ARBUTHNOT LATHAM
Bankers since 1833

2.7%
US CPI YoY

US inflation increased to 2.7% from 2.6%, due to shelter costs rising.

-5.7%
China House Prices YoY

House prices in China contracted less than the previous month as policy support takes effect.

2.6%
USD Appreciation

The DXY rose 2.6% in December as hawkish Fed comments led to USD strength.

December 2024

Market Spotlight
Around the world

- The Federal Reserve (Fed) cut rates by 25bps. However, the Fed has grown more hawkish, hinting at a slower pace of cuts for 2025. In the projections, members raised their 2025 inflation and GDP expectations reflecting a resilient economy ahead.
- The European Central Bank (ECB) also cut rates by 25bps, lowering the policy rate to 3%. However, the ECB has revised its growth forecast downward. The bank noted that President-elect's Trump's threats to impose blanket tariffs of up to 20% on all US imports were not included in the previous baseline projections, leading to a more pessimistic growth outlook.
- US Small Business Confidence spiked by 8 points in November on the back of Trump's election euphoria. Gains were especially large in the expectations component signalling business owners are bullish on the US economy.
- Broadcom shares rose 46% for the month. The chipmaker's stock jumped after the company's CEO announced that the company is developing custom AI chips for three major cloud customers. Additionally, he highlighted that there has been a significant increase in AI infrastructure demand.
- Brazil unexpectedly hiked interest rates in December by 100bps following a hot inflation print. Stronger than expected growth fuelled by a tight labour market have led to inflation rising above the Brazil's Central Bank target.
- European natural gas prices recently spiked highlighting the ongoing vulnerability of the market to supply issues as colder weather intensifies. Storage levels have decreased significantly, currently standing at just over 70% compared to 86% a year ago.

Market snapshot

2024 was a great year for risk assets. World equities had a strong year driven by US equities. A strong US economy and big gains from Mega Cap US tech were the primary driver. Chinese equities recovered from a weak 2023 following significant fiscal stimulus. European equities lagged as growth stalled.

Global government and corporate bond returns remained weak as market concerns persisted over the stubbornness of inflation.

Industrial metals prices flatlined on global manufacturing weakness. Precious metals delivered strong returns on the back of Fed cuts.

Performance of global asset classes

	1 Month	YTD
Japanese Equities	4.5%	21.3%
European Equities	1.3%	8.7%
Commodities	0.6%	0.1%
Chinese Equities	0.5%	14.7%
US Tech	0.3%	24.8%
Emerging Market Equities	-0.1%	7.5%
Global High Yield Bonds	-0.6%	9.2%
UK Equities	-1.3%	9.7%
Global Corporate Bonds	-2.0%	1.1%
Global Government Bonds	-2.1%	-1.7%
World Equities	-2.4%	17.5%
US Equities	-2.4%	25.0%
Precious Metals	-2.6%	19.0%

Source: Bloomberg, Returns are in local currency, as at 31 December 2024.

What is the data telling us?

Global manufacturing Purchasing Mangers Index (PMIs) fell in December across most major regions. The US saw a rise in PMIs driven by a rise in new orders, reflecting the strongest level of goods demand in 11 months. Data in Europe continues to disappoint, with manufacturing activity declining in the last two months of 2024 leading to a reduction in workforce. Chinese manufacturing activity remained in expansion in December, although it fell back from the level achieved in November.

Global services PMIs continue to show strength and drive the global economy. PMIs rose across all major regions in December. The rise was led by the US as employment remains robust. The EU entered expansion as companies in the services space maintained hiring and job creation.

