

Quarterly investment commentary

January 2025

The fourth quarter of 2024 was always going to be dominated by the US election. The long process featured a late substitution by the Democrats in July but ultimately saw Donald Trump beat Kamala Harris on 5 November to set up his return to the White House.

The US Federal Reserve (Fed) and European Central Bank (ECB) both made two cuts to their interest rates in the fourth quarter, while the Bank of England (BoE) made one.

Inflation in November for the UK and US was 2.6% and 2.7%, respectively. In the EU the December inflation print was 2.4%. All three were higher than the recent September lows.

While the US stock market experienced a relatively steady climb throughout 2024, which continued into the fourth quarter, the same could not be said for the UK and Europe. Both achieved healthy gains in the early part of 2024 but neither seemed to build on that momentum in the second half of the year, meaning they started and ended the fourth quarter in roughly the same place.

£ UK economic update

The first real test of Sir Keir Starmer's Labour Government was on 30 October when the chancellor of the Exchequer, Rachel Reeves, delivered her first budget. She announced tax rises worth £40bn and repeated the government's commitment to not increase borrowing to pay for the country's day-to-day spending. Reeves' budget was not warmly welcomed and critics warned it could tie the government's hands in future if it needed to raise money without increasing taxes.

The nine members of the BoE's Monetary Policy Committee met in early November and voted to lower the UK interest rate to 4.75%. Eight members voted in favour of the cut while one wanted to keep it at 5%. The December meeting was a lot more cautious, with six members voting to keep the rate at 4.75%, primarily due to concerns about inflation.

Inflation, the UK budget and US presidential election all created uncertainty in markets during the fourth quarter. As such, both the domestically focused FTSE 250 Index and the more internationally facing FTSE 100 Index ended the three-month period slightly below where they had started in October.

🌐 What's happened around the world?

United States

Donald Trump won the White House in November following a race against Kamala Harris, which turned out to be a lot less competitive than was predicted.

The fourth quarter also saw the Fed make two interest rate cuts. The rate, which sits in a range, dropped to 4.5% - 4.75% in November and then to 4.25% - 4.5% in December. At the start of the year, expectations had been for up to five cuts during 2024. Concerns around growth and inflation, however, meant the Fed only made three, with the first one in September.

Trump's victory lifted the US stock market. The S&P 500 and Nasdaq were able to hold on to the gains they made; while the Dow Jones Industrial Average recorded the strongest rise, but most of those gains had been lost by the end of the quarter.

Europe

After French President Emmanuel Macron called a snap election in June, German Chancellor Olaf Scholz did the same in November after losing a confidence vote. Scholz has led a coalition between his Social Democratic Party, the Greens and the Free Democrats since replacing Angela Merkel as chancellor in December 2021. The election will take place in February 2025.

The ECB was the first of the major western central banks to cut rates, starting in June, and then again in September, October and December. Inflation across Europe has been slowly climbing since hitting a low of 1.7% in September, sitting at 2.4% in December.

October and November were particularly challenging months for the Euro Stoxx 50, which had previously recorded its strongest growth early in 2024. Something of a recovery was achieved in the weeks leading up to Christmas.

Asia Pacific

A stimulus package unveiled by the People's Bank of China at the end of September triggered sharp rises in local stock markets. This growth, however, showed clear signs it was starting to peter out by late December. The measures in the package included a reduction in how much banks must hold in reserve and a lowering of the cost of existing mortgages. Adding to the Chinese government's challenges was inflation. While most of the world battles to lower inflation, China has been struggling to increase it. In October, it was 0.3% before falling to 0.2% in November and then 0.1% in December.

South Korea made headlines in early December when its president, Yoon Suk Yeol, declared martial law. Yoon claimed it was to protect the country from North Korea and "anti-state forces", but it was, in fact, an attempt to strengthen his weakening position. The country's National Assembly voted to impeach Yoon in mid-December. Yoon was suspended and South Korea's constitutional court will decide in February 2025 whether or not to uphold the impeachment. Complicating matters further was the impeachment of acting president Han Duck-soo, also in December. He has been accused of impeding Yoon's impeachment process.

Shigeru Ishiba became prime minister of Japan on 1 October, succeeding Fumio Kishida who stepped down following a series of scandals. A snap election was immediately called and held on 27 October. The ruling coalition led by Ishiba's Liberal Democratic Party lost its majority in the lower house, but he managed to remain in power. Less than two weeks later, Ishiba narrowly survived a vote of no confidence.

Emerging Markets

The conflict between Israel and Hamas, and by extension Hezbollah in Lebanon, continued throughout the fourth quarter but attention turned to Syria and the overthrowing of President Bashar al-Assad in December. The pro-Russia ruler has been in power since 2000, succeeding his father who had been in power since 1971.

Weaker consumer demand is one of the drivers behind slowing growth in India. Efforts to bring down inflation, which rose to a 14-month high of 6.2% in October, are also being blamed for the slowdown.



Outlook

Donald Trump's goals and objectives will strongly influence global growth and international relations over the next four years. The President-elect has a mandate for change and a desire to make it happen it quickly. The appointment of political outsiders, like Elon Musk, to senior advisory positions is an indicator that this term is likely to be very different to his previous time in office. This makes it more difficult to predict his actions and any subsequent fallout. Statements about claiming the Panama Canal and Greenland in the lead up to his inauguration have already created political tension.

An ongoing and widening conflict in the Middle East will have repercussions for oil and gas prices, which are one of the bigger drivers of inflation and could further limit the ability of central banks to lower interest rates. The expiration of a five-year deal that saw Russian gas transported to Europe via a pipeline through Ukraine will also have a knock-on effect, although the European Union said it has been preparing for the change.

During 2024, the ECB cut interest rates four times, the Fed three times and the BoE twice. Going into Q1 2025, the Fed currently expects to make two interest rate cuts in the whole of 2025, while the ECB is projected to make four. There has been less consensus about how the BoE might act.

Further information about the economic outlook, including views and opinions on the financial markets, can be found at zurich.com/economics-and-markets/overview.

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.