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Quarterly market summary

Q4 2024

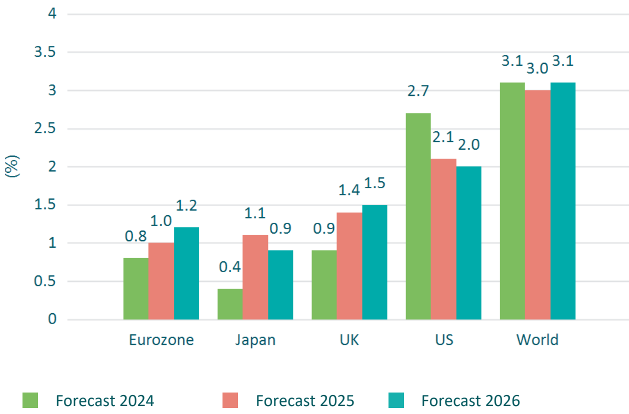
Economic overview

In the final quarter of 2024, major central banks maintained their path of monetary policy easing, despite modest inflationary upticks. In the US, headline inflation edged up to 2.7% in the 12 months to November, a slight increase from 2.6% a month earlier. The UK's 12-month headline inflation rate climbed to an 8-month high of 2.6% in November, up from 2.3% in October. The eurozone also reported a rise in inflation in November: prices rose 2.3% year-on-year, up from 2% in October.

During the review period, the Federal Reserve (Fed) reduced its key interest rate by 25 basis points (bps) twice, taking it to a range of 4.25% to 4.5%. The decisions were driven by indications of moderating inflation and a weakening labour market. The European Central Bank (ECB) implemented two 25 bps cuts, lowering the deposit rate to 3%, while the Bank of England (BoE) reduced interest rates from 5% to 4.75% in November.

The year concluded with a general slowdown in global economic growth. The US economy expanded 2.8% in the third quarter, decelerating from the 3% pace seen in Q2. The UK economy contracted for two consecutive months in September and October; GDP growth was flat in the third quarter. However, eurozone GDP grew 0.4% quarter-on-quarter, in the third quarter, following more than a year of tepid growth. China's GDP increased 4.6% year-on-year in Q3, down slightly from 4.7% in Q2, driven by robust factory activity and exports but weighed down by a property downturn and weak consumer spending.

Annual GDP growth



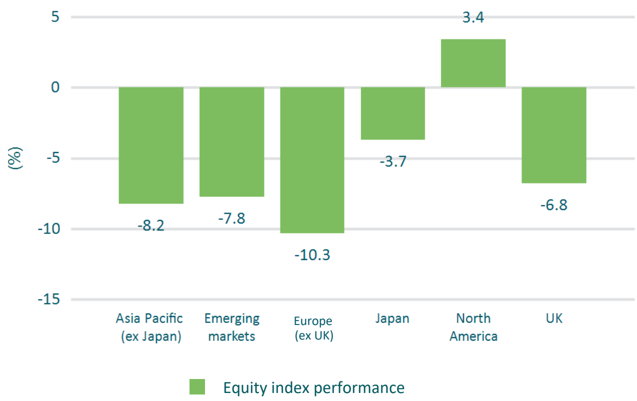
Source: LSEG Datastream, January 2025.

Market overview

The fourth quarter of 2024 witnessed significant equity rallies and bond sell-offs, driven by central bank manoeuvres and political developments. Global government bond prices fell 5.4% (in local currency) despite widespread rate cuts. US government bonds experienced significant election-induced volatility, with the benchmark 10-year Treasury ending the quarter down 5.0% as the yield rose to 4.6% from 3.8% over the period. (Bond yields and prices move in opposite directions). A 'tax and spend' budget by the new Labour government, which sparked concerns over growth and inflation, put pressure on UK gilts. European bonds were influenced by political turmoil, with Italian government bonds outperforming their French and German counterparts. Corporate bonds performed better than government debt, with riskier high yield bonds the best performers.