Purchasing Managers Index

Manufacturing 2024

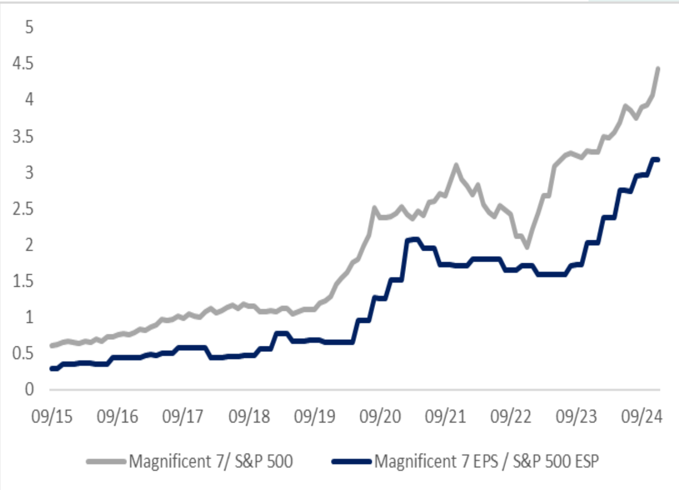
	1	2	3	4	5	6	7	8	9	10	11	12
Global	50	50.3	50.6	50.3	51	50.9	49.7	49.5	48.8	49.4	50	49.6
US	49.1	47.8	50.3	49.2	48.7	48.5	46.8	47.2	47.2	46.5	48.4	49.3
EU	46.6	46.5	46.1	45.7	47.3	45.8	45.8	45.8	45	46	45.2	45.1
UK	47	47.5	50.3	49.1	51.2	50.9	52.1	52.5	51.5	49.9	48	47
China	50.8	50.9	51.1	51.4	51.7	51.8	49.8	50.4	49.3	50.3	51.5	50.5
Japan	48	47.2	48.2	49.6	50.4	50	49.1	49.8	49.7	49.2	49	49.6

Service 2024

	1	2	3	4	5	6	7	8	9	10	11	12
Global	52.3	52.4	52.4	52.7	54	53.1	53.3	53.8	52.9	53.1	53.1	53.8
US	53.4	52.6	51.4	49.4	53.8	48.8	51.4	51.5	54.9	56	52.1	54.1
EU	48.4	50.2	51.5	53.3	53.2	52.8	51.9	52.9	51.4	51.6	49.5	51.6
UK	54.3	53.8	53.1	55	52.9	52.1	52.5	53.7	52.4	52	50.8	51.1
China	52.7	52.5	52.7	52.5	54	51.2	52.1	51.6	50.3	52	51.5	52.2
Japan	53.1	52.9	54.1	54.3	53.8	49.4	53.7	53.7	53.1	49.7	50.5	50.9

Source: JP Morgan, ISM Institute, HCOB, S&P Global/CIPS, Caixin, au Jibun Bank, from 1 January 2024 to 31 December 2024.

Earnings growth driving performance



Source: Bloomberg. Data rebased.
As at 31 December 2024.

Chart of the month

One of the key themes for 2024 has been the outperformance of the “Magnificent 7” stocks (Apple, Alphabet, Microsoft, Amazon, Meta, Tesla and NVIDIA) compared to the rest of the US market. This trend was well-justified, as their earnings growth has outstripped that of other companies.
The rally can also be attributed to artificial intelligence (AI) with its transformational benefits yet to be fully realized and therefore expect these names to continue to perform strongly.

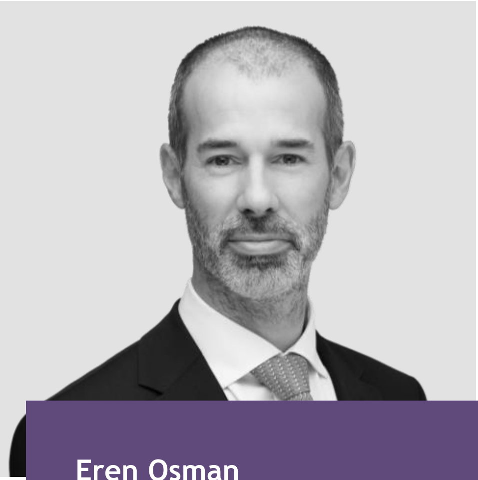
Into 2025, we anticipate that Trump’s policies will be favourable for domestic US companies. The proposed tax cuts and deregulation measures are expected to stimulate earnings growth across various sectors, particularly those focused on domestic manufacturing and production. This could result in a more balanced market performance in US.

Looking ahead

Overall, the environment remains supportive for risk assets. Growth is particularly robust in the US, with expectations that Trump's pro-business policies and tax cuts will continue to benefit domestic companies. However, the extreme relative outperformance of the US has led to a wide valuation gap between the US and the rest of the world. This suggests a cautious approach and a potential opportunity to consider investments outside of the US mega tech names. Europe and China remain challenging to gauge, but a more supportive fiscal push in both regions could help mitigate the market uncertainty caused by the potential threat of additional tariffs.

On the inflation front, stronger growth poses a risk to the disinflation process, particularly in the US, limiting the Fed’s ability to ease monetary policy. Given the solid fundamentals of household and company balance sheets, higher interest rates might be sustainable for economic growth. Conversely, we see the ECB having more room to ease financial conditions given the weaker growth outlook. The Bank of England's path is less certain as while growth remains weak, inflationary pressures remain.

Contacts



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