Cantab
ASSET MANAGEMENT

Investment Comment

9 January 2024

The Federal Reserve (Fed) once again held rates steady at 5.25–5.50% at its 13 December meeting. However, Chair Jerome Powell signalled that the Fed may be done with hikes – and 2024 may be the time to consider rate cuts. Markets welcomed the news, particularly as inflation continues to moderate and the US economy retains most of its strength. While initial projections for third quarter GDP growth were revised up to 5.2% from 4.9%, the official figure came in at 4.9%. Jobless claims amounted to 218,000 at the end of December, matching November's figure but overshooting consensus for a reading of 210,000. Existing home sales data remains strong, rising from October to November, although new home sales have fallen during the period. The rate on 30-year fixed-rate mortgages peaked just below 8% and now hovers around the 6.6% mark, but home sales are still forecast to remain subdued until rates drop further. Yet consumer confidence remains high, with a reading of 69.7 for December versus 61.3 for the previous month.

The UK Monetary Policy Committee took its lead from the Fed and held rates flat at 5.25%. The vote was split 6 to 3, with the minority supporting a further 0.25% rise in the base rate to combat inflation. GDP grew by 0.3% year-on-year in October and fell 0.3% month-on-month, with both figures below growth projections. The construction sector bucked last month's trend, falling 0.5% in December after expanding 0.4% in November, while services eked out marginal growth of 0.1%. Inflation continued its downward trend from 4.6% in October to 3.9% in November, year-on-year. The main contributors to the ongoing decline in inflation were transport, recreation and culture, and food and non-alcoholic beverages. Regular pay growth eased to 7.2% for October, down slightly from its previous reading of 7.9% for September but still among the highest growth rates since 2001. December's UK PMI data for manufacturing disappointed at 46.2 (versus expectations for 46.4), down from November's high of 47.2, but services and the composite level both came in ahead of expectations (53.7 and 51.7 versus expectations of 51.0 and 50.9 respectively).

The European Central Bank likewise held its deposit rate at 4.50%. Year-on-year GDP growth in the Euro came in flat for December, disappointing expectations of just 0.1% growth and reflecting tighter financing conditions and subdued foreign demand. Retail sales rose by 0.1% in October, marking a reversal after three consecutive months of declines. Manufacturing PMI data for December was marginally higher than November (44.4 and 44.2 respectively). Although this is still contractionary territory, this is the highest level of output for seven months, and there may be tentative signs that the area is recovering: consumer confidence rose to -15.1 in December from November's -16.9.

Annual inflation in Japan dipped back below 3.0% in November with a reading of 2.8%, down from 3.3% the month prior. Core inflation fell to 2.5% from 2.9% in October. December's preliminary Manufacturing PMI figure declined to 47.7 from November's 48.3, pointing to a seventh straight month of contraction in factory activity amid weak demand and price pressures. Services PMI, on the other hand, rose from 50.8 in November to 52 in December – the quickest increase in activity since September. In China, industrial activity expanded faster than predicted in November, with industrial production rising 6.6% year-on-year (5.6% expected). Retail sales, while still strong at 10.1%, came in below expectations of 12.5% for November.

Although 2023 was another year of heightened volatility, geopolitical conflict, and uncertainty, we retain optimism as 2024 begins – especially as inflation is continuing its downward trend. We encourage investors to focus on longer-term growth prospects and anticipate the improvement of global economic conditions. We wish you all a very Happy New Year.

Sterling denominated returns of major indices	10Yr	5Yr	1Yr	Q4 2023
	%	%	%	%
Fixed Interest				
Overseas Bonds (unhedged)	33.9	-3.1	-0.3	3.4
Index-Linked Gilts	22.0	-18.8	0.6	9.4
Corporate Bonds	31.6	2.4	8.6	7.4
Equities				
UK	63.5	36.0	8.0	3.1
World (ex-UK)	208.4	85.1	17.2	6.9
Emerging Markets	69.0	19.7	3.6	3.3
Property	29.7	8.8	7.5	12.7
Commodities	16.2	41.8	-13.1	-8.7
Infrastructure	65.5	2.3	-8.4	8.2
ARC Sterling Balanced Asset	41.5	20.8	6.0	4.9
MSCI PIMFA Income	69.9	29.4	9.1	5.5
MSCI PIMFA Balanced	80.8	34.9	10.1	5.5
Cash	9.8	7.3	4.6	1.3

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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