Equity markets experienced a significant rally following Donald Trump's victory in the US presidential election. The FTSE World Index advanced 6.5%, culminating in a year-end return of 20.1% (in sterling). US equities reached new highs post-election, with the S&P 500 rising 5.9% in November, marking its strongest monthly performance of the year. Over the quarter, the S&P 500 advanced 2.4%, resulting in an annual return of 25% (in US dollars).

Equity market performance v. FTSE World Index
(4th quarter 2024)



Source: LSEG Datastream Sterling

The value of investments will fluctuate, which will cause prices to fall as well as rise and investors may not get back the original amount they invested. There is no guarantee the objective will be achieved.
Past performance is not a guide to future performance.

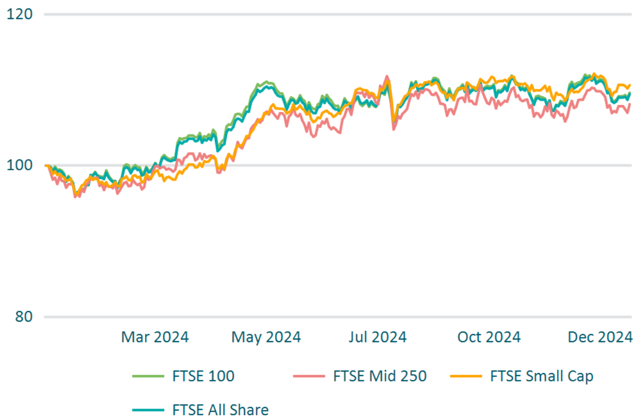
In the UK, the FTSE 100 Index delivered a small quarterly decline (0.2%) but finished the year with a total increase of 9.7% (in sterling). European, Asian ex Japan and emerging market equities were among the weakest regions. From a sector standpoint, financials and technology outperformed the global market this quarter, while basic materials and healthcare were the biggest laggards.

In terms of currencies, the US dollar experienced a strong rally following Trump's win. In the commodities market, Brent crude oil rose in the quarter but ended the year down 3.8% (in dollars), marking its second consecutive annual decrease. Conversely, gold prices fell slightly in the three months, but surged 27.1% in 2024, achieving its strongest annual performance since 2010 (in dollars).

UK equities

UK equities ended 2024 with a small decline in the fourth quarter and trailed the US and global market (in sterling terms). Even with a weak final three months, the FTSE All-Share Index registered a solid return of 9.5% for 2024 as a whole. Investors had to navigate an uncertain economic backdrop in the period, including evidence that the UK economy was contracting, a pick-up in inflation and a tax-raising budget from the new government. The best performing sectors included financials, oil & gas and technology. On the other hand, basic materials fell sharply, amid concerns about China’s economy. Utilities and real estate stocks, which are considered sensitive to interest rates, declined, as UK rates are expected to remain high for longer. The larger international companies in the FTSE 100 outperformed their smaller, domestically focused counterparts.

UK equity market indices (12 months to 31.12.24)

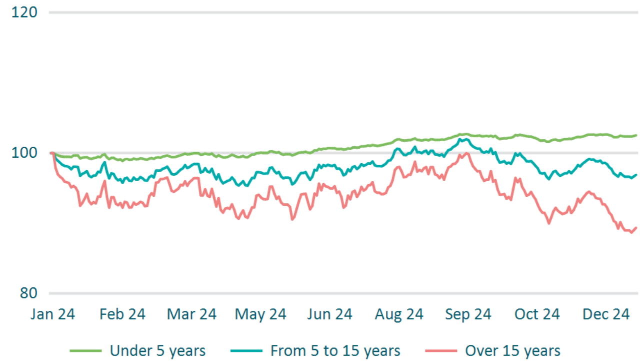


Source: LSEG Datastream Rebased to 100

UK bonds

The price of UK government bonds (gilts) fell 3.1% in the fourth quarter of 2024, outperforming US government bonds (Treasuries), in sterling terms. The yield of the 10-year UK gilt rose to 4.6%, from 4.0% at the end of September (bond yields and prices move in opposite directions). During the quarter, the UK Chancellor Rachel Reeves delivered what was largely considered a ‘tax and spend’ budget. Markets initially reacted negatively, with bond yields spiking before stabilising. Not only is the budget expected to dampen the UK’s economic growth prospects, it is also likely to constrain the actions of the Bank of England (BoE) as it contained policies which could fuel inflation. The BoE cut interest rates by 25 basis points in November, before keeping them unchanged at its December meeting when it indicated a gradual approach to future interest rate cuts. Shorter-dated gilts outperformed longer-dated gilts in the period, while inflation-linked gilts were particularly weak. In contrast, UK corporate bonds were relatively resilient, declining 0.5%.

