Wealth
Management US

Quarterly report

Q4 2024 market review

Forward-looking
for generations

Cover image
Bauer brothers, Hortus Botanicus, detail from "Lilium," 1776/1804
© LIECHTENSTEIN. The Princely Collections, Vaduz–Vienna

Contents

4 Summary: Q4 2024

6 Macro summary

8 Fixed income

10 Equities

13 Key market data

> “The much-anticipated interest rate cutting cycle picked up steam earlier in 2024, with all the major central banks lowering their benchmark rates as inflation came down to more manageable levels.

Sanjay Rijhsinghani, Chief Investment Officer

Summary: Q4 2024

Last year, the Federal Reserve (Fed) successfully orchestrated a soft landing, which supported US economic growth. Strong earnings and corporate confidence buoyed both equity and credit markets. Meanwhile, developed market central banks' interest rate cutting regime accelerated as inflation eased. However, in the fourth quarter, signs emerged that some of these banks may begin to diverge in their rate cutting policies in 2025. This divergence in monetary policy, combined with looser fiscal policy, applied pressure to bonds in the final quarter of the year.

At a glance

- Large technology companies bolstered US equity returns
- Strong US dollar weighed on European equities
- Central banks lower interest rates
- Fiscal concerns build as Trump elected
- Inflation outlook challenged by policy uncertainty

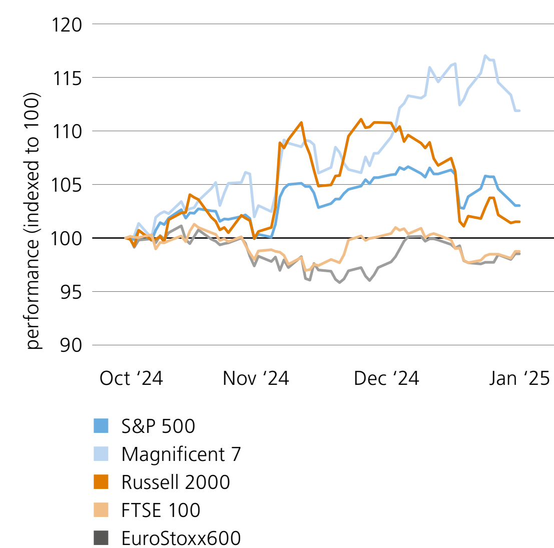
Macro summary

US equities lead the way

The S&P 500 gained 2.4% in the fourth quarter, bringing its 2024 returns to 25%. While robust performance broadened across a variety of sectors in the third quarter, technology companies surged ahead in the final three months of the year, driven by a robust earnings season. The Magnificent 7 rose by nearly 16% in the fourth quarter. Meanwhile, the Russell 2000 Index saw a sharp rally following Donald Trump's victory, as small-cap stocks benefitted from proposed tax cuts and deregulation, though it ended the quarter with a more modest gain of just under 1%.

Dollar strength weighed on European equities in the final three months of the year. The FTSE 100 ended the quarter close to flat, while the Eurostoxx 600 fell nearly 3%. This brought 2024 total returns to 9.6% for the FTSE 100 and just under 10% for the Eurostoxx 600.

S&P 500, Magnificent 7, Russell 2000, FTSE 100 and Eurostoxx 600 in Q4 2024



Source: Bloomberg

Post-election upheaval in Europe, South Korea

Voters around the world expressed dissatisfaction with incumbent governments last year, with elections triggering political upheaval in key markets. We witnessed this in the UK as the British public voted to end 14 years of Conservative rule in favour of the Labour Party, and in the US, which elected Donald Trump. Several European nations experienced shifts to the far-right wing parties. The political turmoil did not end with elections, with several European coalitions dissolving in the fourth quarter. Prime Minister Michel Barnier's proposed 2025 budget led to the collapse of his French government. In Germany, Chancellor Olaf Scholz lost a confidence vote, with elections now slated to take place in February. Political unrest spread beyond Europe's borders, with South Korea's President Yoon Suk Yeol's short-lived declaration of martial law sparking widespread protests, which led to his impeachment.

