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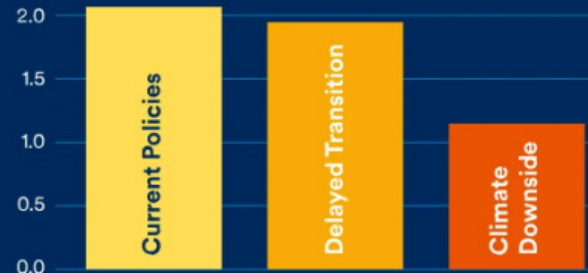
YOUR MARKET REVIEW JULY 2024



INFOGRAPHIC: THE GLOBAL ECONOMY

How physical disruption from unchecked global warming could take a severe economic toll

Annualised GDP growth under Schrodgers scenarios
(% p.a. 2024-2053)



Source: Oxford Economics, Schrodgers Economics Group, May 2024



Greenhouse gas levels continue to climb steeply, meaning a more persistent increase in global warming is likely...



...these trends may galvanise policy makers to introduce aggressive policies from 2030, our **Delayed Transition** scenario...



...but we are now also considering a **Climate Downside** scenario, where governments fail to take the necessary action

[Read more](#) >

Could international agreements on carbon border taxes help spread the burden of climate action?



Importers to the EU will soon need to buy certificates for the difference between the carbon price in their home country and the bloc...



...in a changing geopolitical landscape such carbon border taxes could be justified as protecting domestic industries and jobs...



...and with the UK, Canada and US looking at similar schemes, co-operation may also spur climate action in other parts of the world

[Read more](#) >

What does a landslide Labour UK election win mean for the economy and markets?

Labour Party's majority is on a scale with that achieved by Tony Blair in his historic 1997 landslide victory...



...the result means a secure majority government which should improve policy visibility for companies and investors...

...although it was achieved on a low share of the vote, so investors also have to consider a changing political landscape

[Read more](#) ➔

Source: [Schroders as at July 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	●	Positive economic data alongside our expectation that the Federal Reserve (Fed) will start to cut interest rates in the autumn means we maintain our positive view on equities.
	Government Bonds	●	We remain neutral with a preference for yield curve steepeners as a hedge against fiscal concerns in the US (yield curve steepener trades aim to benefit from an anticipated increase in the yield spread between longer-term and shorter-term bonds).
	Commodities	●	We maintain a neutral score. Markets remain balanced in energy, and whilst reasonable data continues to reinforce the manufacturing recovery, fading demand and rebounding supply in China have reduced the case for metals.
	Credit	●	We maintain our neutral score. While the liquidity and growth picture is supportive, valuations are rich and political volatility remains a concern.
Equities	US	●	We remain positive as we anticipate that financial conditions will remain favourable throughout the summer, with the expansion of US reserves and expectations for positive earnings growth.
	UK	●▲	We have upgraded our view to positive due to valuations reaching extreme lows. The political shift could lead to a period of stability and improved investor sentiment.
	Europe	●▼	Equity market performance is narrow, with earnings expectations outside of mega cap stocks negative. In addition, heightened political uncertainty warrants a downgrade.
	Japan	●	While earnings revisions are picking up, the positive effect from yen weakness has waned due to rising import costs. This has dampened consumer and business sentiment, particularly among smaller companies, so we retain our neutral score.
	Global Emerging Markets ¹	●	We remain positive as many emerging economies have brought inflation under control, are running prudent fiscal policy and stand to benefit from the manufacturing recovery that is currently under way.
	Asia ex-Japan: China	●	The domestic picture is weak, and companies are struggling. We prefer other EM markets such as those in Latin America, Taiwan, and South Korea.
	EM Asia ex China	●	The improvement in global manufacturing purchasing managers' indices (PMIs) should continue to drive the export recovery, benefitting cyclical markets such as Taiwan and South Korea.
Government Bonds	US	●	Valuations look fair according to our models, and the market is pricing in almost two interest rate cuts this year. While inflationary pressures are easing, consumer spending remains resilient, and we prefer to wait for a softening in the labour market before turning positive.
	UK	●	We maintain a neutral score. Although we expect the Bank of England to cut interest rates at the August meeting given that labour data is softening, service inflation persists.
	Germany	●	Although PMIs are weak, the European Central Bank has kept rates on hold as inflation is still above target. This, coupled with political uncertainty in France, means we prefer to stay on the sidelines for now.
	Japan	●	Although yields look attractive, the market is pricing in two interest rate hikes by the end of the year as headline inflation is increasing.
	US Inflation Linked	●	While headline measures indicate a potential easing of inflation, we maintain a positive view on US inflation-linked bonds as they continue to serve as a valuable hedge against any unexpected spikes in inflation.
	Emerging Markets Local	●	We maintain our neutral score. Although valuations are attractive, we prefer expressing our views through currency positions.

