. The value of investments and the income from them may go down as well as up and investors may not get back the amounts originally invested.

The views for equities, government bonds and commodities are based on return relative to cash in local currency. The views for corporate bonds and high yield are based on credit spreads (i.e. duration-hedged). The views for currencies are relative to US dollar, apart from US dollar which is relative to a trade-weighted basket.





MARKETS REVIEW

A look back at markets in Q4, when US shares rose following Trump's US election victory while many other regions saw declines.

THE QUARTER IN SUMMARY

A look back at markets in Q4 when US shares advanced following Donald's Trump's victory in the Presidential election, but other regional markets came under pressure amid worries over trade tariffs.

THE US

US shares made gains in Q4 to round out a strong year for the S&P 500 index. Equities were supported by Donald Trump's victory in the presidential election, and the accompanying "Red Sweep" which saw the Republicans take control of Congress. Shares were buoyed by expectations that Trump's policy programme will lift growth, lower taxes and cut regulation.

In Q4, gains were led by the communication services, information technology and consumer discretionary sectors with some of the "Magnificent Seven" stocks performing strongly. The weakest sector was materials.

The Federal Reserve (Fed) lowered interest rates by 25 basis points (bps) in both November and December. However, in December the Fed triggered a stock market sell-off after scaling back the number of interest rates cuts expected in 2025. This was due to persistently sticky inflation. The core PCE price index increased 2.8% year-on-year in November (core PCE – personal consumption expenditure – is the Fed's preferred measure of inflation).

The US economy remained strong with annualised GDP growth of 3.1% in Q3. Labour market data released in the quarter saw some distortion due to strike action and hurricanes. Non-farm payrolls rose by just 36k in October but this was followed by a 227k gain in November.

EUROZONE

Eurozone shares declined in Q4 amid fears of recession. There was political instability in France and Germany as well as worries over trade wars after Donald Trump won the US election.

The weakest sectors for the quarter included materials, real estate and consumer staples. Sectors posting gains included industrials.

Flash purchasing managers' index (PMI) survey data for December showed that the eurozone private sector ended the year still in contraction. The composite output index rose to 49.5 from 48.3 in November as the service sector returned to growth.

The European Central Bank (ECB) cut interest rates by 25 basis points in both October and December. ECB President Christine Lagarde signalled more cuts to come in 2025, saying the "direction of travel currently is very clear" as the single currency area wrestles with lacklustre growth.

Political instability was a feature of the period in both Germany and France. In Germany, the three-party governing coalition collapsed in November after Chancellor Olaf Scholz sacked his finance minister. This paves the way for new elections to be held in February 2025.

In France, Prime Minister Michel Barnier was ousted in a no-confidence vote as other parties declined to back his budget. No new parliamentary elections can be held until July.

UK

UK equities fell over the quarter. A number of domestically focussed sectors declined amid a rise in long-term bond yields and growing concerns about the UK macro-economic outlook. While long-term bond yields rose in line with global trends as inflation expectations were revised upwards, their rise in the UK was exacerbated by concerns around the new UK government's fiscal policies unveiled in its Autumn Budget.

Meanwhile, there were also signs that cost increases unveiled in the Budget could be weighing on the jobs market as companies adjust to the increase in employer National Insurance contributions and National Living Wage, both due to come into effect in April. Industry hiring data for November suggested demand for UK staff had been unusually weak in the run-up to the busy Christmas period.

More widely, preliminary data from the Office for National Statistics (ONS) indicated the economy shrank in October, being the second straight monthly contraction. At the same time, revisions to past data revealed the economy had performed more poorly than expected since the summer, with the ONS revising down Q3 growth to zero from 0.1% previously.

Outside of the domestically focussed sectors, internationally diversified economically sensitive areas of the UK market exposed to softening global industrial activity trends also significantly underperformed over the period.

JAPAN

The Japanese equity market experienced gains during the fourth quarter, with the TOPIX Total Return increasing by 5.4% in yen

terms. Developments in the US and their impact on financial markets, particularly the currency market, drove the Japanese equity market. Overall, yen weakness towards the end of 2024 bolstered the earnings outlook for large-cap exporters, allowing the market to finish the year on a high note.