Gilt indices (12 months to 31.12.24)



Source: LSEG Datastream Rebased to 100

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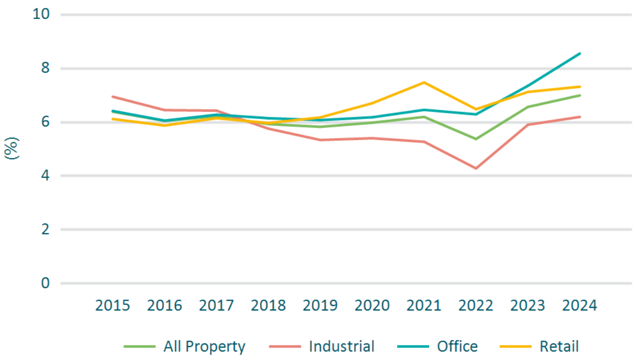
UK property

For the three months to end-November (the latest date for which data is available), capital values for All UK commercial property increased by 1.0%, according to property consultant CBRE. This was an acceleration in the growth rate seen in the previous three months to August, which was 0.3%. Including rental income, the total return over the three months to end-November was 2.4%. Over the three months, capital value growth was strongest in the retail and industrial sectors and in both cases the growth rate accelerated from the previous three months. Whilst prices fell in the office sector in the three months, there are tentative signs that capital values are beginning to stabilise. For example, capital values rose by 0.1% in November. Rental values grew in all sectors over the three months to end-November, with growth strongest in industrials.

Equivalent yields (to 30.11.24)

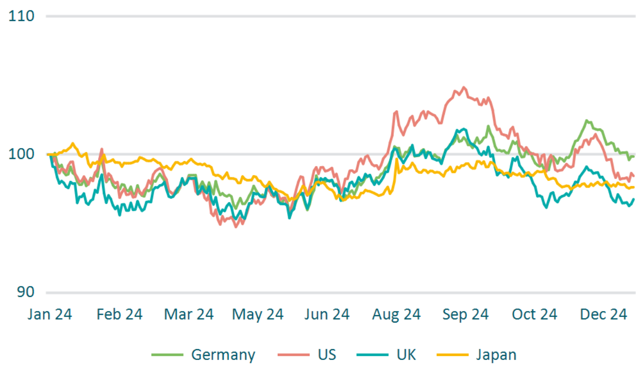


Source: IPD

International bonds

Global government bond prices fell 5.4% during the quarter, despite the majority of major central banks continuing their interest rate-cutting cycles. The Federal Reserve (Fed) cut rates twice, bringing borrowing costs to the 4.25%-4.5% range, although they signalled a cautious pace for 2025. The European Central Bank and the Bank of England also continued on their rate-cutting journeys. US Treasuries experienced heightened volatility in the run-up to the US presidential election in November. Following Donald Trump's resounding victory, long-term yields spiked on fears that Trump's policies could be inflationary and result in higher government borrowing. 10-year US Treasuries fell 5.0% (in US dollars) in the period and finished the quarter with a yield of 4.6%. The prices of benchmark French, German and Japanese government bonds also fell. Corporate bonds performed better than government debt, with riskier high yield bonds delivering the best returns.

10-year government bond markets (12 months to 31.12.24)



Source: LSEG Datastream

Rebased to 100

Local currency

European bonds

As with elsewhere across the globe, politics largely influenced the performance of European government bonds. Italian government bonds (BTPs) outperformed both French government bonds (OATs) and German government bonds (bunds) as both French and German governments grappled with political upheaval. France saw its credit rating downgraded by rating agency Moody's, which commented "political fragmentation is more likely to impede meaningful fiscal consolidation". This came after the minority government of Michel Barnier lost a no-confidence vote in parliament, leaving President Emmanuel Macron scrambling to form a government for the second time this year. In December, the European Central Bank cut interest rates for the fourth time in 2024, lowering its deposit rate to 3%, amid concerns political instability and a potential fresh trade war with the US could weigh on the region's economic growth. Both European corporate bonds and high yield debt rose over the quarter.