Diverging paths for central banks

The much-anticipated interest rate cutting cycle picked up steam earlier in 2024, with all the major central banks lowering their benchmark rates as inflation came down to more manageable levels. However, the fourth quarter brought some divergence among central banks, making their future policy paths less predictable. The Fed lowered rates at its final meeting in December, its third consecutive cut, bringing rates down by a total 1% over the year. However, this may be the last cut for some time, as Chairman Jerome Powell signalled a potential slowdown as inflation remains above the Fed's 2% target rate.

In the UK, the Bank of England (BoE) lowered rates in November but held steady in December, indicating plans to start a gradual rate-cutting cycle in 2025.

However, UK government bond yields rose following the October budget, which included an increase in employers' National Insurance contributions to raise GBP 40 billion in taxes. This may apply pressure on inflation, as a softening labour market adds to weaker growth dynamics, underscoring the BoE's challenges ahead.

The European Central Bank's (ECB) path seems more straightforward. With weak economic prospects across the Eurozone, markets expect the ECB will cut rates at every meeting until the middle of the year. The euro has weakened as a result, which may offer some support to the economy.

Chinese resilience amid tariff threats

Initial enthusiasm over proposed stimulus measures in China aimed at boosting domestic consumption and reviving the property market tapered off somewhat in the fourth quarter. The announced stimulus measures helped lift stock markets, with the Shanghai Composite finishing 2024 up 16%, posting only a modest gain over the quarter. Sustained growth in China will depend on the successful implementation of these policies, but the country also faces significant uncertainty about the potential impact of Trump's proposed tariffs in the region.

Conclusion

The political upheavals seen in Europe and South Korea triggered some short-term volatility in equity markets, but they have since recovered. Nevertheless, the right-wing political uprisings in Europe come at a fragile moment amid the ongoing Russian war in Ukraine. Europe and Asia also face uncertainty over incoming president Trump's proposed tariffs, which may create further instability for the global economy.

Trump will inherit a strong economy, although inflation remains elevated and the budget deficit substantial. While some of his policies, such as tax and deregulation, may benefit small companies, his unpredictable behaviour can cause uncertainty and market volatility. Monitoring geopolitical risk remains essential when constructing portfolios. However, long-term growth and returns will be driven by investments in high-quality companies well-positioned to withstand political turbulence.

> "Trump will inherit a strong economy, although inflation remains elevated and the budget deficit substantial.
>
> Sanjay Rijhsinghani, Chief Investment Officer

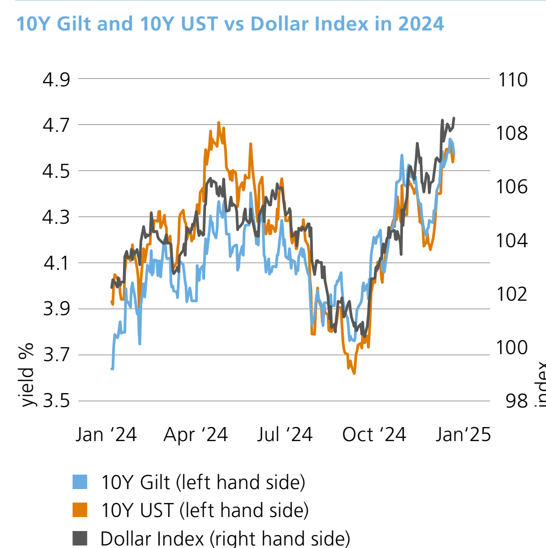
Fixed income

The interplay between fiscal and interest rate policy came to a head during the last quarter of 2024. Donald Trump's imminent return to the White House combined with the Labour government's budget in the UK, heightened investor concerns about debt supply amid looser fiscal policy. This will likely impact central bank rate cutting cycles, which continued over the fourth quarter.

The widely influential Fed began its rate cutting cycle with a 0.50% reduction in September, followed by two further 0.25% cuts in the subsequent meetings. However, after November's election, the Fed used their last meeting of the year to recalibrate market expectations amid a strong US economic backdrop and an incoming administration favouring deregulation and lower taxes. The Fed's so-called 'dot plot'—the central bank's interest rate projections—indicates a median expectation of two further 0.25% cuts for 2025, down from the four previously communicated in September. This pushed bond yields even higher, with benchmark 10-year Treasuries reaching 4.57% by year-end, representing a near 0.80% increase over the quarter. The Fed appears to favour a data dependant approach going forward. Not only has the Core PCE—its preferred inflation measure—remained closer to 3% on an annualised basis rather than 2%, but Trump's policies may contribute to increased inflationary pressure.