The implications of a potential "Trump 2.0" presidency remain uncertain; however, the market appears reasonably well-prepared for the new regime. At the very least, the robust US economy has provided support to the Japanese equity market.

During the quarter, the majority of Japanese companies reported semi-annual earnings results, which were mixed across various sectors. News of consolidation among two large automakers, along with another announcing a target 20% return on equity (ROE), indicated potential shifts in corporate strategies. Share buybacks continued to surge, with companies announcing additional buybacks generally enjoying favourable market reactions.

While corporate governance reforms are ongoing, there have been fewer catalysts in 2024 to bolster confidence among overseas investors. Consequently, the Tokyo Stock Exchange has further disclosed both exemplary and poor case studies, and we anticipate that this will encourage action from Japanese management in the coming year.

The Bank of Japan (BOJ) decided not to raise interest rates at its December policy meeting, with BOJ Governor Ueda adopting a less hawkish stance compared to his speech in July. Macroeconomic developments have not been sufficiently robust to stimulate domestic demand; however, we observe a solid pace of improvement in business sentiment.





The Shunto, or spring wage negotiations, scheduled for March 2025, is expected to provide positive momentum for wage growth, which will subsequently support a rise in consumption in 2025. Market expectations regarding the BOJ's next actions in either January or March have bolstered the outlook for the financial sector, particularly for banks, which was the best-performing sector over the quarter.

ASIA (EX JAPAN)

Asia ex Japan equities declined in the fourth quarter amid investor fears over potential tariffs following Donald Trump's re-election as US President in November. South Korea, Indonesia, and the Philippines were the worst-performing markets in the MSCI AC Asia ex Japan Index. Singapore and Taiwan were the only markets to end the quarter in positive territory and were the best-performing markets over the course of 2024.

China and Hong Kong experienced sharp declines in the quarter as the prospect of a second Trump presidency raised the risk of heightened tensions over trade and technology. As part of his election campaign, Donald Trump had pledged to impose tariffs of 60% or more on manufactured goods from China.

Singapore gained as overseas investors seeking exposure to the region switched from China and Hong Kong amidst the ongoing tensions between the US and China and attracted by Singapore's political stability and relative neutrality.

EMERGING MARKETS

Donald Trump's victory in the US presidential election acted as a headwind for emerging market (EM) equities in the quarter. The MSCI EM index fell in US dollar terms in the face of investor concerns about the impact of Trump's proposed tariffs,

particularly on China. The US Federal Reserve (Fed) cut rates three times between September and end-December 2024. At its most recent meeting, Fed Chair Jerome Powell indicated that persistent inflation may result in fewer cuts in 2025 than previously anticipated.

Brazilian shares were the weakest among EM as the local currency fell amid rising concerns over the country's fiscal outlook. South Korea posted losses on the back of political instability as first the president, and then the acting president, were impeached during December. South Africa and India both ended the quarter lower in US dollar terms, underperforming the broader EM index.

China declined, but by less than the index. A lack of further detail relating to the policy stimulus measures announced in September, together with investor concerns relating to the implications of proposed Trump trade tariffs on Chinese exports, had a negative impact on the index market over the quarter.

Saudi Arabia posted negative returns but outperformed the index. Only four EMs recorded positive returns in US dollar terms over the quarter: Czech Republic, Kuwait, Taiwan and the UAE. Taiwan's performance was driven largely by ongoing positive sentiment around artificial intelligence demand.

GLOBAL BONDS

The fixed income markets experienced considerable volatility in the last quarter of 2024, primarily driven by geopolitical tensions, central bank decisions, and fluctuating inflation rates. Notably, the period was marked by notable sell-offs in major government bond markets, with various factors influencing investor sentiment across the globe.