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

	Category	View	Comments
Investment Grade Credit	US	●	While the growth and liquidity environment is supportive, rising interest rate volatility amid political and fiscal uncertainty keep us neutral given rate sensitivity.
	Europe	●	While valuations are less expensive than US IG, and the growth and liquidity environment is supportive, we maintain a cautious view due to political volatility in Europe.
	Emerging Markets USD	●	EM corporates should benefit from strong fundamentals and technical tailwinds. However, valuations are expensive so we maintain a neutral score.
High Yield Bonds (Non-IG)	US	●	Default rates appear to have peaked, and valuations are expensive. However, similar to IG, given the supportive environment we retain our neutral score.
	Europe	●	While European high yield now offers some value and the fundamentals and technicals are supportive, political instability keeps us on the side-lines.
Commodities	Energy	●	We maintain our neutral score as we expect oil markets to remain rangebound. Demand growth appears to have stalled, while the supply side appears benign with plentiful spare capacity from OPEC offset by moderating US supply.
	Gold	●	Technical factors remain supportive for gold, which leads us to retain a positive score.
	Industrial Metals	●	Although the manufacturing recovery remains supportive, fading demand in China for green energy has led to an inventory build-up.
	Agriculture	●	We stay neutral. Latest data has revealed that supply is very healthy for several key grains, as the prospect of La Niña impacting conditions has been pushed out.
Currencies	US \$	● ▼	We have downgraded the dollar. Our expectation is that the Fed will start to cut interest rates and there is a reduction in the probability of a "no landing" scenario.
	UK £	● ▲	We have upgraded sterling to positive. Following a lengthy period of turbulence in the UK, the pound should now benefit from political stability and improved sentiment.
	EU €	●	While the currency has rebounded from the lows following the snap election decision in France, political uncertainty ahead of the regional German election is not yet priced.
	CNH ¥	●	While there has been an uptick in the global goods cycle, weak economic growth leaves us neutral.
	JAP ¥	●	We remain neutral. The Bank of Japan's intervention has had limited success in supporting the currency. Despite the expectation of further rate hikes, currency weakness will remain.
	Swiss F	●	The SNB's recent rate cuts and dovish rhetoric aim to prevent franc strength. Domestic inflation has returned to target levels and foreign FX reserves have increased.



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. Source: [Schroders, July 2024](#). 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 July, when equities experienced a sharp rotation.

THE MONTH IN SUMMARY

Global equities gained in July, with developed markets outperforming emerging economies. There was a rotation in the market with the value style significantly outperforming growth while small caps performed strongly. Government bond yields fell (meaning prices rose) across major markets as inflationary pressures eased.

THE US

US shares gained in July but there were some sharp rotations within the market. Investors moved out of growth companies (those with strong future growth potential) and instead favoured more lowly valued companies. Smaller companies outperformed larger ones.

At the very end of the month, the Federal Reserve (Fed) held interest rates steady at 5.25%-5.50% but indicated that a cut could come at the next meeting in September. Softer inflation readings raised expectations that there will be at least one rate cut this year.

According to the consumer price index (CPI), annual inflation was 3.0% in June, down from 3.3% in May. A separate measure of inflation, the personal consumption expenditures index, declined to 2.5% in the year to June, down from 2.6% in May. Elsewhere, data showed the US economy grew at a 2.8% annualised rate in Q2.

Top gaining sectors for the month included real estate, utilities and financials. Smaller companies also performed well amid expectations that they will benefit from any fall in interest rates.

The information technology and consumer discretionary sectors fell with declines for some of the mega-cap companies that have powered the US market's gains in recent years. There were concerns over whether the scale of investment into themes such as artificial intelligence will be matched by returns.

