



FINURA

YOUR MARKET REVIEW JUNE 2024



INFOGRAPHIC: THE GLOBAL ECONOMY

ECB reduces interest rates, with more cuts to come



Schroders' forecast
for ECB 'refinancing'
rate by end of 2025

The European Central Bank (ECB)
has cut rates as eurozone inflation
approaches its 2% target...



4.5% ✂ **4.25%**

...it cut the main refinancing rate –
the rate at which banks can borrow
from the ECB – by 0.25%...

...and we expect an additional five cuts
by the end of next year, which is more
than currently priced by markets



What's driving our stronger-than-expected global growth (and inflation) outlook?



Schroders' global growth
forecast for 2024

We anticipate that a buoyant US consumer along with
a faster recovery in the UK and eurozone will help to
drive an ongoing rebound in global manufacturing...



...this is good news for export-orientated
economies in emerging markets, which we now
expect to enjoy significantly stronger growth...

...but could also drive up commodity
prices, and we've also increased our
inflation forecasts for this year too



View at a glance: Schroders' latest GDP growth forecasts



Source: [Schroders as at June 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 and believe there is still potential for further growth.
	Government Bonds	●	We remain neutral. While inflation fell in May, our models still indicate valuations are fair. Interest rate cuts should underpin yield curves going forward.
	Commodities	●	We are neutral. Recent data has started to call into question the underlying manufacturing recovery. We took profits on our industrial metals position given how far markets have moved.
	Credit	●	US IG and HY yields have improved slightly over the month, but valuations remain stretched.
Equities	US	●	We remain positive on US equities as they continue to lead markets. The overall growth outlook remains stable despite a potential slowdown in the market.
	UK	● ▼	We have downgraded to neutral. Although valuations are cheap and fundamentals are improving in the UK, we prefer to gain equity exposure through other regions.
	Europe	● ▼	Equity market performance has begun to narrow, and the soft landing narrative is now being reflected in prices, leading us to turn neutral.
	Japan	● ▼	We have moved to neutral. The positive impact of the weaker yen on Japanese equities is starting to fade due to rising import costs. This is leading to signs of deterioration in consumer sentiment and business sentiment for smaller companies.
	Global Emerging Markets ¹	● ▲	We upgrade to positive. Many emerging economies have brought inflation under control, are running more prudent fiscal policies, and stand to benefit from the manufacturing recovery that is currently under way.
	Asia ex-Japan & China	●	While we expect to see a stabilisation in Chinese markets after the recent recovery in exports, we prefer other EM markets such as those in Latin America, Taiwan, and South Korea.
	EM Asia ex China	● ▲	The improvement in global manufacturing PMIs should continue to drive the export recovery in EM Asia markets, in particular cyclical markets such as Taiwan and South Korea.
Government Bonds	US	●	While inflation in May has surprised on the downside, our models still indicate valuations are fair and we prefer to wait for better valuation levels. Inflationary pressures should continue to abate although the US labour market remains strong.
	UK	● ▼	We expect the Bank of England (BoE) to start cutting interest rates soon as inflation weakens. However, service inflation is set to remain higher for longer, offsetting the effects of the softening labour market.
	Germany	●	The European Central Bank (ECB) announced its first 0.25% interest rate cut in June. Eurozone inflation edged up in May, which means the ECB may decide to slow the pace at which it makes further cuts.
	Japan	●	The Bank of Japan (BoJ) is expected to announce further interest rate hikes as higher import inflation and a scheduled rise in utility prices has driven inflation higher. We prefer to stay on the sidelines.
	US Inflation Linked	●	US inflation-linked bonds continue to offer a useful hedge against higher-for-longer inflation. Although headline measures suggest easing ahead, we remain positive for now.
	Emerging Markets Local	●	Although spreads and valuations are attractive, we prefer to express 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	●	Cash offers higher yields than US investment grade (IG) bonds and valuations are notably expensive. However, strong growth and an abundance in liquidity prevent us from turning negative.
	Europe	●	Valuations are stretched but the shape of the European yield curve means the issue is less prevalent in Europe. We remain neutral.
	Emerging Markets USD	●	As fundamentals are robust and yields appealing, EM corporates should be poised to gain from technical tailwinds. However, expensive valuations have led us to remain neutral.
High Yield Bonds (Non-IG)	US	●	We remain neutral as valuations are stretched.
	Europe	● ▼	We have downgraded to neutral. European high yield (HY) spreads have tightened since last month and are still better value than the US, but we prefer taking risk exposure elsewhere in our portfolios.
Commodities	Energy	●	Energy markets remain broadly stable. OPEC+ has reduced production but is expected to re-introduce supply later in the year. Demand remains moderate with growth prospects mixed. As a result, we remain neutral.
	Gold	●	We expect gold prices to remain underpinned in the longer term by physical market demand. We stay positive as prices should benefit from falling real rates whilst the metal can also offer protection against more persistent inflation and geopolitical risk.
	Industrial Metals	● ▼	The medium-term case for base metals remains buoyant. However, considering how far markets have moved year-to-date and that technical factors are stretched, we downgrade to neutral.
	Agriculture	●	Mixed weather conditions globally are pushing up prices, but the sector remains without a clear overarching directional narrative.
Currencies	US \$	●	We remain positive in the US dollar given its diversifying properties against other currency positions.
	UK £	●	We are neutral. Although a global soft landing scenario would benefit sterling, concerns around stagflation remain.
	EU €	● ▼	We are negative given that the ECB is projected to implement interest rate cuts sooner than the Federal Reserve (Fed). The currency is also under pressure following the recent declaration of a snap election in France.
	CNH ¥	●	We remain neutral, reflecting the balance between weak economic growth and the impact of the uptick in the global goods cycle.
	JAP ¥	● ▼	The BoJ's recent intervention in support of the currency has had limited impact and we see little threat to its continued weakness despite expectations of further rate hikes.
	Swiss F	●	The Swiss National Bank (SNB) was one of the first major central banks to cut rates. However, housing rents are putting upward pressure on inflation.