US Treasuries sold off in October amid concerns over potential inflationary policies arising from a possible Republican victory in the presidential election. Inflation figures saw an unexpected uptick, leading to a rise in bond yields as market priced in fewer rate cuts for 2025. By the end of December, the Federal Reserve (Fed) had cut rates for the third consecutive time, bringing the target range to 4.25%–4.5%, but Fed Chair Jerome Powell indicated fewer cuts might follow due to persistent inflation concerns.

The 10-year Treasury yield experienced a notable rise, finishing the year at 4.57%, indicating market uncertainty regarding the Fed's future actions amidst rising expectations for inflation if President-elect Trump were to implement all his economic policies.

The European Central Bank (ECB) also cut rates over the quarter leaving the base rate at 3% at the end of the period. Political turmoil in France further complicated the landscape, as yields on French bonds briefly surpassed those of Greek bonds for the first time in history, driven by fears of government instability.

By the end of December, eurozone inflation stood at 2.3%, while the ECB signalled a commitment to gradual rate cuts, despite ongoing uncertainties surrounding economic growth. The Eurozone PMI rose, driven by the services industry, which managed to offset some of the continuing contraction in manufacturing. The 10-year German Bund yield closed the year at 2.37% whilst the euro weakened against the dollar, reflecting the apprehensions in the market.

In the UK, the Labour government's first budget at the end of October saw significant reactions in the UK fixed income market.


Chancellor of the Exchequer, Rachel Reeves, announced a £40 billion tax increase and concerns over projected borrowing were also rising. Consequently, 10-year gilt yields rose, and the pound depreciated against the dollar, reflecting investor anxiety. Meanwhile, the Bank of England cut interest rates to 4.75%, although concerns over elevated inflation and wage growth dampened possibilities for further cuts in the near term.

China announced stimulus measures that exceeded expectations over the quarter, extending beyond mere interest rate cuts. By lowering the reserve ratio, adjusting mortgage terms, and offering liquidity support for stock buybacks, the central bank underscored its commitment to bolstering various sectors of the economy. However, these measures have not all been implemented yet and the impact has so far been very limited.

The Japanese yen further weakened against the dollar over the quarter, totalling an overall 10% decline in 2024. There was some optimism in late November, which saw higher-than-expected inflation which spurred speculation the Bank of Japan (BoJ) may hike in December. However, this was short lived as the BoJ continued their cautious approach and left rates unchanged given global uncertainties.

On the credit front, high yield bonds outperformed their investment-grade counterparts, driven by expectations of pro-business policies under a potential Trump administration. US high yield spreads tightened to historical lows due to strong demand. European high yield spreads also tightened over the quarter despite political pressures and economic challenges. (High yield bonds are more speculative compared to their investment grade (IG) counterparts that are the highest quality





bonds as determined by a credit rating agency. HY bonds carry a credit rating below IG.)

Convertible bonds staged a comeback in the final quarter of 2024. Amid declines for global equities, the FTSE Global Focus convertible bond index gained 2.1% for the quarter. Stock markets took a bit of a breather in October and convertibles delivered good downside protection. November saw strong equity markets with an above average upside participation from convertibles. December again saw convertibles demonstrate good downside protection. The new issuance market remains active with \$26.7 billion of new paper coming to market in the quarter.

COMMODITIES

The S&P GSCI Index gained in the fourth quarter. Energy and livestock were the best performing components of the index, while industrial metals and precious metals both declined in the quarter.

Within energy, all sub-components achieved robust gains in the quarter. Within the agriculture component, there were some dramatic price movements in the quarter. Coffee and cocoa prices were significantly higher, while cotton and sugar prices were sharply lower.

In industrial metals, all sub-components declined, with the biggest price declines seen in nickel and copper. In precious metals, gold and silver prices both fell in the quarter.

DIGITAL ASSETS

2024 brought two pivotal events that shaped the landscape for cryptocurrency. The first came in January with the launch of US spot Bitcoin exchange traded funds (ETFs). The second came in November with Donald Trump's victory in the US presidential election.