Elsewhere, President Joe Biden withdrew from this year's presidential race and endorsed Vice President Kamala Harris as the Democratic nominee instead.

EUROZONE

Eurozone shares notched up a small advance in July amid gains for the healthcare, utilities and real estate sectors. There were negative returns for the consumer discretionary and information technology sectors.

Some strong quarterly earnings and positive clinical readouts helped to support stocks in the healthcare sector. Meanwhile, weak consumer demand weighed on the luxury goods and automotive segments within the consumer discretionary sector. The information technology sector was affected by a rotation out of growth stocks and worries that the US might seek to impose further restrictions on what semiconductor equipment can be sold to China.

Data showed that eurozone GDP growth was 0.3% quarter-on-quarter in Q2 2024. However, Germany saw a -0.1% fall in GDP. Meanwhile, euro area annual inflation for July was estimated at 2.6%, up from 2.5% in June. At its July meeting, the European



Central Bank (ECB) kept interest rates on hold, as expected. ECB Governor Christine Lagarde said a decision on a possible cut in September was “wide open” and dependent on incoming data. The flash eurozone purchasing managers’ index (PMI) indicated that the eurozone economy was near stagnation with a reading of 50.1, down from 50.9 in June. PMI data is based on surveys of companies in the manufacturing and service sectors. A reading above 50 indicates growth while below 50 indicates contraction.

Meanwhile, the French parliamentary election concluded with no political grouping achieving an outright majority.

UK

UK equities performed well as a landslide Labour general election win at the start of the month helped fuel hopes for a sustained recovery in the domestic economy. This occurred as expectations built for a cut in UK interest rates as it was revealed that annual consumer prices index (CPI) inflation held steady at 2.0% in June.

Business confidence picked up sharply in July and purchasing managers’ indices (PMIs) for both the services and manufacturing sectors suggested the recovery in UK GDP data for May had continued into the summer. Domestically focussed UK small and mid-cap (SMID) equities, in particular, performed very well as a result.

The FTSE 250 ex investment trust index rose by 8.0% over the month, while the largest domestically focussed housebuilding, retail and banking stocks helped contribute to gains in the FTSE 100. The FTSE 100 rose by 2.5% despite the headwinds of a strong currency potentially impacting the sterling value of its predominately overseas earnings.

Read more: [What does a landslide Labour UK election win mean for the economy and markets?](#)

The positive economic news built over the month with S&P Global’s manufacturing PMI rising to 52.1 in July (ahead of market expectations), its highest reading in two years. Meanwhile the S&P’s services PMI rose to 52.5, from 52.1 in June.

This added to evidence that the new UK government’s focus on growth and stability had fed through into corporate confidence. Deloitte’s latest quarterly survey of UK chief financial officers (CFOs), covering the period 9 July to 19 July immediately following the 4 July election, revealed a sharp rise in risk appetite.



Reflecting an increase in revenue growth expectations and greater optimism about their companies’ financial prospects, 36% of CFOs said it was a good time to take on more risk. This represented the biggest month-on-month rise in risk appetite since 2021 when the UK was recovering from the pandemic-induced recession.

JAPAN

The Japanese equity market experienced high volatility during the month. It reached a historical high earlier in July but then corrected sharply. The TOPIX Total Return index registered a -0.5% decline. The currency market also experienced significant fluctuations, with a sharp appreciation of the yen. The yen strengthened from 162 yen to 150 yen against the US dollar by the end of July.

The significant swings appear to be caused by speculative activity, rather than by the development of corporate





fundamentals. Japanese macroeconomic conditions also remained solid and the sharp shift in the Japanese yen seems to have been driven by short-term money.

The reversal of the previous yen weakness was triggered by the possible intervention of the Japanese government following the release of weak US CPI data, which indicated that the Federal Reserve might cut rates more sharply. On 31 July, the Bank of Japan (BOJ) raised its policy rate to 0.25% from 0-0.10%, which further supported the yen strength.

The yen appreciation and the rise in interest rates in Japan had an impact on trends in the Japanese equity market. The financial sector remained solid, and the construction and real estate sectors rose strongly too. Defensive sectors such as pharmaceuticals and foods also supported the market during the period of turbulence.

On the other hand, exporters such as autos, technology, and machinery were affected by the yen appreciation due to concerns on its negative impacts to their profits. Overall, small caps held up well and the value style continued to perform better than growth style.