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, June 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 review of markets in Q2 when emerging market equities outperformed.

THE QUARTER IN SUMMARY

Strength in some Asian markets helped emerging market equities outperform developed markets in Q2. Stocks related to the artificial intelligence (AI) theme continued to perform strongly. The European Central Bank cut interest rates but sticky inflation kept other major central banks on hold.

THE US

US shares gained in Q2, led higher by the information technology and communication services sectors. Ongoing enthusiasm around AI continued to boost related companies amid some strong earnings and outlook statements. Weaker sectors included materials and industrials.

Among financials, numerous US banks announced plans to increase dividends after passing annual stress tests from the Federal Reserve (Fed).

The likely timing and extent of interest rates cuts remained a key focus for markets in the quarter. There were worries at the start of the quarter that the US economy may be overheating, and strong economic data was greeted negatively by the market. However, hopes of a soft landing for the economy grew as the quarter progressed. The latest "dot plot", showing the rate setting forecasts of Fed policymakers, indicated just one rate cut this year.

Annual US inflation, as measured by the personal consumption expenditures index, eased slightly to 2.6% in May from 2.7% in

April. The US labour market remained strong with 272,000 jobs added in May, according to the Bureau of Labor Statistics.

EUROZONE

Eurozone shares moved lower in Q2. Equities fell amid uncertainty caused by the announcement of parliamentary elections in France and dwindling expectations for steep interest rate cuts.

The information technology sector gained with semiconductor-related stocks performing particularly well. The consumer discretionary sector saw declines amid weakness in automotive and luxury goods stocks.

The European Central Bank cut interest rates by 25 basis points in early June. However, the scope for further cuts may be limited by sticky inflation. Annual inflation in the euro area was 2.6% in May, up from 2.4% in April.

Forward-looking data pointed to a slowdown in the eurozone's economic recovery. The flash HCOB composite purchasing managers' index dipped to 50.8 in June from 52.2 in May. 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.

Politics was a key focus in the quarter. European parliamentary elections saw gains for right-wing nationalist parties. This was notably the case in France and President Macron responded by calling parliamentary elections, in a move that surprised markets and saw French equities underperform the broader eurozone index.