The transition to a pro-cryptocurrency administration and Congressional representatives signalled the end of regulatory stagnation. Markets began to anticipate a more constructive framework for digital assets in the US in the future, allowing for easier access to capital, more innovation, and the opportunity for corporate America to engage with blockchain technology at meaningful scale.

The renewed optimism post-election saw Bitcoin move from \$60k to a new all-time-high of \$108k at the start of December, before retracing to the mid-\$90ks. The second half of December saw markets trade sideways and consolidate, ending the quarter at \$95k.

TOTAL RETURNS (NET) % – TO END DECEMBER 2024

| Equities | 3 MONTHS | | | 12 MONTHS | | |
|------------------------------|----------|------|------|-----------|------|------|
| | USD | EUR | GBP | USD | EUR | GBP |
| MSCI World | -0.2 | 7.6 | 6.9 | 18.7 | 26.6 | 20.8 |
| MSCI World Value | -4.2 | 3.3 | 2.6 | 11.5 | 18.9 | 13.5 |
| MSCI World Growth | 3.8 | 11.9 | 11.2 | 25.9 | 34.3 | 28.2 |
| MSCI World Smaller Companies | -2.6 | 5.0 | 4.3 | 8.2 | 15.4 | 10.1 |
| MSCI Emerging Markets | -8.0 | -0.8 | -1.5 | 7.5 | 14.7 | 9.4 |
| MSCI AC Asia ex Japan | -7.6 | -0.4 | -1.0 | 12.0 | 19.4 | 14.0 |
| S&P500 | 2.4 | 10.4 | 9.7 | 25.0 | 33.4 | 27.3 |
| MSCI EMU | -9.0 | -1.9 | -2.6 | 2.6 | 9.5 | 4.5 |
| FTSE Europe ex UK | -10.2 | -3.3 | -3.9 | 1.2 | 8.0 | 3.0 |
| FTSE All-Share | -7.0 | 0.3 | -0.4 | 7.5 | 14.7 | 9.5 |
| TOPIX* | -4.0 | 3.4 | 2.8 | 8.1 | 15.3 | 10.0 |

| Government Bonds | 3 MONTHS | | | 12 MONTHS | | |
|---------------------------------------|----------|------|------|-----------|------|-------|
| | USD | EUR | GBP | USD | EUR | GBP |
| JPM GBI US All Mats | -3.0 | 4.5 | 3.8 | 0.7 | 7.4 | 2.5 |
| JPM GBI UK All Mats | -9.7 | -2.7 | -3.3 | -5.4 | 1.0 | -3.7 |
| JPM GBI Japan All Mats** | -10.2 | -3.2 | -3.8 | -13.1 | -7.3 | -11.6 |
| JPM GBI Germany All Traded | -7.8 | -0.6 | -1.2 | -5.8 | 0.5 | -4.1 |
| Corporate Bonds | 3 MONTHS | | | 12 MONTHS | | |
| | USD | EUR | GBP | USD | EUR | GBP |
| BofA ML Global Broad Market Corporate | -4.0 | 3.4 | 2.8 | 1.2 | 8.0 | 3.1 |
| BofA ML US Corporate Master | -2.8 | 4.7 | 4.1 | 2.8 | 9.6 | 4.6 |
| BofA ML EMU Corporate ex T1 (5-10Y) | -6.5 | 0.7 | 0.1 | -2.7 | 4.8 | 0.0 |
| BofA ML £ Non-Gilts | -7.0 | 0.2 | -0.4 | 0.0 | 6.7 | 1.8 |
| Non-investment Grade Bonds | 3 MONTHS | | | 12 MONTHS | | |
| | USD | EUR | GBP | USD | EUR | GBP |
| BofA ML Global High Yield | -1.1 | 6.6 | 5.9 | 7.5 | 14.7 | 9.4 |
| BofA ML Euro High Yield | -5.5 | 1.8 | 1.2 | 2.6 | 9.4 | 4.4 |

Source: LSEG DataStream. Local currency returns in November 2024: *5.4%, **-1.3%.

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Source: [Schroders, December 2024](#)

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Approved by Evolution Wealth Network Ltd on 07/01/2025.



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