XPS Group

January 2025

Investment News

Our market round-up and news affecting UK investments for charity and endowment clients

US equities post their best two-year run of the 21st Century

Quarter in brief

US stocks were boosted in Q4 2024 by 'Trump trades' following his election win

The US, UK and EU central banks all cut borrowing costs during the quarter

UK economic worries deepen amidst stagflation fears and poor growth

UK gilt yields climb sharply upon interest rate speculation and inflation concerns

January 2025 will see the launch of the Charity Finance Group's Investment Governance Principles

The S&P 500 index finished 2024 more than 20% up for the second year running, despite a sell-off in December, with Artificial Intelligence tech stocks the main driver of returns over the calendar year.

The final quarter of 2024 played out against the backdrop of the re-election of Donald Trump. This was largely positive for US stock markets thanks to 'Trump trades' betting on protectionist policies, deregulation and tax cuts from the incoming administration. US equities enjoyed their strongest month of 2024 in November although investors cashed in on large gains during the calendar year in a December sell-off.

UK equities enjoyed a fruitful 2024 but performance over the fourth quarter was mixed as a result of concerns over the implications of the Autumn budget and a general trend of de-listing away from the London Stock Exchange. European stock performance has been more varied as the region-wide Stoxx Europe 600 index rose by just 4.8% during the year in contrast to the German Dax index which climbed 18.7% in 2024. Japanese stocks also enjoyed a sustained rally in 2024, pushing the Nikkei 225 index beyond its previous high set in 1989, thanks to a weaker yen boosting exports.

In general, emerging market equities performed well in 2024 but performance in the fourth quarter was mixed. Chinese stocks responded favourably to a loosening in Beijing's monetary policy approach for the first time since 2010 but political unrest in South Korea after the President's failed attempt to impose martial law dampened returns.

The Federal Reserve (Fed) cut its lending rate twice during the quarter to a range of 4.25% - 4.5%. Despite the cuts, 10-year US Treasury yields hit a six-month high as a result of the Fed's cautious outlook on US inflation which stood at 2.7% over the 12-months to November 2024. The European Central Bank and Bank of England (BOE) also followed suit and reduced their borrowing costs to 3.0% and 4.75% respectively.

UK Chancellor of the Exchequer, Rachel Reeves, enters the new year grappling with rising inflation and shrinking economic growth. CPI inflation has risen to 2.6% as of November 2024 and now stands at its highest level in 8 months as wage growth and price increases in the services sector keep inflation above the BOE's 2% target.



James Stewart
Head of Manager Research

Click to watch James' video.

UK Gross Domestic Product (GDP) also declined for the second successive month in October, igniting fears of stagflation for the UK economy. UK government bond yields climbed to their highest levels since the mini-Budget of Autumn 2022 during December as investors revised expectations for the number of interest rate cuts expected in 2025 – down from four to just two quarter point rate cuts.

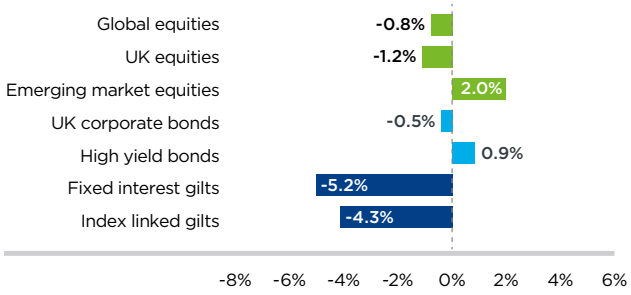
UK corporate bonds posted slightly negative returns over the quarter as credit spreads tightened to offset the impact of rising gilt yields.

Global high yield bonds enjoyed another rally over the fourth quarter to cap off a strong year for the asset class as borrowing costs among the major central banks have come down. Global corporate debt issuance reached a record $8 trillion in 2024 as companies have accelerated borrowing plans to capture elevated demand for corporate bonds.

Market returns

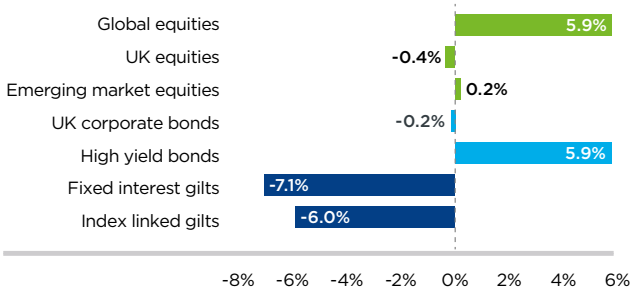
Global equities sold off in December but enjoyed a strong quarter overall. UK gilt yields rose sharply in December to compound poor performance over the quarter.

