

Weekly Market Update

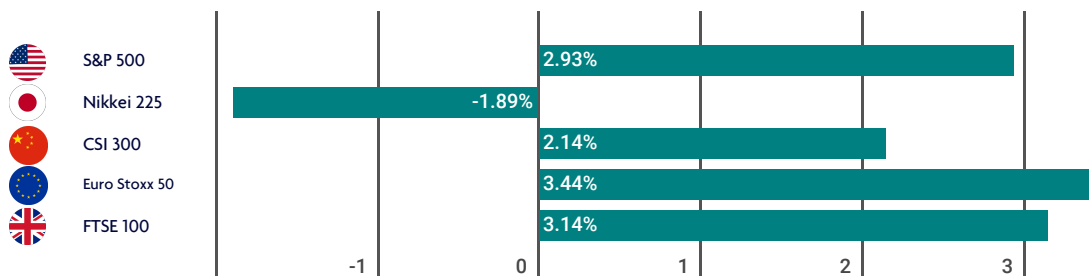
20 January 2025



Last week's performance – major stock markets

Global stock markets had generally good returns last week: the US, China, UK & Europe seeing whilst Japan falling in value. Market sentiment was again driven by the trajectory of interest rates for developed economies. There was more positive news from the US and UK on catalysts to reduce interest rates. The UK remains under watch by investors as volatility in stock and bond markets continued following concerns over the government's fiscal position.

Market Monitor (%): How did major stock markets perform last week*?



Market Update:

Investors were concentrated on headlines coming out of the UK last week after the gilt market continued in its struggles. At the beginning of last week however, the UK's December inflation report showcased a softer headline rate of 2.5%, beneath the projected 2.6%. The improvement was partly thanks to an unpredictable drop in airline prices. Nonetheless, inflation trends still hover above desired levels, though they show signs of moderation. And despite the encouraging dip, high energy prices and a depreciated pound hint at future inflationary pressures.

The easing inflation figures provide a breather for both investors and policymakers, potentially stabilizing the embattled gilt market. With the likelihood of a near-term rate cut now on the table, bond yields could experience downward pressure, possibly offering more attractive conditions for sectors reliant on borrowing, including the UK government whom investors have had concerns over.

The highlight of the week's US economic calendar came on Wednesday with the Labour Department's December inflation report. While the headline number indicated an acceleration from November, core inflation (which excludes food and energy) rose by 0.2% in December, a tick lower than the prior month and the smallest increase since July. The numbers provide optimism that the Fed is still making progress on bringing down inflation.

Chart of the week*: Value in bond markets remains attractive

We see the current income levels (or yield) of bonds attractive. In the UK, government bonds offer a positive real rate of return (income adjusted for inflation) something we haven't seen for nearly a decade. However, we acknowledge the high degree of uncertainty in bond markets, particularly with regard to the potential for a resurgence in inflation and the negative implication for bonds should inflation rise as this would lead to less interest rate cuts by central banks. Despite these risks, we see many opportunities in fixed income and continue to closely monitor the macroeconomic landscape. Hear more on our outlook for bond markets, and other assets in our 2025 investment outlook here.

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UK 5 year bond income (adjusted for inflation)



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