North America

US equities rose in the fourth quarter to round off a year of impressive gains. Investors' enthusiasm for US stocks was buoyed by ongoing excitement about artificial intelligence and the country's robust economic backdrop. Share prices rallied in November following Donald Trump's election victory, which raised the prospect of tax cuts and deregulation. The Federal Reserve's cautious outlook for interest rate cuts dampened sentiment somewhat in December but the S&P 500 Index still ended the quarter ahead of all major stockmarkets. Communication services, consumer discretionary and technology were among the best performing sectors. Financials also outperformed the broader market, advancing on optimism about President-elect Trump's policies. In contrast, energy, healthcare, materials and utilities were notable laggards.

FTSE World North America Index (12 months to 31.12.24)

Source: LSEG Datastream

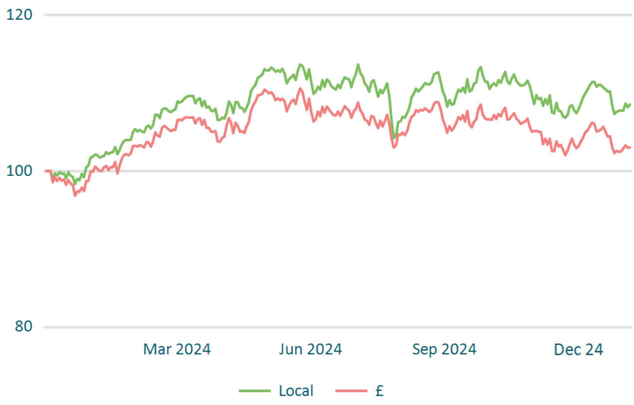
Rebased to 100

Past performance is not a guide to future performance.

Europe

European equities fell in the fourth quarter of 2024 and were among the weakest markets globally. Investor sentiment was dampened by concerns about the region's economic outlook, the potential impact of President-elect Trump's tariffs and political uncertainty. Political instability in France, including a no-confidence vote against the government, and worries about the fiscal deficit led investors to shun French assets. Spanish and Dutch share prices also fell. In contrast, the German and Italian stockmarkets rose, ensuring they registered healthy gains for the year as a whole. From a sector perspective, financials and industrials, including aerospace and defence stocks, were notable outperformers, whereas consumer goods, oil & gas and healthcare lagged the broader market.

FTSE World Europe (ex-UK) Index (12 months to 31.12.24)

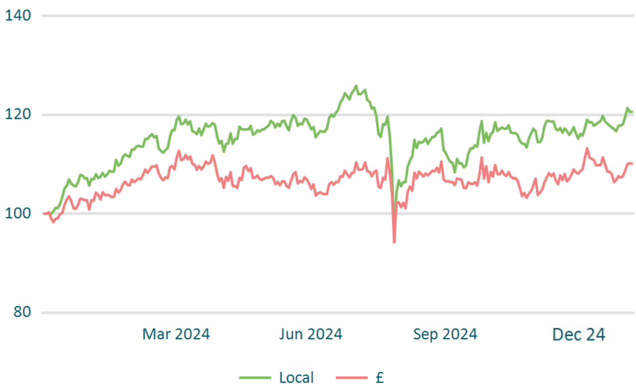


Source: LSEG Datastream Rebased to 100

Japan

The Japanese stockmarket rose in the quarter and was one of the better-performing markets globally. However, returns for non-yen-based investors were eroded by the weakness of the Japanese currency. Japanese interest rates are very low compared to other developed markets (making the currency unattractive for some investors) and remained at 0.25% throughout the three months. Early in the quarter, Prime Minister Shigeru Ishiba's decision to call a snap election backfired, as the ruling Liberal Democrat party lost its majority. As Japan's corporate reform agenda has been de-politicised, it is not expected that the political change will derail the improvement in corporate reform we have seen. In December, news broke that carmakers Nissan and Honda were holding talks about a merger. It is hoped a combination of the two companies would help them compete against the fast-growing Chinese electric vehicle manufacturers.

