December 2024

Investment News

Our market round-up and news affecting UK investments

US equities rally on the back of Trump's victory in November

Month in brief

The US stock market enjoyed its strongest month in a year during November

The Bank of England and Federal Reserve both voted to cut interest rates early in the month

UK Chancellor Rachel Reeves announced plans for "pension megafunds" in her Mansion House speech

UK DB pension scheme funding was broadly flat over November

The US stock market rallied in November thanks to "Trump trades" betting on protectionist policies, deregulation and tax cuts which provided a favourable short-term outlook for US equities.

The S&P 500 posted its biggest monthly gain of the year in November, rising 5.7%. Sectors such as tech, finance and industrials have all benefitted since the announcement of a resounding Trump victory. Crucially, the Republican party also won the House of Representatives and Senate leaving the door wide open for the new President to implement his agenda when he takes office in January 2025. Meanwhile, the Federal Reserve continued its trajectory of rate cuts by reducing borrowing costs by 0.25% to a range of 4.5% - 4.75% in a move made shortly after the US election result was confirmed.

The Bank of England also cut UK borrowing costs by the same magnitude to 4.75% at the beginning of the month as Governor Andrew Bailey warned that the pace of rate cuts is now expected to slow down. CPI inflation rose to 2.3% over the 12 months to October 2024 which was largely expected due to a well signposted rise in household energy costs, but the rate of inflation was still 0.1% higher than forecasted. UK wage growth continues to slow down but is still growing by more than inflation.

UK Chancellor of the Exchequer, Rachel Reeves, set out her plan to consolidate the 86 local government pension schemes, worth approximately £354bn in assets, into 8 "megafunds" during her Mansion House speech in November. The Chancellor hopes to facilitate more pension scheme investment into UK assets such as technology, energy infrastructure and public services.

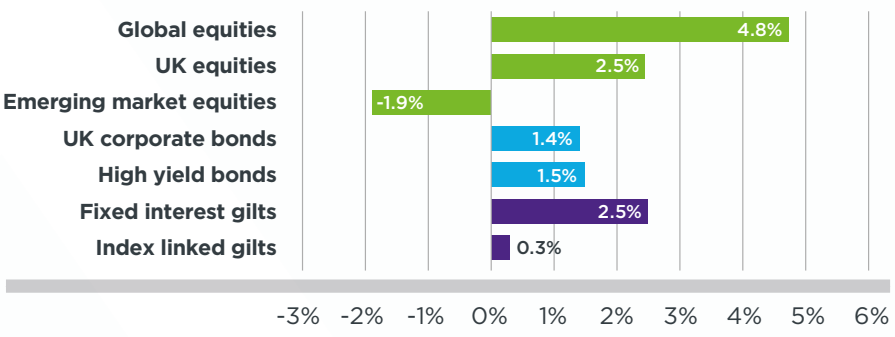
Click to watch Oliver's two-minute video.

Oliver Taylor
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Of the major asset classes, only emerging market equities posted negative returns over November

One Month to 30 November 2024



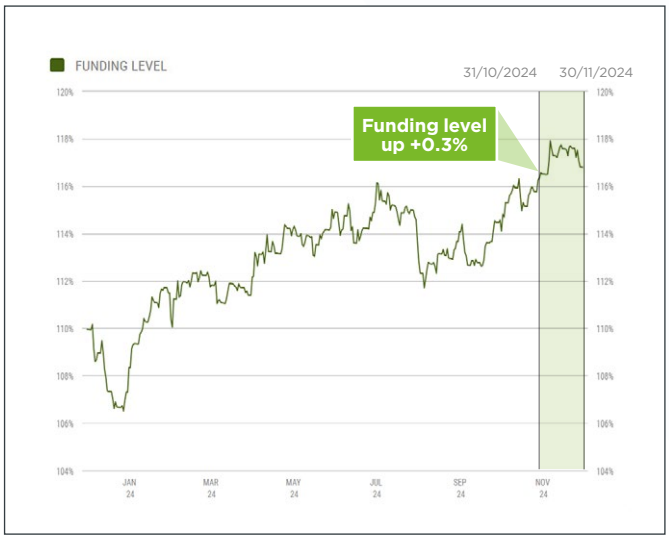
In Asia, Chinese long-term government bond yields have fallen below those of Japan for the first time ever after Beijing cut interest rates in its latest attempt to boost economic growth. China is not the only economy to tackle challenges with its sovereign bond market as French borrowing costs recently surpassed those of Greece for the first time in decades, sparked by the political uncertainty of Prime Minister Barnier's upcoming budget.

Global equities benefitted from the US market rally over November. UK equities also enjoyed a positive month but emerging market equities posted negative returns as China's economic struggles continue.

Central bank rate cuts around the globe, most notably in the US, have seen high yield bonds continue to rally. UK corporate bonds benefitted from the combination of gilt yields falling and credit spreads tightening in November. Fixed interest gilts delivered strong positive returns and index linked gilts also finished in positive territory but were pared back by falling long-term inflation expectations over the month.

Aggregate UK DB pension scheme funding on a low-risk basis remained steady over the month. Strong positive returns from growth assets offset the impact of falling gilt yields which caused the value of liabilities to rise.





Source: XPS DB:UK www.xpsgroup.com/services/xps-pensions/xps-dbuk-funding-watch

The charts above are based on data from The Pensions Regulator, the PPF 7800 Index and the XPS data pool. The assumptions used in the UK:DB long-term target basis include a discount interest rate of gilt yields plus 0.5%. The assumed asset allocation is 16.9% equities, 20.0% corporate bonds, 6.9% multi-asset, 5.1% property, 3.8% private markets and 47.3% in liability driven investment (LDI) with the LDI overlay providing a 60% hedge on inflation and interest rates.

Find out more

To discuss any of the issues covered in this edition, please get in touch with Oliver Taylor. Alternatively, please speak to your usual XPS contact.



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