> “The widely influential Fed began its rate cutting cycle with a 0.50% reduction in September, followed by two further 0.25% cuts in the subsequent meetings.
>
> Jeremy Sterngold, Deputy CIO and Head of Fixed Income

10Y Gilt and 10Y UST vs Dollar Index in 2024



10Y Gilt (left hand side)
10Y UST (left hand side)
Dollar Index (right hand side)

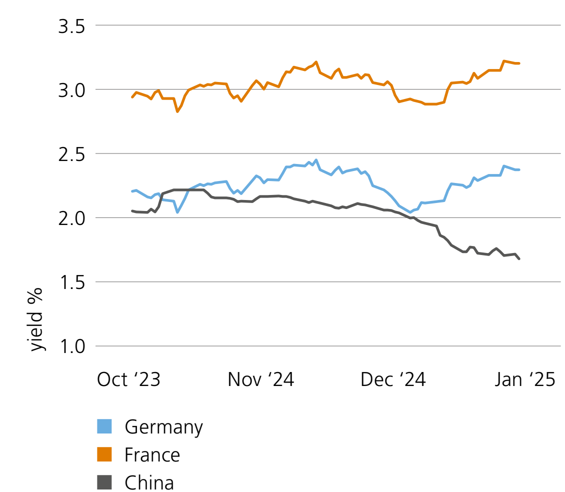
Source: Bloomberg

President-elect Trump has made it clear how much he favours tariffs as a tool to pursue his “America First” strategy. This triggered dramatic moves in foreign exchange markets over the quarter. The Dollar Index increased by 7.7% over the quarter, pushing cable down to 1.25, while the euro approached parity with the greenback.

In the UK, the Labour government budget proved more explosive than anticipated during the campaign trail. Tax increases on businesses, namely the National Insurance hike, appear be having a material impact on growth. Surveys indicate that many businesses are planning to reduce headcount while also raising prices. Furthermore, increased public service spending is expected to raise borrowing further. So far, the BoE has maintained a steady pace of 0.25% cuts per quarter, holding rates at 4.75% by the end of 2024. However, the weaker economic backdrop has led the Monetary Policy Committee to adopt a more dovish stance, with three out of nine members favouring an additional 0.25% cut in December 2024. The 10-year gilt ended the year in lockstep with Treasuries at 4.57%, though it saw a more modest 0.57% increase over the quarter.

In the Eurozone, the weaker economic backdrop paired with more muted price pressures, prompted more urgent action from the ECB. After starting its cutting cycle in June with a 0.25% reduction per quarter, this quarter the ECB increased the pace to 0.25% per meeting, resulting in a total reduction of 1% over 2024. This brought the deposit rate down to 3%. While Southern European economies have posted robust growth, economic challenges remain in the largest Eurozone countries. Germany continues to flirt with recession, while the French coalition's failure to agree on a budget pushed their government bond yields to the widest levels compared to their German counterparts since 2012. The German 10-year benchmark ended the quarter at 2.4%, while the French equivalent yielded 3.2%.

10Y Govt Bond Yields: Germany, France and China, Q4 2024



Germany
France
China

Source: Bloomberg

Contrary to the West, China saw its government bond yields fall as its central bank lowered rates to accompany fiscal stimulus aimed at reviving the sputtering economy. Over the quarter, 10-year bond yields fell 0.54% to 1.68%. Meanwhile, Brazil's left-wing government stoked concerns with its fiscal policies, triggering a sharp sell-off in the Brazilian real. This prompted Brazil's central bank to raise rates by 1.5% over quarter, with further increases likely. The protectionist measures under a Trump presidency may well see other emerging market central banks follow suit.

While sovereign bonds suffered a volatile quarter, demand for corporate bonds remained strong. Considering higher equity market valuations and attractive yields, investors continued to favour corporate bonds. Increased investor appetite for corporate bonds over government debt narrowed the yield spread between the two. These spreads are approaching near all-time lows, a trend that will likely continue as long as government policies keep the economy growing. As such, there is little room for error should the economy take a downturn.