FTSE World Japan Index (12 months to 31.12.24)



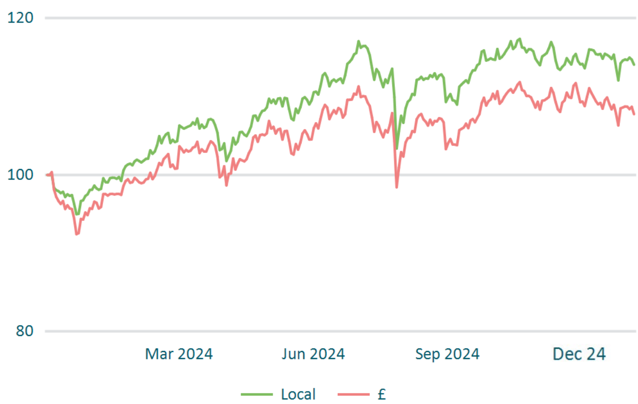
Source: LSEG Datastream Rebased to 100

Pacific Basin Ex-Japan

Overall, stockmarkets in Asia Pacific ex Japan lagged global equities in the fourth quarter of 2024. Amongst the larger markets, China, Hong Kong and South Korea fell heavily in local currency terms. China's stockmarket declined despite further efforts by authorities to shore up its economy. These included a substantial US$1.4 trillion package that enables local governments to refinance their debt and a quarter-of-a-percentage-point reduction in the one-year loan prime rate. South Korea's stockmarket fell amid signs of weakening economic growth and the Korean won was very weak. Financial markets were also rattled as the country's president, Yoon Suk Yeol, attempted, but failed, to impose martial law at the start of December.

Better performing markets included Taiwan and Singapore. Taiwan was thrust higher by the strength of its technology sector.

FTSE All World Asia Pacific ex Japan Index (12 months to 31.12.24)



Source: LSEG Datastream Rebased to 100

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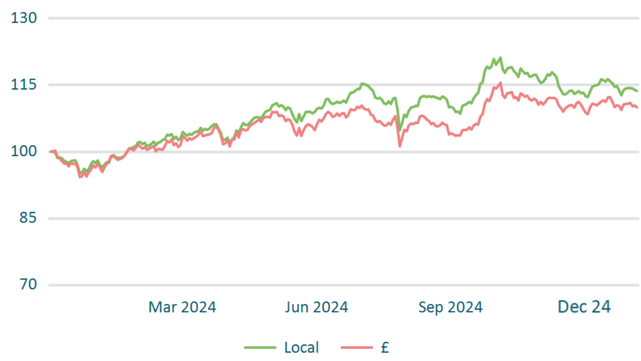
Emerging markets

Overall, emerging market stocks lagged the global equity market in the fourth quarter, much of which was due to the poor performance of Asia, which represents around four-fifths of the benchmark. Emerging markets were undermined by a strong US dollar and the prospect of higher trade tariffs following Donald Trump's election victory.

In Asia, China and South Korea were notable laggards. China's stockmarket fell despite further efforts by authorities to shore up its economy. South Korea's stockmarket declined amid signs of weakening economic growth. Better performing markets included Taiwan and Singapore.

Stockmarkets in some oil-producing countries in Europe, the Middle East and Africa (EMEA) performed relatively well, supported by a slightly firmer oil price, while the larger markets in Latin America, Brazil and Mexico, fared poorly. The Brazilian real hit an all-time low against the US dollar during the quarter, as ongoing fiscal challenges and economic concerns significantly impacted investor sentiment.

