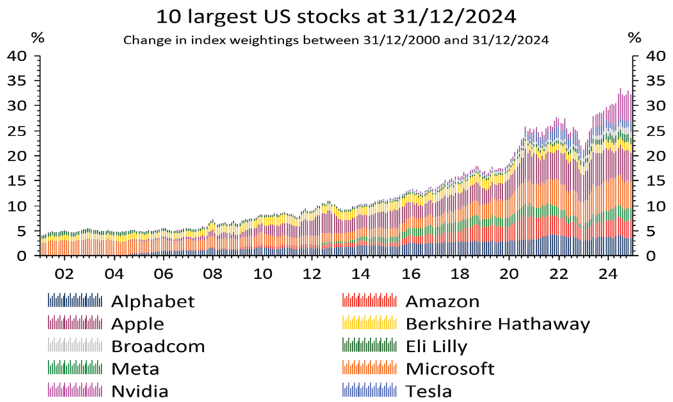
Annual review for the year to 31 December 2024

16 January 2025

Gill Lakin
Chief investment officer

Global equities and bonds returned 20.13% and 0.07% respectively in sterling during 2024. Stocks benefited from falling inflation and interest rate cuts. The US was one of the strongest economies last year, with gross domestic product (GDP) showing year-on-year rises of 2.9%, 3.0% and 2.7% respectively during the first, second and third quarters. Investor exuberance about commercial applications for artificial intelligence (AI) spurred global technology stocks. Election victories for Donald Trump in the US and Narendra Modi in India also went down well with investors.

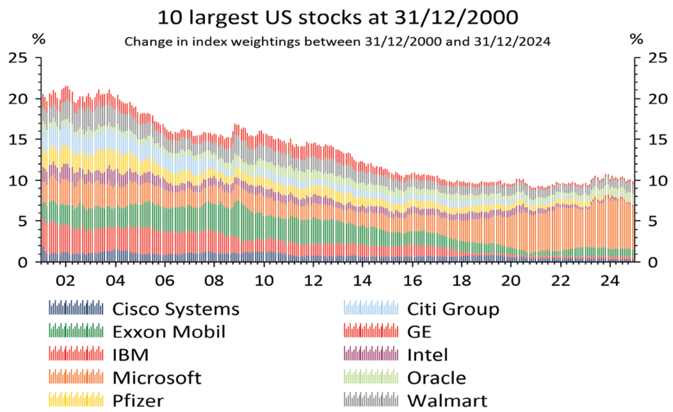
US technology stocks rose 40.77% in sterling, led by the AI pioneer, Nvidia, up 171%. Nvidia has first-mover advantage in the design of graphics processing units. These are more energy-efficient and better adapted to handle the computing demands required for high-end AI applications than conventional central processing units. Nvidia's customers include Microsoft and Amazon, which will have to pay high prices for Nvidia's chips, which are in short supply, until other semiconductor designers catch up. Nvidia, which floated in 1999, ended last year with a market value of $3.3 trillion. This made it America's second largest public company, surpassed only by Apple, whose market value as $3.8 trillion.



Source: LSEG Datastream

The commercialisation of AI is in its infancy but investors' enthusiasm for AI and for technology stocks in general has led to an historically high level of concentration on Wall Street, with the top 10 US stocks at the end of 2024 accounting for 32% of the overall stockmarket by market value, as shown in the chart opposite. Of these stocks, only Warren Buffett's Berkshire Hathaway and the Eli Lilly pharmaceuticals group are outside the technology sector. As a result, US stockmarket returns have become increasingly sensitive to the fortunes of the biggest technology businesses rather than broader economic trends.

By contrast, the chart below shows the largest 10 US stocks at 31 December 2000, when technology was also in vogue and stockmarket concentration was high, and the subsequent proportion of the market accounted for by these companies. From 2000 to 2024, these stocks fall sharply as a percentage of the market and it is a salutary lesson to note that only Microsoft numbered amongst the largest 10 US stocks in both 2000 and 2024.