Read more: [What does the shift towards nationalist politics mean for the European Union and France?](#)

UK

UK equities rose and the FTSE 100 achieved fresh all-time highs. Performance of small and mid-sized (SMID) companies was also helped by a flurry of new bids. This segment was further supported by expectations of a possible turning point for domestically-focused companies following a decade of underperformance. On a much shorter time horizon, SMIDs gave back some of their gains towards the end of the quarter as markets pushed back against hopes for imminent interest rate cuts.

Read more: [Could UK mid-sized companies be about to reverse a topsy-turvy decade of underperformance?](#)

Having suffered a mild recession over the second half of 2023, it was confirmed the UK economy rebounded strongly in the first quarter of 2024, recording GDP growth of 0.7%. However, more recent data revealed growth had stagnated in April, with the three-month unemployment rate (to April) rising to 4.4% as the economy shed 140,000 jobs. Meanwhile, annual consumer prices index inflation fell back to 2.0% in May, hitting the Bank of England's (BoE) target for the first time since July 2021.

Despite slowing UK growth and encouraging inflation trends the BoE maintained base interest rates at 5.25%. This was amid market concerns that the fall in UK inflation may only be temporary, and that high wage inflation is driving the elevated annual rate of inflation in services, which was 5.7% in May. Prime Minister Rishi Sunak fired the starting pistol for the race to form the next government, by calling a general election to be held on 4 July.

Read more: [What might the UK election mean for the economy and markets?](#)

JAPAN

The Japanese equity market generated a positive return of 1.7% in Japanese yen terms for TOPIX Total Return during the quarter. However, due to the continued depreciation of the Japanese yen, the foreign currency-based return turned negative. The yen weakness was primarily driven by the strength of the US dollar, which was supported by a stronger US economy and the expectation of a "higher for longer" interest rate scenario.

In March, the Bank of Japan (BOJ) took actions and there was a moderate rise in Japanese government bond (JGB) yields, which supported financial stocks in Japan. The BOJ also announced that they would reduce the amount of JGB purchases starting in July. However, these actions were not robust enough to change the trend of yen weakness towards the end of the quarter.

Both the Japanese government and the BOJ expressed concerns about the negative impact of yen weakness on inflation. Additionally, real-term wage growth remained negative as the slow increase in wages has not yet surpassed the level of inflation. This has resulted in stagnant consumer sentiment so far this year. However, the record-high number of inbound tourists has contributed to increased spending in Japan, which has supported consumption.

The second quarter is the full-year earnings season, and it concluded with stronger-than-expected results. Japanese companies showed sales growth, pricing power, and cost control, leading to improved corporate profitability.





However, market sentiment was weighed down by conservative earnings guidance from company management for the new fiscal year.

During the earnings season, an increasing number of companies announced their commitment to initiatives by the Tokyo Stock Exchange, focusing on the cost of capital and share price. Their responses included setting realistic financial targets and renewing capital policies, including payout policies. As a result, there has been a record-high amount of share buybacks in the new fiscal year. Generally, companies that announced their renewed capital allocation plans received a positive stock price reaction.

ASIA (EX JAPAN)

Asia ex Japan equities achieved solid gains in the second quarter. Taiwan, India, and Singapore were the best-performing markets in the MSCI AC Asia ex Japan Index in Q2, while Indonesia, the Philippines, and Thailand were the worst-performing markets.

Shares in China also achieved strong gains in the quarter, as low valuations for many Chinese stocks encouraged Asia-focused investors to cautiously return to the Chinese market following concerns about India's high valuations and Japan's continued currency weakness. Ongoing investor optimism for stocks expected to gain from the expansion of artificial intelligence (AI), drove shares in Taiwan higher in the second quarter, with Taiwan the best-performing index market for the quarter and in the year-to-date period.

Indian shares also achieved robust growth in the second quarter, driven by continued positive investor sentiment towards the country. Indian benchmark indices reached record highs at the end

of the quarter, driven by gains in media and banking stocks. Share prices in Hong Kong were largely flat in the second quarter, while South Korean stocks recorded a modest decline amid growing investor caution over the global economy and the timing of US interest rate cuts.

EMERGING MARKETS

Emerging market (EM) equities finished ahead of developed peers in Q2. Softer US macroeconomic data helped ease concerns about the timing of US interest rate cuts and a rebound in China also supported EM returns.

