XPS Group

January 2025

Investment News

Our market round-up and news affecting UK investments

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 leading to UK DB pension scheme funding gains

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.

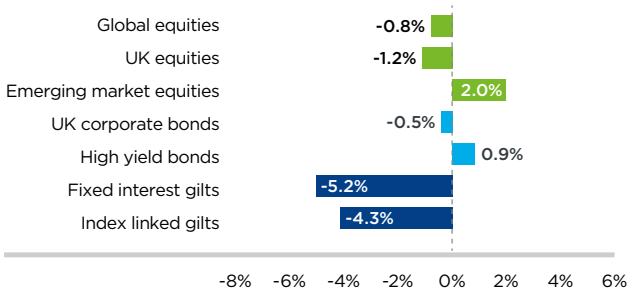
Aggregate UK DB pension scheme funding on a low-risk basis is expected to have risen over the quarter thanks to a combination of strong positive returns from growth assets and soaring gilt yields reducing the present value of pension scheme liabilities.

During the quarter the Pension Protection Fund (PPF) made a very large revision to their published Defined Benefit pension scheme funding levels going back to March 2023 which was restated from 112% funded on a buyout basis to 90% funded. However, given the performance of growth assets and reducing liabilities, we would make the observation that the funding level of DB schemes continue to break new highs.

Market returns

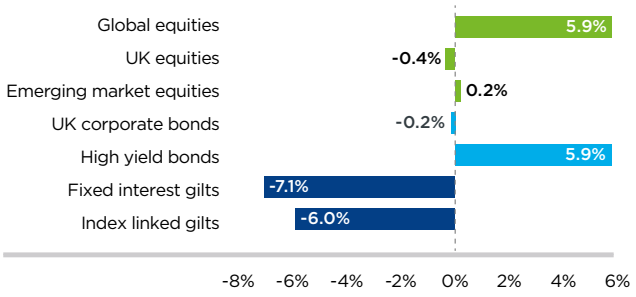
Global equities sold off in December but enjoyed a strong quarter overall. UK gilt yields rose sharply in December to compound poor performance over the quarter.

1 month to 31 December 2024



Source: Refinitiv

3 months to 31 December 2024



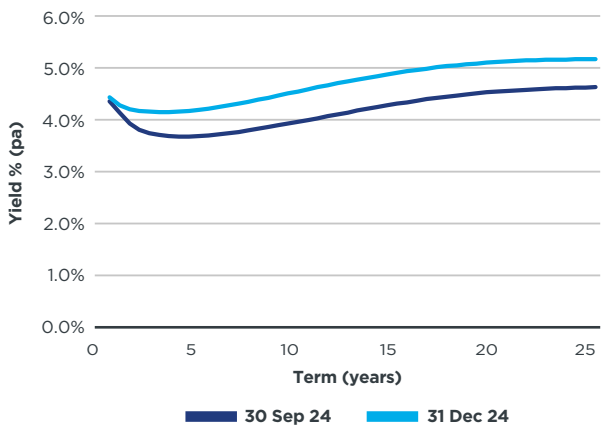
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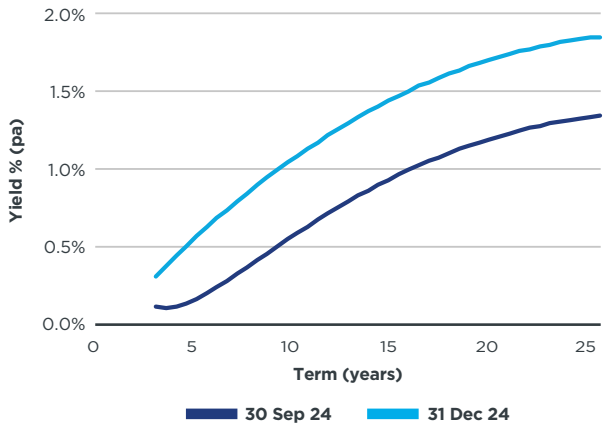
In many ways 2024 played out how economists were expecting – with sluggish growth, moderating inflation and central bank rate cuts. What wasn't expected was the exceptional performance of equities which continued in Q4.

Simeon Willis
Chief Investment Officer

UK nominal spot gilt yield curve



UK implied real spot gilt yield curve



Source: Bank of England

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	●			↑
Long Lease Property		●		
Private Equity		●		
Infrastructure		●		
Equity Protection Strategies	●			
Buy-in		●		
Cash		●		

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Our investment team advises over 350 clients with assets of over £100bn.

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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