Cantab
ASSET MANAGEMENT

Investment Comment

3 January 2025

Markets were initially hopeful that the Labour Party's July 2024 victory would drive growth. However, these expectations were dampened by negative rhetoric from Labour and the Autumn Budget in October, which undermined business and consumer confidence. The Budget's National Insurance increase, higher minimum wage, and increased employee protections added to the strain. A rare positive was the substantial capital earmarked for infrastructure investment. Meanwhile, Europe's situation has been more turbulent. While the UK enjoys some political stability, Germany's Scholz government has collapsed, and France's Prime Minister, Michel Barnier, was ousted in a no-confidence vote. At the same time, far right and populist parties are gaining influence across the continent.

In the US, Donald Trump not only won the November Presidential election and the popular vote but also secured a clean sweep: the Oval Office, the House of Representatives, and the Senate. This gives President-elect Trump significant power to implement his agenda. He has already proposed the Department of Government Efficiency, to be led by Elon Musk, with a mandate to aggressively reduce the fiscal deficit. During December, the incoming Trump administration's strong alignment with crypto assets drove Bitcoin above the $100,000 mark for the first time.

In the UK, CPI began the quarter at 1.7%, below the expected 1.9%, prompting the Bank of England (BoE) to cut interest rates in November by 25 basis points (bps) to 4.75%. The next CPI reading came in at 2.3% y/y, above the 2.2% expected. Core CPI was 5%, slightly above forecasts, reflecting ongoing strength in Services CPI, though some areas showed signs of disinflation. December's CPI was 2.6% y/y, as expected, and Core CPI was 3.5%, slightly below expectations. Preliminary Q3 GDP showed 0.1% growth, though the BoE kept rates steady in December. Final Q3 GDP was flat at 0.0%, below expectations. Unemployment rose from 4.1% to 4.3%, and the S&P Composite PMI fell from 52.9 in October to 50.5 in December. Slowing growth, rising unemployment, and inflation above 2% present a challenge for the BoE as we head into 2025.

Inflation in the Eurozone may be slowing; it ended the year at 2.2% y/y, slightly below the 2.3% expected, but growth risks remain. Manufacturing PMI stayed in contractionary territory (i.e. a figure below 50) throughout the quarter, finishing at 45.2, as expected. Services PMI, after staying above 50 for most of the quarter, ended at a contractionary 49.5, though this beat expectations of 49.2. Unemployment remained steady at 6.3%, and Q3 GDP grew by 0.4% y/y, which was in line with forecasts. In response to these challenges, the European Central Bank (ECB) cut interest rates by 25bps in October and December, lowering the deposit rate to 3.0%.

Across the pond, the ISM Manufacturing PMI ended the quarter at 48.4, remaining below 50 each month, signalling contraction. Non-manufacturing PMI stayed in expansionary territory, starting at 54.9, rising to 56.0, and finishing at 52.1. Unemployment ticked up to 4.2% from 4.1%, while non-farm payrolls remained strong apart from in November, when the figure was 36k – well below the 113k expected – due to Hurricane Milton's impact. December's payrolls bounced back with 227k, exceeding the 200k expected. The Federal Reserve's preferred inflation gauge, PCE, met expectations for all months except December, when it came in at 2.4%, slightly below expectations. With inflation aligning with forecasts, the Federal Reserve (Fed) cut interest rates by 25bps in both November and December, bringing the current rate to 4.25-4.50%. Initially, the Fed's September 50bps cut aimed to pre-empt a weakening economy and labour market. However, the labour market has since remained strong, and Q3 GDP grew 3.1% y/y, above the 2.8% expected, while PCE has stayed above 2%.

In October, Japan's Prime Minister, Shigeru Ishiba, called a snap election to solidify his mandate. Despite his party (the LDP) losing, Ishiba remains in power in a minority government. The outlook for Japan is generally positive: as a key US ally, it is likely to avoid the

tariffs that the Trump administration may impose. Inflation appears to be returning to milder levels, and the corporate shift in focus away from market share and towards improving profitability and returns to shareholders is a benefit to investors.

China continues to face challenges. December's CPI was 0.2%, below the expected 0.5%, and the region struggled following Trump's election victory and his rhetoric regarding 60% tariffs on China. In November, after the US election, the Chinese Communist Party (CCP) announced a new 10 trillion Yuan (c. £1.1trn) five-year plan to address local government debt. Markets sold off in response, as the plan is seen as focused on debt restructuring rather than new investment. Sentiment remains depressed, but any future stimulus measures that improve sentiment could lead to a re-rating of valuations.

Sterling-denominated returns of major indices	**10Yr (p.a.)**	**5Yr (p.a.)**	**1Yr**	**Q4 2024**
	%	**%**	**%**	**%**
Fixed Interest				
Overseas Bonds (unhedged)	2.2	-1.2	0.1	1.6
Index-Linked Gilts	-0.6	-6.9	-8.6	-5.9
Corporate Bonds	1.8	-1.0	1.7	-0.4
Equities				
UK	5.9	4.6	9.1	-0.6
World (ex-UK)	12.8	12.8	21.2	7.2
Emerging Markets	5.9	2.8	9.4	-1.5
Property	0.4	-3.8	-7.1	-9.0
Commodities	3.5	8.0	7.2	6.6
Infrastructure	4.2	-1.0	4.9	-0.8
ARC Sterling Balanced Asset	3.7	2.9	6.8	1.1
ARC Sterling Steady Growth	5.0	3.8	8.4	1.6
ARC Sterling Equity Risk	6.0	4.6	9.8	2.1
MSCI PIMFA Income	5.6	4.1	9.0	1.5
MSCI PIMFA Balanced	6.5	5.2	10.7	2.2
Cash	1.4	2.3	5.2	1.2

Source: MSCI UK IMI, World Ex-UK, Emerging Markets; ICE BofA Global Broad Market+, Bloomberg UK Government Inflation-Linked Bond, ICE BofA Sterling Non-Gilts; UK IMI Liquid Real Estate; Bloomberg Commodity Index (GBP Hedged); IT Infrastructure; Asset Risk Consultants (preliminary data); MSCI PIMFA; Cash Equivalent (Bank of England Base Rate). Total Return, Sterling adjusted.

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