Turkey was the best performer over Q2 helped by optimism that economic policy will remain orthodox. Taiwan also a posted double-digit return in US dollar terms against a backdrop of continued investor enthusiasm for technology stocks, particularly artificial intelligence-related names.

South Africa was another top performer, as investors welcomed the results of the country's general elections which saw the African National Congress Party and Democratic Alliance, along with a number of smaller parties, form a coalition "Government of National Unity". It was a similar story in India with political developments supporting equity market returns over the quarter. Prime Minister Modi's Bharatiya Janata Party (BJP)-led National Democratic Alliance retained its parliamentary majority although the BJP lost its single party majority.

The emerging European markets of Hungary, Czech Republic and Poland did well, while China's recovery in April and May, following a few months of underperformance, meant it outperformed broader EM too. Optimism about the authorities' support for the housing sector and President Xi's reform rhetoric was beneficial.

The remaining markets underperformed, including Korea and some of the energy-related markets such as Kuwait, UAE, Colombia and Saudi Arabia. Brazil and Mexico posted the biggest losses in US dollar terms. In both markets central banks flagged caution on the likely path of future interest rate cuts, while flooding in Brazil's southern state of Rio Grande do Sul prompted investor concerns about economic growth, fiscal spending and inflation. Meanwhile, in Mexico Claudia Sheinbaum's election as president and her Morena party's super majority in the lower house of congress raises the prospect of institutional weakening if Morena is able to pass constitutional, including judicial reforms. The results and associated risk were poorly received by the market.

GLOBAL BONDS

The quarter commenced on a disappointing note for global bond markets, spurred by renewed concerns about US inflation causing investors to reassess the timing of interest rate cuts. Later, a more conducive market environment was driven by the emergence of softer labour market conditions and encouraging news on inflation. Political risk drove idiosyncratic weakness across certain emerging markets. Additionally, the announcement of snap parliamentary elections in France instigated localised weakness, whereas the prospect of UK elections was less contentious.

Investment grade (IG) corporate bond markets (bonds with higher credit rating and lower risk) in the US and Europe delivered both positive absolute and relative returns over government bonds. This was a result of the relatively higher income earned as credit spreads widened during the quarter. Financials outperformed on a sector basis, despite the weakness in French bank names at the end of the period, a spillover from

uncertainties surrounding the outcome of the parliamentary elections.


High yield (HY) markets (bonds with a lower credit rating and higher risk) enjoyed another positive quarter, with strong outperformance over both government bonds and IG corporates. In securitised, covered bonds and mortgage-backed securities generated modest total returns over the quarter.

Global government bond markets diverged during the quarter. Following an initial sharp sell-off in US Treasuries, yields peaked towards the end of April and subsequently trended lower (yields move inversely to prices). Within the eurozone, French spreads widened sharply versus Germany on the announcement of a snap parliamentary election, implying that investors perceive French debt as higher risk.

Central banks were firmly in the spotlight. In the US, June's Federal Open Market Committee (FOMC) meeting struck a relatively hawkish tone. Keeping rates on hold (as expected) the accompanying revised forecasts suggested just one cut over the rest of 2024, a decrease from three cuts that were anticipated back in March. Meanwhile, in a well-telegraphed move, the European Central Bank (ECB) announced a 25bps cut in June. The accompanying statement and upgrade to inflation forecasts were construed by the market as relatively hawkish. Elsewhere, the Bank of England's (BoE) decision to keep interest rates unchanged was dubbed as "finely balanced".

It was a difficult quarter for emerging markets (EM), with the postponement of the Fed's easing cycle pushing yields higher. With most EM countries well into their easing cycle and inflation already having normalised in some sectors, investors started to





question their ability to offer additional monetary policy support. Unexpected election outcomes in South Africa, Mexico and India also contributed to investor unease.

In currencies, the US dollar was weaker against its G-10 peers. The Japanese yen was the notable exception, with wide interest rate differentials driving the currency underperformance.

Convertible bonds could not benefit from the equity market tailwinds. The FTSE Global Focus convertibles index, hedged in USD, finished Q2 with a loss of -0.5%. The convertibles universe lacked exposure to the big performance drivers within equities. There was very robust primary market issuance with one issue making headlines for being the highest issue volume on record. The Q2 volume of new issues surpassed the \$27 billion of issuance in the first quarter.