ASIA (EX JAPAN)

Asia ex Japan equities were almost unchanged in July. Thailand, Malaysia, and the Philippines were the best-performing markets in the MSCI AC Asia ex Japan Index in July. Taiwan, China, and South Korea were the worst-performing index markets in the month.

Stocks in Taiwan were badly hit by the sell-off in technology stocks towards the end of the month, with artificial intelligence (AI) stocks particularly affected. However, despite the monthly decline Taiwan

remains the best-performing index market in the year-to-date period.

Chipmakers in South Korea were also weaker during the sell-off in technology stocks, with investors starting to question how the expansion in AI will benefit revenue. Major surprises in the US presidential election campaign and the timing of an interest rate cut by the US central bank also weakened investor sentiment in the month.

Equity markets in India, Indonesia and Singapore also achieved modest gains in the month. Healthcare was the strongest sector in the month, while semiconductor makers experienced the sharpest price falls.

EMERGING MARKETS

Emerging market (EM) equities gained in US dollar terms in July but lagged developed markets. EM returns were supported by a weaker dollar and hopes that US interest rates could be cut as soon as September given softer inflation data. However, poor performance from index heavyweights China and Taiwan proved a drag on the MSCI EM index.

Greece, UAE and Egypt were the top performers over the month, with South Africa close behind, supported by ongoing strength in the gold price and optimism about the Government of National Unity. India outperformed, followed by Brazil while Mexico was just ahead of the EM index.

South Korea and Taiwan delivered negative returns amid a broader global sell-off of technology-related stocks, following months of strong performance from the sector. China was also down on uncertainty around the Third Plenum.

The domestic economy remains weak and future policy support is unclear.

Turkey fell on currency weakness while a delay in expectations of the timing of the first interest rate cut weighed on returns in Poland.

GLOBAL BONDS

July was a positive month for global bond markets. Government bond yields, which move inversely to bond prices, dropped across all major markets, propelled by expected interest rate cuts as inflationary pressures eased. European corporate bond spreads tightened over the month, marking a notable outperformance over government bonds. Meanwhile US corporate bonds lagged, performing in line with Treasuries. High yield (HY) credit had a positive month, supported by the prospect of lower interest rates. High yield bonds are more speculative than their investment grade counterparts, with a credit rating below investment grade.

The potential start of a rate-cutting cycle, being crucial for bond markets, meant that central banks took centre stage once again. In the US, a second consecutive low core inflation print, and signs of slowing growth, provided enough reason for the US Federal Reserve (Fed) to open the door for interest rate cuts at its September meeting. The Federal Open Market Committee (FOMC) met on the last day of July and, as was widely expected, interest rates were kept unchanged. However, Fed Chair Jerome Powell steered the market towards a September rate cut, fuelling a rally in Treasuries.

Similarly, barring any major surprises in data, the European Central Bank (ECB) appeared to be gearing up for a September

rate cut. The July flash release of eurozone core inflation was slightly more robust than anticipated, due to elevated goods prices. However, this did not alter the market's expectations for rate cuts. European government bond markets performed well across the board. French government bonds recovered much of their previous losses following the second round of elections which unexpectedly resulted in a hung parliament. The ensuing political deadlock reassured investors that more extreme budgetary measures might be blocked.

UK gilts participated in the month's rally as investors eagerly awaited the Bank of England's (BoE) announcement at the start of August. The market was split on whether the rate cut would occur at this meeting or the subsequent one in September. Meanwhile, the new Labour government revealed more details about its fiscal plans, including several public sector pay awards and some cost-saving initiatives. It also scheduled the Autumn Budget for 30 October.

In currency markets, the Japanese yen outperformed over the month. In contrast with other major central banks, the Bank of Japan raised interest rates to 0.25%. Sterling also had a positive month, boosted by better-than-expected growth.

Convertible bonds, as measured by the FTSE Global Focus index hedged in US dollars, ended the month with a gain of 1.5%. Overall, convertibles demonstrated good downside protection in the latter half of the month when equity markets faced pressure. The primary market for convertibles remained very active with US\$9 billion of interesting new paper coming to the market. There was good demand and liquidity for the new convertibles.