Equities

International Equities

Calendar years where every quarter is positive are more common than one might think, especially in the US. The MSCI World ended 2024 down 0.1% in the final three months of the year, but as recently as 2019, all four quarters were up. The S&P 500 finished 2024 up 25%, including a 2.4% rise in the fourth quarter. All four quarters were positive in 2019, 2017 and 2016 as well.

In contrast, China's markets tell a very different story. While the Shanghai Composite followed its 14% Q3 returns with a modest 0.7% gain in Q4 2024, the more tech-heavy Shenzhen index experienced the opposite, rising 18% in Q3 before falling 1.7% in the final quarter. The last time the Shanghai Composite had four positive quarters in a calendar year was 2006 and Shenzhen has managed it only once in the past seventeen years in 2017.

Since the US election on 5 November, the S&P 500 gained 3%, which helped drive the index into positive territory for the quarter. The Nasdaq followed a similar pattern, rising 5.4% after the election and bringing its Q4 gains to 4.9%. Tesla, for political rather than economic reasons, rose 54% over the quarter and added just shy of USD 500 billion to its market capitalisation both over the quarter and since the US election. However, despite the overall strong performance, some 57% of S&P 500 stocks fell during the final quarter of the year, reflecting narrow market breadth with only four of the 11 S&P 500 sectors posting gains during Q4. Consumer discretionary, which includes Tesla, was up 14%, communication services 9%, financials 7%, and IT 5%. Concerns over healthcare reform drove the healthcare sector down 10% and the highly cyclical materials sector fell 12% as the China recovery appeared to fade and take commodity prices down.

It may seem remarkable that 30% of the S&P 500 could fall in total return terms in 2024 in the light of a 25% overall return. However, this is less surprising given the equally weighted S&P 500 index 'only' rose 13% in 2024 (and down 1.9% in Q4) and is a reminder again of just how narrow US equity markets were in 2024. Nvidia added a staggering USD 2 trillion to its market cap in 2024, while Apple added USD 800 billion, Amazon USD 700 billion, Meta USD 600 billion, Alphabet USD 500 billion, Tesla USD 500 billion, and Microsoft USD 300 billion.

The incoming US President's tariff threats appear to explain why the MSCI Europe fell almost 3% in Q4. However, regional variations complicate the narrative: Germany's DAX rose 3%, while France's CAC fell 4%. In Japan, the Topix index once again moved in the opposite direction to its currency. After strengthening from 161 yen to the dollar to 144 yen in Q3, the yen weakened back to 157 yen in Q4. The Topix subsequently rose 5% in local currency terms. Car maker Toyota rose 24% and consumer electronics company Panasonic 32% in Q4.

Tesla market cap 2024

Source: Bloomberg

UK Equities

The FTSE 100 index rose by 9.6% in 2024, marking its best year since 2021 for the so-called 'blue chip' index, when it jumped 18.4% off the back of a post-Covid recovery. In 2022 and 2023, it gained 4.6% and 7.7% respectively, including dividends. The FTSE 250 mid-cap index increased by 8% in 2024, while the smaller company AIM All-Share index fell by 4%. The pound finished the year at 1.25 against the dollar, having reached as high as 1.34 in September.

Despite the weak currency, which typically benefits the FTSE 100, the UK equity market saw modest performance in 2024. This currency effect reflects the fact that, on average, 70% of earnings for FTSE 100 companies are sourced outside the UK, often in dollars or euros. A weaker pound increases the value of these earnings when converted back into pounds. It also benefits exporters, as their products are more competitive internationally, which often boosts sales.

International interest in the UK remained in the doldrums, despite one in 20 listed companies receiving a takeover offer during the year.[1] Large deals included the GBP 5.7 billion acquisition of packaging company DS Smith by its North American rival International Paper; the GBP 4.3 billion bid for software company Darktrace by US private equity group Thomas Bravo; and the GBP 3.6 billion takeout of IDS, the owner of the Royal Mail, by a company owned by Czech entrepreneur Daniel Kretinsky.