COMMODITIES

The S&P GSCI Index achieved a modest gain in the second quarter. Industrial metals and precious metals were the strongest components of the index, while agriculture was the weakest component. Within industrial metals, the price of zinc rose sharply in the quarter. In precious metals, the price of silver achieved strong gains, while the increase in the price of gold was more muted.

The energy component achieved a modest gain over the quarter, with a robust price gain for natural gas. Within agriculture, a significant price gain for coffee failed to offset weaker prices for cotton, corn, cocoa, and sugar.

DIGITAL ASSETS

Digital asset prices consolidated in Q2 after a strong start to the year in Q1. Ethereum returned -5.8% during the quarter vs -12% for Bitcoin. Both tokens are now up around 50% year-to-date.

The first half of 2024 was a turning point for the digital asset industry, where we witnessed the regulatory approval and launch of spot crypto ETFs (exchange traded funds) by some of the largest traditional financial institutions in countries such as the US, Hong Kong and Australia. Native crypto funds living on the blockchain are also emerging. There are other signs that institutions are becoming more interested in the space, with investment consultants reporting a pick-up in inbound inquiries from their clients once again.

The tide has turned on the regulatory front as well, with a clearer path to creating a robust framework in the US. Regulatory guidelines are important for the industry to gain legitimacy. Another example is Europe's Markets in Crypto-Assets regulation going live.


TOTAL RETURNS (NET) % – TO END JUNE 2024

Equities	3 MONTHS			12 MONTHS		
	USD	EUR	GBP	USD	EUR	GBP
MSCI World	2.6	3.4	2.6	20.2	22.4	20.9
MSCI World Value	-1.2	-0.4	-1.3	13.9	15.9	14.5
MSCI World Growth	6.3	7.2	6.3	26.4	28.6	27.1
MSCI World Smaller Companies	-2.8	-2.0	-2.8	9.1	11.1	9.8
MSCI Emerging Markets	5.0	5.8	4.9	12.5	14.6	13.2
MSCI AC Asia ex Japan	7.2	8.0	7.1	12.9	14.9	13.5
S&P500	4.3	5.1	4.2	24.6	26.8	25.3
MSCI EMU	-2.5	-1.7	-2.6	9.6	11.6	10.3
FTSE Europe ex UK	0.3	1.1	0.3	12.8	14.8	13.4
FTSE All-Share	3.8	4.6	3.7	12.3	14.4	13.0
TOPIX*	-4.3	-3.6	-4.4	12.8	14.9	13.5

Government Bonds	3 MONTHS			12 MONTHS		
	USD	EUR	GBP	USD	EUR	GBP
JPM GBI US All Mats	0.1	0.9	0.0	1.7	3.5	2.2
JPM GBI UK All Mats	-0.9	-0.2	-1.0	4.2	6.0	4.8
JPM GBI Japan All Mats**	-8.6	-7.9	-8.7	-15.0	-13.5	-14.5
JPM GBI Germany All Traded	-1.5	-0.7	-1.5	-0.1	1.7	0.5
Corporate Bonds	3 MONTHS			12 MONTHS		
	USD	EUR	GBP	USD	EUR	GBP
BofA ML Global Broad Market Corporate	-0.1	0.7	-0.1	4.9	6.8	5.5
BofA ML US Corporate Master	0.1	0.9	0.0	5.0	6.9	5.6
BofA ML EMU Corporate ex T1 (5-10Y)	-1.1	-0.3	-1.1	5.4	7.3	6.0
BofA ML £ Non-Gilts	0.0	0.7	-0.1	9.0	11.0	9.7
Non-investment Grade Bonds	3 MONTHS			12 MONTHS		
	USD	EUR	GBP	USD	EUR	GBP
BofA ML Global High Yield	1.2	2.0	1.2	10.6	12.6	11.2
BofA ML Euro High Yield	0.8	1.6	0.8	9.4	11.4	10.0

Source: LSEG DataStream. Local currency returns in Q2 2024: *1.7%, **-2.9%.
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Source: [Schroders, June 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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