COMMODITIES

The S&P GSCI Index fell in July. Industrial metals and agriculture were the weakest components of the index, while precious metals and livestock achieved modest price gains. In industrial metals, all sub-components ended the month in negative territory, with aluminium and zinc recording the sharpest price falls.

Within agriculture, the price of wheat, corn, soybeans, cotton, and sugar all declined, while coffee and cocoa achieved modest gains. Within energy, the price of natural gas was sharply lower in the month. In precious metals, gold prices were modestly higher while the price of silver fell.

DIGITAL ASSETS

July was an eventful month for digital assets. Bitcoin traded as low as \$53k with strong selling pressure from the German government offloading significant supply. It then rebounded to \$70k during the annual Bitcoin conference at which presidential candidate Donald Trump pledged to make the US the crypto capital of the world. A number of bullish initiatives were discussed leading BTC to rebound 29% from its lows. These included: US dominance in cryptocurrency and innovation; the appointment of a new supportive SEC commissioner; and creating strategic government stockpile of Bitcoin.

The long-anticipated spot Ethereum exchange-traded funds (ETFs) launched in the US. We view this as very supportive for the asset class as it grants access to a new set of investors and will help further educate them on the potential of blockchain technology and the wealth of applications that can be built on it.

July saw a continued trend of return dispersion, even within the majors with Bitcoin up 3% over the month, Ethereum down -6% and Solana returning 17%. Fundamental usage metrics on that chain continue to show strong growth and speculation emerged about a potential Solana ETF.


TOTAL RETURNS (NET) % – TO END JULY 2024

Equities	1 MONTH			12 MONTHS		
	USD	EUR	GBP	USD	EUR	GBP
MSCI World	1.8	0.8	0.2	18.3	20.6	18.5
MSCI World Value	4.8	3.8	3.1	14.9	17.1	15.1
MSCI World Growth	-1.0	-1.9	-2.5	21.6	23.9	21.8
MSCI World Smaller Companies	6.9	5.8	5.2	11.2	13.3	11.4
MSCI Emerging Markets	0.3	-0.7	-1.3	6.3	8.3	6.5
MSCI AC Asia ex Japan	-0.1	-1.1	-1.7	6.2	8.2	6.4
S&P500	1.2	0.3	-0.4	22.2	24.5	22.4
MSCI EMU	1.4	0.4	-0.2	7.9	10.0	8.1
FTSE Europe ex UK	1.7	0.7	0.1	11.1	13.2	11.3
FTSE All-Share	4.8	3.8	3.1	13.4	15.5	13.5
TOPIX*	6.3	5.3	4.7	16.2	18.4	16.4

Government Bonds	1 MONTH			12 MONTHS		
	USD	EUR	GBP	USD	EUR	GBP
JPM GBI US All Mats	2.1	1.2	0.5	4.2	6.2	4.4
JPM GBI UK All Mats	3.5	2.5	1.8	5.7	7.7	5.8
JPM GBI Japan All Mats**	6.8	5.8	5.1	-9.3	-7.6	-9.1
JPM GBI Germany All Traded	2.6	1.6	0.9	1.8	3.7	1.9
Corporate Bonds	1 MONTH			12 MONTHS		
	USD	EUR	GBP	USD	EUR	GBP
BofA ML Global Broad Market Corporate	2.5	1.5	0.8	6.5	8.5	6.7
BofA ML US Corporate Master	2.4	1.4	0.8	7.1	9.1	7.2
BofA ML EMU Corporate ex T1 (5-10Y)	3.2	2.2	1.6	6.4	8.4	6.5
BofA ML £ Non-Gilts	3.2	2.3	1.6	9.0	11.1	9.2
Non-investment Grade Bonds	1 MONTH			12 MONTHS		
	USD	EUR	GBP	USD	EUR	GBP
BofA ML Global High Yield	2.0	1.0	0.4	11.0	13.1	11.2
BofA ML Euro High Yield	2.3	1.4	0.7	9.4	11.5	9.6

Source: LSEG DataStream. Local currency returns in July 2024: *-0.5%, **-0.1%.
Past performance is not a guide to future performance and may not be repeated.





Source: [Schroders, July 2024](#): 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. Past performance mentioned is not a guide to future performance and may not be repeated. The sectors, securities, regions and countries shown are for illustrative purposes only and are not to be considered a recommendation to buy or sell.

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