

# Quarterly investment commentary

## July 2024

The European Central Bank (ECB) cut interest rates for the first time in nearly five years in June, while the US Federal Reserve (Fed) and the Bank of England (BoE) chose to continue taking a wait-and-see approach during the second quarter of 2024. This is despite inflation in the UK finally falling to its target of 2% in May, its lowest level in three years. In the US, however, it remains stubbornly at above 3%. Central bankers on both side of the Atlantic remain cautious and are continuing to downplay interest rate cut expectations.

Global shares built on their healthy start to the year and made strong gains during the second quarter. The growth is most notable in the technology sector, with three companies boasting market caps of more than \$3trn as of the end of June: Microsoft (\$3.3trn), Nvidia (\$3.2trn) and Apple (\$3.2trn).

### £ UK economic update

The second quarter was marked by two key events: Prime Minister Rishi Sunak calling a general election and inflation finally reaching the BoE's target of 2% in May. The UK central bank, however, cautioned that it expects a moderate rise in inflation in the second half of the year before it starts to fall again in 2025. There is growing impatience for the BoE to start cutting interest rates, but the timing of the election meant it was always unlikely such as decision would be made at its June meeting, even if the wider picture was supportive. The impact it would have, for example, on savings and mortgage rates could be seen as politically motivated and call into question the independence of the UK central bank. The base rate remained 5.25% at the end of the second quarter, where it has been since August 2023.

Following on from a positive start to the year, both the domestically-focused FTSE 250 Index and the more international FTSE 100 Index achieved healthy and sustained growth between April and June. After recording a technical recession in the second half of 2023, defined as two consecutive quarters that record a fall in economic activity, 2024 got off to a more positive start for the UK economy as a whole. It was confirmed that economic growth in the first quarter was 0.7%, the strongest output since 1.5% was recorded in Q4 2021.

### What's happened around the world?

#### United States

At the start of the year, there were high expectations that the US central bank would cut rates as many as five times over the course of 2024. As of the end of the second quarter, Fed chair Jerome Powell confirmed that although inflation was moving in the right direction, it was not doing so quickly enough. March saw inflation rise to 3.5%, with moderate declines in April (3.4%) and May (3.3%) repeating a frustrating pattern of incremental change but little genuine progress towards the Fed's 2% target. At the end of the second quarter, expectations were that inflation would dip to 3.1% in June. As a result, interest rates have remained unchanged with tentative projections for a single rate cut in the second half of the year.

Technology continued to be the primary driver of growth for the S&P 500 Index and Nasdaq, both of which delivered record breaking performances during the second quarter.

## What's happened around the world? (continued)

### Europe

The positive performance recorded by the Euro Stoxx 50 at the start of 2024 continued into the second quarter, with the index returning to highs last seen in 2000. It was a similar pattern for key German indexes, while markets in neighbouring France experienced greater turbulence after a poor showing in the European Union elections. Gains were made by parties on the far-right across Europe, including in Germany and France, the latter of which prompted a shock decision by President Emmanuel Macron to dissolve parliament and call a snap election.

At its meeting in June, the ECB cut interest rates for the first time since 2019. The latest figures show inflation was 2.7% in May across the 27 countries of the EU, a slight uptick from 2.6% recorded in March and April. Economic growth across the bloc improved after dropping to zero in Q4 2023, with a rise of 0.3% reported for the first quarter of 2024.

### Asia Pacific

The Chinese stock market, the CSI 300, remains quite a long way below its 2021 record high. The country's property market continues to struggle, with the International Monetary Fund (IMF) estimating that the sector accounts for around 20% of China's economy. However, economic growth of 5.3% was recorded in the first quarter, which was better than had been expected. Inflation remains muted, coming in at 0.3% in April and May, which is down from 0.7% in February but represents a marked improvement from the deflation recorded in the fourth quarter of 2023 and into January 2024.

The strong growth achieved by Japan's benchmark Nikkei 225 in the first quarter of 2024 eased in Q2 but the index remains at levels last seen in the late 1980s. Revised government figures show the economy contracted less than expected in Q1, shrinking by 1.8% compared with a predicted 2%. After the Bank of Japan raised its key interest rate for the first time in 17 years at the end of Q1, it opted to make no further changes at its June meeting. The interest rate had been below zero since 2016 until the decision in March took it to a range of 0.0-0.1%.

### Emerging Markets

The conflict between Israel and Hamas, following the 7 October attack, continued throughout the second quarter. The war in Ukraine is now in its third year with little sign of a ceasefire. Both conflicts have impacted the price of oil, which has been one of the key drivers of inflation. In a positive development, the second quarter saw the oil price fall from \$90 per barrel in April to \$80 by early June. Expectations are mixed, however, about what that means for the price of oil for the remainder of the year.



## Outlook

All eyes remain focused on when central banks will cut rates. Now that the ECB has joined Canada, Sweden, Switzerland, Brazil and Mexico in cutting interest rates, there will be a greater expectation that the Fed and BoE will follow suit. With the UK election now over, all eyes will be on its August meeting.

With the more drawn-out US elections in November, the path is less clear. Fed chair Jerome Powell has garnered a reputation for being cautious and considered, putting the emphasis on inflation rather than growth data. With inflation remaining stubbornly above 3%, it is unlikely the US central bank will cut its interest rates before lasting progress has been achieved on that front.

Further information about the economic outlook, including views and opinions on the financial markets, can be found at [zurich.com/en/economics-and-markets/publications](https://zurich.com/en/economics-and-markets/publications).

## A long-term commitment

We believe it's important, where possible, to take a long-term view when investing. Looking back over the years, volatility has always been a feature of world stock markets, with each setback followed by a recovery – some taking longer than others.

The usual way to deal with volatility is to invest for the medium to long-term – a period of at least five to ten years. It's important to find the right product and invest in the right funds, and this depends on your investment objectives and attitude to risk. If either has changed, your adviser will help you review your investment to make sure it continues to meet your needs.

Although we don't give investment advice, we do offer a wide range of funds suitable for almost all investment objectives and attitudes to risk. We strongly recommend you speak to your adviser before making any changes to your plan.