MSCI Emerging Markets Index (12 months to 31.12.24)



Source: LSEG Datastream Rebased to 100

Market Data

	4th Quarter 2024%		12 months to 31.12.24%	
	Local	Sterling	Local	Sterling
Equity index total returns*				
FTSE World	1.9	6.5	20.9	20.1
FTSE All World ex UK	1.3	6.1	21.0	20.2
FTSE All-Share	-0.4	-0.4	9.5	9.5
FTSE 100	-0.2	-0.2	9.7	9.7
FTSE Mid 250	-1.4	-1.4	8.1	8.1
FTSE Small Cap	-0.5	-0.5	10.7	10.7
FTSE World Europe (ex UK)	-3.3	-3.9	8.5	3.0
FTSE World France	-3.0	-3.6	1.9	-2.8
FTSE World Germany	1.8	1.2	18.7	13.3
FTSE World Italy	1.4	0.8	21.9	16.3
FTSE World Spain	-2.1	-2.7	18.3	12.8
FTSE World North America	2.8	9.9	25.0	26.9
S&P 500 Composite Index	2.4	9.7	25.0	27.3
FTSE World Japan	5.4	2.8	20.6	10.1
Nikkei 225	5.2	2.6	19.2	8.9
FTSE All World Asia Pac (ex Jp)	-4.2	-1.8	15.2	12.2
FTSE Australia	-1.1	-5.4	11.4	2.9
FTSE China (All Cap)	-7.0	-0.4	17.7	20.4
FTSE Hong Kong	-9.3	-2.8	-0.6	1.7
FTSE Korea	-8.8	-13.3	-11.5	-21.2
FTSE Singapore	5.1	5.8	22.2	20.2
FTSE Thailand	-4.7	-3.7	2.0	3.9
MSCI Emerging Markets	-4.2	-1.3	13.7	10.0
MSCI Brazil	-10.0	-15.0	-11.4	-29.1
MSCI Argentina	54.1	65.1	117.1	121.0
MSCI Mexico	-5.0	-4.1	-10.2	-25.5
MSCI South Africa	-3.6	-5.8	12.4	10.9

*Returns include income.
Source: LSEG Datastream.
All data is sourced from M&G unless otherwise stated.

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		4th Quarter 2024%		12 months to 31.12.24%	
		Local	Sterling	Local	Sterling
Bond index total returns*					
FTSE Actuaries UK Conventional Gilts All Stocks Index		-3.1	-3.1	-3.3	-3.3
UK gilts under 5 years		0.1	0.1	2.5	2.5
UK gilts 5 - 15 years		-3.2	-3.2	-3.1	-3.1
UK gilts over 15 years		-7.2	-7.2	-10.6	-10.6
FTSE Actuaries UK Index-Linked Gilts All Stocks Index		-6.0	-6.0	-8.3	-8.3
iBoxx £ Non-Gilts Index		-0.5	-0.5	1.7	1.7
Salomon World Govt Bond Index		-5.4	1.3	-2.9	-1.1
10-yr benchmark bond returns*	**Yield as at 31.12.24 (%)**				
UK	4.6	-3.2	-3.2	-3.2	-3.2
US	4.6	-5.0	1.7	-1.5	0.2
Japan	1.1	-1.5	-4.0	-2.4	-10.8
Germany	2.4	-1.4	-2.0	-0.1	-4.7
France	3.1	-1.4	-2.0	-1.7	-6.2
Currency changes vs sterling	**Exchange rate as at 31.12.24**	**Q-Q chg %**		**Y-Y chg %**	
Dollar	1.2524	7.1	–	1.8	–
Euro	1.2095	-0.6	–	-4.6	–
Yen	196.8272	-2.5	–	-8.7	–
Interest rates	**Rates as at 31.12.24 (%)**				
UK base rate	4.75	-0.3		-0.5	
US Fed Funds rate	4.50	-0.5		-1.0	
ECB base rate	3.15	-0.5		-1.4	
Commodities	**Price level as at 31.12.24**				
Oil (Brent crude) US$ per barrel	74.7	3.9	11.3	-3.8	-2.1
Gold bullion US$/troy oz	2,625.4	-0.3	6.8	27.1	29.4

*Returns include income
Source: LSEG Datastream.
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For definitions of the investment terminology used within this document please see the glossary at:
www.mandg.com/investments/private-investor/en-gb/help-centre/glossary

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