1 month to 31 December 2024



Source: Refinitiv

3 months to 31 December 2024



Source: Refinitiv

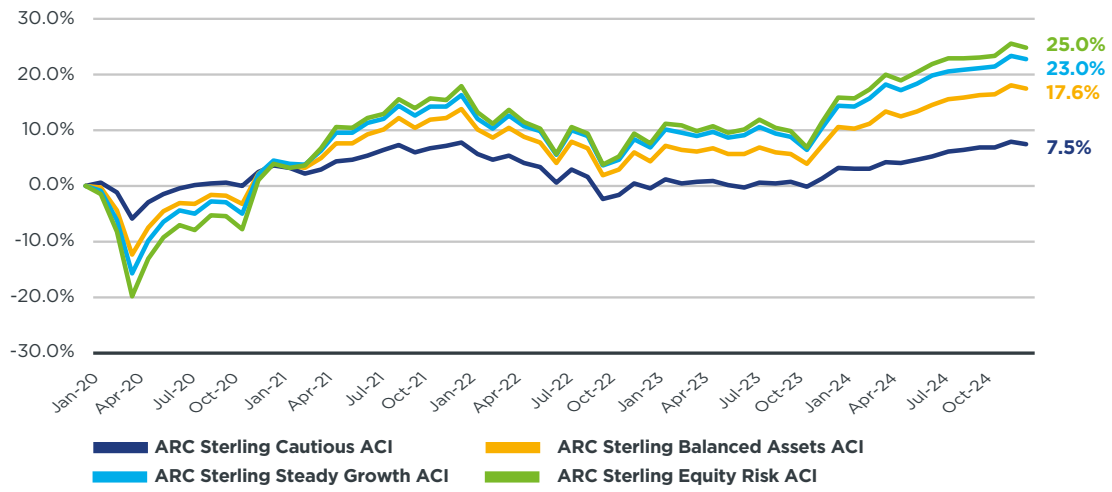


In many ways 2024 played out how economists were expecting – with sluggish growth, moderating inflation and central bank rate cuts. What wasn't expected was the exceptional performance of equities which continued in Q4.

Simeon Willis
Chief Investment Officer

ARC Charity Indices

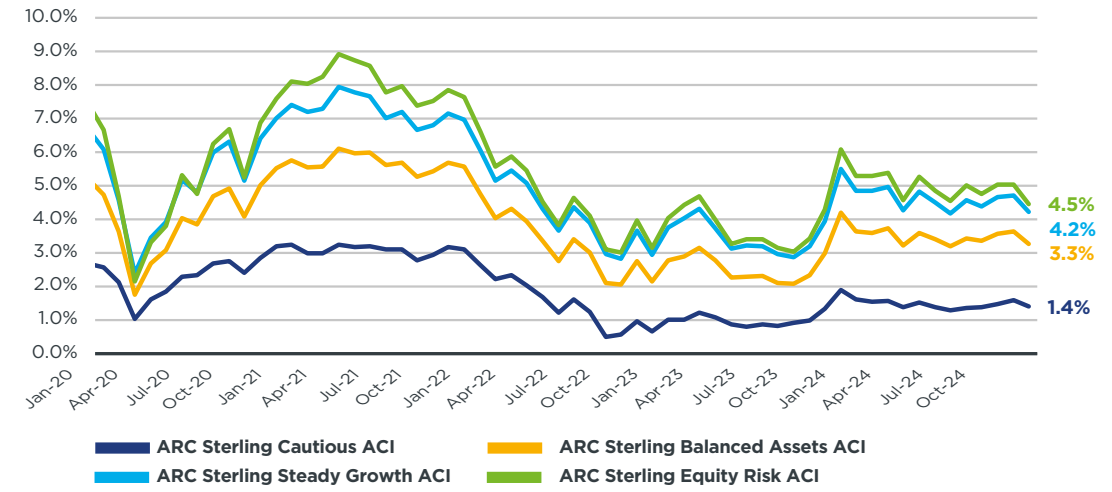
ARC Charity Indices Cumulative Performance 5 year period to 31 December 2024



Source: ARC Charity Indices

The chart above shows the cumulative performance of the ARC Charity Indices over the last five years. These indices estimate portfolio returns generated for charities investment portfolios by asset managers grouped into four risk segments.

ARC Charity Indices 5 year per annum rolling performance to 31 December 2024



Source: ARC Charity Indices

The above chart shows the rolling 5 year annualised performance of these indices, which continue to show returns not much above inflation despite the returns for the year generally being in high single digits.

XPS Investment asset class views

Asset class	Favourable	Neutral	Unfavourable	Movement
UK Equity		●		
Developed Market Equitiy		●		
Emerging Market Equitiy		●		
Investment Grade Credit		●		
High Yield Credit			●	
Senior Secured Direct Lending		●		
Balanced Property	●			↑
Private Equity		●		
Infrastructure		●		
Equity Protection Strategies	●			
Cash		●		

Investment Governance

Trustees of charities will be closely watching for the release of the Charity Finance Group's Investment Governance Principles early in 2025. These principles aim to provide a blueprint of what 'best practice' in this area should look like, and will reflect both the Charity Commission's CC14 guidance and the Charity Governance Code. XPS has contributed to the consultation on these principles, and we are keen to promote practical and pragmatic principles to all Charity Trustees.

Find out more

To discuss any of the issues covered in this edition, please get in touch with Simeon Willis or James Stewart. Alternatively, please speak to your usual XPS contact.



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