Source: LSEG Datastream

The high valuation of US stocks overall is reflected the US equity risk premium. This is the annual return in excess of a risk-free rate, in this case the 2-year US government bond yield, that investors demand to compensate them for the additional risk of holding equities.

As the chart overleaf shows, investors in US stocks may expect a similar return to investors in 2-year bonds and, therefore, almost no compensation for the additional risk inherent in owning equities. By contrast, investors in the UK and Europe excluding the UK are being offered a significantly higher return than the relevant risk-free rate for investing in equities.

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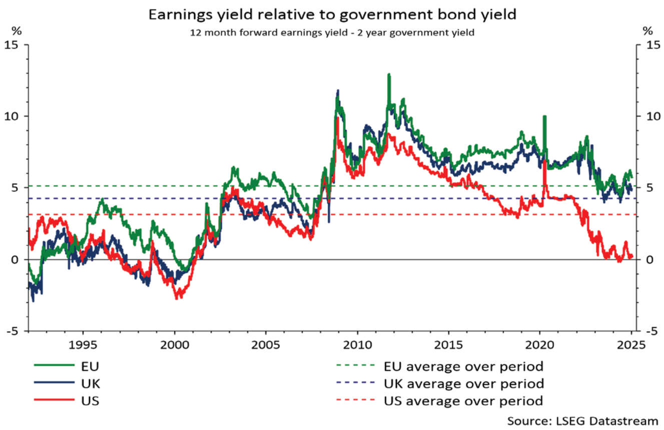

Trump will have considerable power to enact his policy agenda. He has already announced 25% tariffs on imports from Canada and Mexico, with an additional 10% tariff on Chinese imports. His policies of trade protectionism, tighter rules on immigration, reduced regulation and lower taxes are inflationary but may spur economic growth in the short term. The Federal Reserve may, however, keep interest rates higher for longer, potentially leading to a sharper downturn subsequently, falls for longer-dated bonds and a rise in the dollar. In this environment, shorter-dated bonds, particularly shorter-dated inflation-linked bonds, may perform well.

A stronger dollar may stem capital flows into emerging market assets, particularly Chinese equities, which are also vulnerable to higher tariffs. Brompton's investment team remains positive about prospects for emerging market equities overall but investments with no or low allocations to China may outperform. Indian equities performed strongly last year, rising 14.42% in sterling. India's economy is likely to grow by 6.5% in 2025, according to the International Monetary Fund, outstripping its 4.5% forecast for China.

UK stocks lagged, up 9.06%. Rachel Reeves, the chancellor, announced big tax rises in her budget in October and the new government's other measures have failed to stimulate growth. GDP growth was 0.7% quarter-on-quarter in 2024's first quarter but then slowed to 0.4% then zero over the subsequent two quarters. In October, GDP fell 0.1% month-on-month. UK borrowing costs rose over 2024 as government bonds fell 3.99%. Europe excluding-UK equities, meanwhile, rose just 2.77% in sterling, with the region confronting fractured politics in France and Germany, Trump's tariff threats and competition for Germany's automotive sector from cheap Chinese electric vehicles.

There are grounds to be positive about equities, particularly US equities, given the likely stimulus from Trump's policies. The high concentration of tech stocks amongst the largest US stocks may mean, however, that equally-weighted passive investments with lower tech allocations may outperform. Interest rates may remain higher for longer, favouring value-oriented equity strategies as opposed to growth-biassed portfolios, which may lag should the expected future cash flows from growth stocks be discounted more aggressively at higher interest rates. For the same reason, shorter-dated and inflation-linked bonds look more attractive than longer-dated bonds. Beyond Wall Street, lowly-valued large UK companies and emerging market equity investments with low Chinese allocations may prove defensive should equities overall experience weakness. Alternative holdings such as daily-traded long/short equity investments may provide diversification. Gold may also provide some protection for capital given the mercurial nature of Trump's policy-making and elevated political risks in some regions.

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