



**Gill Lakin**  
Chief investment officer

## Quarterly review

for the three months to 30 June 2024

Global equities rose 2.94% in sterling over the second quarter of 2024 while global bonds fell 1.17% as inflation fell towards the major central banks' 2% targets although elevated service-sector price rises may slow the pace of interest rate cuts. The UK's Labour Party won a landslide election victory while India's prime minister, Narendra Modi, won a third term albeit propped up by coalition partners. In France, however, a hung parliament generated political uncertainty.

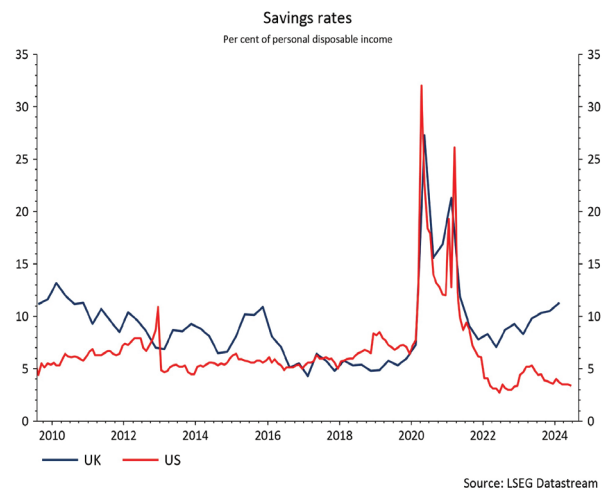
UK consumer price inflation fell from 3.2% in March to the Bank of England's 2% target in May and June. Goods prices showed a 1.4% drop in June but service-sector inflation was 5.7% and the Bank's Monetary Policy Committee voted to maintain Bank Rate at 5.25%. UK gross domestic product (GDP) exceeded expectations, up 0.7% in the first quarter according to the second quarterly estimate but business surveys were consistent with a slower growth of 0.25%. The labour market was only slightly looser so the Bank is likely to keep monetary restrictive for some time yet to ensure that the inflation fall to 2% is durable.

After 14 years in opposition, Labour won 411 seats in the election while the Liberal Democrat seat count increased to 72 and the Conservatives won only 121 seats. With its large majority, the new government may introduce more radical policy changes than implied in its manifesto. Rachel Reeves, the chancellor, said she would not change National Insurance, VAT, income tax and corporation tax so capital gains tax, inheritance tax and pensions allowances and reliefs may all be changed to raise extra revenue.

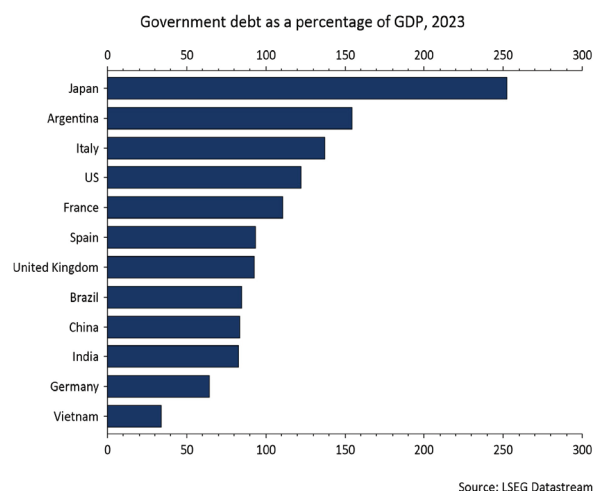
UK stocks outperformed, rising 3.46%, and smaller companies did even better, up 5.18%. Once the new government has clarified its plans, consumers and businesses may have the confidence to spend more, leading to stronger domestic economic trends. UK households have been cautious, adding significantly to their savings. As the chart opposite shows, the UK savings ratio, a measure of how much workers save, was 11.1% in the first quarter. By contrast, the US savings rate was only 3.4% in June.

US inflation fell in June to 3%. Price rises for housing and transport were 5.2% and 9.4% respectively but prices for new and used vehicles fell 0.9% and 10.1% respectively. Prices fell 0.1% month-on-month in May, the first fall since 2020. In June, the Federal Reserve's

Federal Open Market Committee said the risks to achieving its employment and inflation goals were in better balance but economic prospects were still uncertain and committee members were alive to inflation risks.



November's presidential election creates policy uncertainty. US government debt was at 124.7% of GDP in March and may rise whoever wins the presidency. The chart below shows the US position relative to other countries at the end of 2023. The Democrats' so-called Inflation Reduction Act, which introduced \$500 billion of spending and tax breaks may prove inflationary while Donald Trump's support for policies aimed at restricting immigration, bringing manufacturing back to the US and protecting strategic technology, could also lead to higher price rises if he wins November's election.



## Quarterly review (continued)

for the three months to 30 June 2024

The governing council of the European Central Bank (ECB) cut the three key eurozone interest rates by a quarter percentage point in June because price pressures and inflation expectations had weakened. The ECB's interest rates on its main refinancing operation, its marginal lending facility and its deposit facility fell to 4.25%, 4.5% and 3.75% respectively. The ECB left rates unchanged in July because domestic price pressures remained high and service-sector inflation was particularly elevated. The central bank said headline inflation was likely to remain above target well into 2025.

Equities in Europe excluding the UK lagged, rising only 0.06% in sterling after France's president, Emmanuel Macron, suffered heavy losses in the European Union elections and responded by calling a snap general election. His gamble back-fired, leaving France with a hung parliament in which radical socialists and nationalist right wingers are proposing controversial policies that could undermine the country's economic and financial reputation.

Equities in Asia excluding Japan and emerging markets outperformed, rising 7.22% and 5.05% respectively in sterling. With Narendra Modi having secured his third term, albeit in coalition, Indian stocks did even better, rising 10.28% in sterling. Elsewhere in Asia, Chinese stocks rose 7.09% in sterling in response to policy initiatives to support growth as the economy slows. China has repeatedly cut bank lending rates to combat a prolonged slowdown in the property market. Chinese stocks ended the quarter lowly valued but investor sentiment is likely to remain poor because of US bipartisan support for trade restrictions against China and the risk of more extreme measures should Trump return to the White House.

The Brompton investment team is positive about prospects for equities and bonds in general because interest rate cuts in the US and UK are on the horizon although the pace of monetary easing is likely to be

slower than had been expected at the turn of the year. US technology stocks rose 13.21% in sterling over the quarter, driven by growing investor confidence in the commercial opportunities for artificial intelligence. Technology stocks ended the quarter trading on historically high valuations compared to UK equities, emerging market equities and stocks in sectors such as infrastructure, which may all provide attractive opportunities for diversification. Uncertainties related to November's US election may, however, lead to heightened volatility.

### Important information

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