[1] Peel Hunt

The investment bank Jefferies calculates the valuation gap between the UK and US is the widest on record, with every sector trading on a double-digit discount,[2] making increased bid activity in 2025 likely. Private equity firms, who are sitting on dry powder worth USD 2.6 billion,[3] are likely to be on the hunt for deals. Another source of bidders include listed groups looking for additional scale. Examples in 2024 included Aviva's December bid for Direct Line, and the tie-up earlier in the year of home builders Redrow and Barratt.

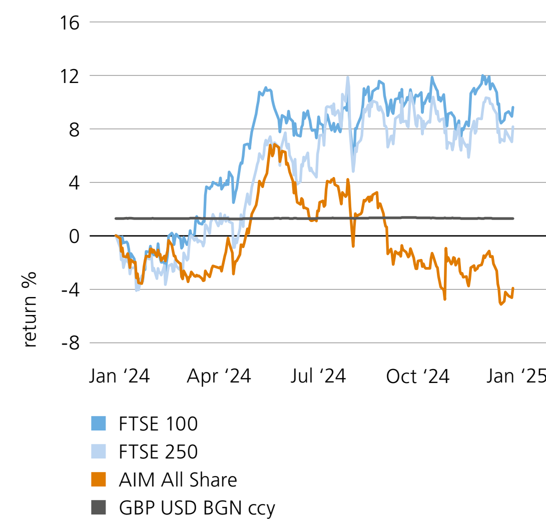
If capital continues to flow into the UK—and in November, net investment into domestic equity funds turned positive for the first time in over three years—then it is likely UK equities will be re-rated, which could boost stock prices, increase investment and help improve business confidence in the country. The chances of a re-rating of UK equities will also increase if China announces more stimulus, a peace deal is brokered between Russia and Ukraine and Europe experiences political stability.

UK business confidence was impacted heavily by the Chancellor's recent tax increases, with the purchasing manager's index (PMI) for manufacturing now at an 11-month low of just 47. That's the third successive month below 50—the threshold dividing growth from contraction. On the plus side, real incomes are rising, investment growth is improving, banks are well-capitalised, and credit conditions are normalising as the BoE slowly edges to move rates lower.

Will all of this be enough to convince the global investment community that the UK is worth investing in after seven long years of post-Brexit underperformance? Maybe, but not all the stars are aligned. Growth is still lacklustre, confidence in the new administration is low, and the UK has hardly any leadership in cutting-edge industries. The UK market remains cyclical and sensitive to interest rates. If inflation falls and UK government bond yields moderate from current levels, a re-rating of equities seems increasingly likely. For now, we continue to prefer the larger and more globally orientated FTSE 100 stocks. Recognising the strength of investment cases varies from stock to stock, we also continue to advocate a selective approach.

> “The investment bank Jefferies calculates the valuation gap between the UK and US is the widest on record, with every sector trading on a double-digit discount,[2] making increased bid activity in 2025 likely.
>
> James Follows, Head of UK Equities

FTSE 100, FTSE 250, AIM All-Share and pound



Source: Bloomberg

[2] Jefferies
[3] S&P Global Market Intelligence, Prequin

Key market data

Key market data (as at 31 December 2024)

Asset class	Level	1m %	3m %	6m %	1y %	3y %	5y %	YTD %
Equity indices (total return) *								
FTSE All-Share (GBP)	4468	-1.26	-1.27	-1.09	5.57	6.17	6.47	5.57
S&P 500 (USD)	5882	-2.50	3.03	11.45	23.31	23.40	82.05	23.31
Euro Stoxx 50 (EUR)	4896	1.91	-1.17	-1.76	8.28	13.90	30.73	8.28
Nikkei 225 (JPY)	39895	4.41	3.21	3.65	19.22	38.56	68.64	19.22
MSCI World (USD)	2938	-1.88	2.67	9.42	21.57	26.94	80.56	21.57
MSCI AC Asia Pacific ex Japan (USD)	697	0.64	-3.97	7.93	15.96	9.54	30.00	15.96
MSCI Emerging Markets (USD)	68031	1.23	-4.65	6.67	13.70	6.38	27.30	13.70
10 year bond yields **								
UK	4.56	0.30	0.64	0.25	1.03	3.60	3.74	1.03
US	4.57	0.40	0.83	0.08	0.69	3.06	2.65	0.69
Germany	2.36	0.26	0.33	-0.29	0.36	2.55	2.55	0.36
Japan	1.09	0.03	0.24	0.02	0.48	1.02	1.11	0.48
Commodities (USD)								
Gold	2629.20	-1.05	-1.43	13.19	27.48	43.87	73.03	27.48
Oil	74.64	2.33	1.47	-8.55	-3.12	-4.04	13.09	-3.12
Currency								
GBP-USD	1.25	-1.47	-5.75	-1.63	-1.76	-7.53	-5.46	-1.76
GBP-EUR	1.21	0.50	0.82	3.13	4.80	1.55	2.48	4.80
EUR-USD	1.04	-1.96	-6.51	-4.61	-6.26	-8.94	-7.75	-6.26
USD-JPY	157.16	4.64	9.44	0.01	11.48	36.48	44.61	11.48

