Portfolio & Market Update

January 2024

Introduction

After a very strong last quarter, January was marked by a pause in market performance, as both equities and bonds softened significantly. Geopolitical worries, whilst not being at the forefront of investors' minds, are still present and the situation in the Red Sea is of particular interest.

In the UK, while inflation rates are lower than they were last quarter, the latest numbers were disappointing, indicating that a rate cut in March is unlikely. Markets were disappointed by the inflation path which then pushed bond yields higher. At the same time, the US economy continued to show further signs of resilience, while the rest of the world displayed signs of subpar growth.

However, there is a consensus that inflation has peaked globally. So, while some central banks maintained a cautious approach, signaling prolonged high interest rates, others indicated that the direction of travel is towards easing rates.

Markets

January was a mixed month for multi-asset portfolios as equity performance was widespread, while fixed income assets performed negatively. US equities offered a particularly positive return, and Japan managed to reach a level not seen since February 1990.

Asia and Emerging Markets returned negative performances, with fear around Chinese growth dragging down investors' expectations on Chinese assets.

In GBP (sterling) terms Japanese Equity was the best performing equity with a gain of 4.08% followed by US equities with a return of 1.7%.

Meanwhile, the FTSE 100, the MSCI Emerging Market, Asia Pacific and Europe showed losses of 1.39%, 4.58%, 4.71% and 0.19% respectively.

UK

The UK markets delivered a loss for January of 1.39% for the FTSE100. The UK economy can be defined as weak but improving. Confidence surveys showed that consumers and businesses continued to be negatively impacted by higher costs of living and interest rates, but sentiment kept on improving. In fact, according to the Purchasing Managers' Index (PMI), business sentiment reached 52.5 in January (the highest since May 2023), which indicates that the economy is growing again. As a reminder, any score above 50 indicates an expanding market.

House prices are still negative but with the Nationwide House Price index showing a reduction of 0.2% for the month of January, however, there is some improvement from the lowest point of September 2023.

Inflation unexpectedly increased to 4% from the previous reading of 3.9%, which was a two-year low. This increase is the first one in ten months and can be explained by increases in tobacco duty.

Europe

The Euro-Stoxx was marginally down in January with a loss of 0.19%. In the Euro area, inflation went down to 2.8% year-on-year, below the market consensus. PMI readings continue to indicate a significant slowdown in business activity, but it looks like we have reached the

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bottom, and some indicators are showing signs of tentative improvement.

US

The US experienced another positive month in December, with the S&P 500 generating a positive return of 1.7% in GBP terms. Inflation went up 3.4%, which was above market expectations.

Energy costs continued to decline, but more slowly than in previous months, while housing costs increased. Composite PMI was at 52, which is a significant improvement from the previous month, and is further proof of US economic resilience.

The US is in an expansionary phase for the 12th month in a row, supported by a strong, albeit cooling labour market. The unemployment rate was 3.7%, which has increased from the low of April 2023, but is unchanged from the previous three readings. The economy added another 353,000 jobs in January, way above the expected 180,000.

Japan

Japan returned a strong performance of 4.08% in GBP terms for January. While the PMI recovered strongly in January from 50.0 to 51.5. Data published in January showed that inflation rates dropped to 2.6% in December, down from 2.8% in the prior month, which is above the 2% target set by the Bank of Japan. Despite action by The Bank of Japan, the stronger US economy led to an appreciation of the US dollar against major currencies, particularly the Japanese Yen.

Asia & Emerging Markets

EM countries had a negative month in GBP terms, showing a loss of 4.58% for EM and a loss of 4.71% for Asia. The equity sell-off has been driven by lower growth expectations, the on-going property market crisis, and looming US sanctions on Chinese technology firms. Investors are losing confidence in the Chinese authority to tackle the underlying issues. Chinese GDP increased to 5.2% above the target of 5.0%.

Fixed income

The fixed income market was negative during the month as yields increased. In the UK, the 10-year yield increased by nearly 0.5% from the low of December. This was due to better-than-expected economic data coming from the US, pushing investors to revise their expectations of a rate cut beyond March.

Outlook

We continue to expect inflation to fall in all regions, albeit at varying rates. Our outlook is that there is still the potential for a global economic slowdown, but a recession is increasingly unlikely to occur in the coming months. Central banks will continue the challenging task of balancing inflation and economic growth.

At Flying Colours, we continue to monitor the economic outlook and market signals to ensure that our portfolios are positioned in the best interests of our clients.

Our portfolios are designed for long-term investment, so they are managed with this in mind. Our approach is to manage the long-term risk and not to be influenced by short-term trends which could be costly for our investors. Our aim is to achieve carefully managed risk-adjusted returns, in line with our investment philosophy.