Source: Bloomberg, ICE, London Stock Exchange, MSCI, Standard & Poor's, Stoxx Tokyo Stock Exchange

* Performance is given on total return indices, but the levels are for the main indices.
** Displayed as absolute changes in yields, rather than percentages.

> President-elect Trump has made it clear how much he favours tariffs as a tool to pursue his "America First" strategy. This triggered dramatic moves in foreign exchange markets over the quarter.

Jeremy Sterngold, Deputy CIO

Imprint

Image credits

Cover: LIECHTENSTEIN. The Princely Collections, Vaduz–Vienna, Katjen/shutterstock.com
Page 2: spainter_vfx/shutterstock.com
Page 7: SB Professional/shutterstock.com
Page 10: crystal51/shutterstock.com

Quarterly report contributors

Sanjay Rijhsinghani, Chief Investment Officer
Jeremy Sterngold, Deputy Chief Investment Officer
Russell Harrop, Head of Equities
James Follows, Head of UK Equities

Media relations

Esther Clark
Phone +44 (0)203 207 8007, esther.clark@lgt.com

Important information

LGT Wealth Management UK LLP is authorised and regulated by the Financial Conduct Authority Registered in England and Wales: OC329392. Registered office: 14 Cornhill, London, EC3V 3NR.

LGT Wealth Management Limited is authorised and regulated by the Financial Conduct Authority. Registered in Scotland number SC317950 at Capital Square, 58 Morrison Street, Edinburgh, EH3 8BP.

LGT Wealth Management Jersey Limited is incorporated in Jersey and is regulated by the Jersey Financial Services Commission in the conduct of Investment Business and Funds Service Business: 102243. Registered office: Sir Walter Raleigh House, 48-50 Esplanade, St Helier, Jersey JE2 3QB.

LGT Wealth Management (CI) Limited is registered in Jersey and is regulated by the Jersey Financial Services Commission: 5769. Registered Office: at IFC1, The Esplanade, St Helier, Jersey, JE1 4BP

LGT Wealth Management US Limited is authorised and regulated by the Financial Conduct Authority and is a Registered Investment Adviser with the US Securities & Exchange Commission ("SEC"). Registered in England and Wales: 06455240. Registered Office: 14 Cornhill, London, EC3V 3NR.

This publication is marketing material. It is for information purposes only. Certain services described herein are not available to retail clients as defined by the FCA or the JFSC, as applicable; please speak to your investment adviser for further clarification in this regard. All services are subject to status and where local regulations permit. The wording contained in this document is not to be construed as an offer, advice, invitation or solicitation to enter into any financial obligation, activity or promotion of any kind. You are recommended to seek advice concerning suitability from your investment adviser. Any information herein is given in good faith, but is subject to change without notice and may not be accurate and complete for your purposes. This document is not intended for distribution to, or use by, any individual or entities in any jurisdiction where such distribution would be contrary to the laws of that jurisdiction or subject any LGT Wealth Management entity to any registration requirements. When we provide investment advice it is on the basis of a restricted approach that is to say, whilst we review and advise on retail investment products from the whole of the investment market.

Investors should be aware that past performance is not an indication of future performance, the value of investments and the income derived from them may fluctuate and you may not receive back the amount you originally invested.

LGT Wealth Management US Limited
14 Cornhill, London EC3V 3NR
Phone +44(0)20 3207 8000, info-us@lgt.com

www.lgtwm-us.com

00274en 0125