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Ascot Lloyd
Independent Financial Advice

Investment Commentary

Global Equity Market Update: All-Time Highs and Tech Boom

While February weather was mild but miserable (in the south of England at any rate), global stock markets were of a rather sunnier disposition.

US, Japan and German exchanges have hit all-time highs; AI chipmaker Nvidia continued its dizzying ascent, up another 29% in sterling terms through February and over 60% for 2024 so far. With perhaps disappointing predictability, retail savers (typically unadvised, DIY investors) have been leaping on the US market-boom bandwagon by pouring money into technology funds.

As ever, past performance is not necessarily a guide to future growth; passively investing in the so-called Magnificent 7* has not been the panacea expected.

There is a widening dispersion of returns across these companies: while Nvidia is shooting the lights out, Tesla is down 18%, and Apple down 5% so far this year.

Anyone who holds a global equity index-tracking fund is likely to have over 20% of their money invested in just seven companies, despite there being over 55,000 listed companies across the world available for investment. This year's surge

The US now accounts for approaching **70%** of world stock markets.

in global equity performance (excluding the UK, but more on that later) has driven commentators to debate on whether US shares might be forming a speculative 'bubble'. For context, 15 months ago Nvidia was worth $280bn – it has now surpassed $2 trillion, and is worth more than AT&T, Boeing, Coca Cola, Disney, FedEx, GM, IBM, MacDonalds, Nike, Starbucks, UPS and Walmart… combined! It's price is discounting the next 70 years of current earnings, which appears to be a huge bet on Nvidia being the sole beneficiary of the AI 'revolution'.

Further analysis tells us that the gap between valuations of growth companies (who reinvest profits rather than distributing them as dividends) and so-called 'value' companies (more mature, typically non-tech companies that do pay dividends) is the widest it has been since 1999, barring a brief period in the 2020 'COVID bounce'.

* Alphabet, Apple, Amazon, Meta, Microsoft, Nvidia, Tesla.

Global Elections and Stock Market Performance

Given we are in a year where over half the world's electorate will vote for a potential new government, it's likely some politicians in government may signify stock market performance as a barometer for their economic management.

However, there isn't much of a relationship between stock market and economic performance. The former is forward looking, accounting for monetary policy, share ownership and cash flows; most listed companies' performance reflects a kaleidoscope of global economic conditions, not those of the country in which they're listed. Public sector employment and economic activity can also outweigh listed companies' contribution.

It's small- and medium-sized businesses that matter most in terms of employment and GDP.

Japan is a case in point; in February it's Nikkei 225 index closed above its previous high reached in 1989. It has been the world's best-performing major index in 2024, surging 13% for sterling investors and trouncing the impressive near-7% advance of the S&P 500.

However, those record gains coincide with its economy being in recession - note Germany has overtaken Japan as the world's third largest economy by nominal GDP.

A weak yen due to negative interest rates, along with an ageing population and a low birth rate, have contributed to nominal GDP falling by over a third since 2012.

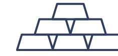
So far in 2024, the index of the UK's largest 100 companies is down a little, while medium and small companies are down closer to 3%.

In contrast, UK GDP has been rising slowly over the same period, yet its stock market (in capital terms) performance remains disappointing, the FTSE All-Share index being more or less where it was six years ago. However, because of the UK's dividend driven investment culture, on an income reinvested basis the total UK market has returned over 35% since 2018. Looking further back, on New Year's Eve 1999 the FTSE 100 stood at 6930, and as at the end of February 2024 was only 700 points higher, ie up around 10%.

That equates to a return of around 0.4% a year. However, the FTSE 100 Total Return index covers all the same companies but assumes their dividends are rolled up; that index is up 161% over the same period, ie 4% per annum growth. This demonstrates a surprising lesson – that reinvested dividends account for 90% of long-term UK equity returns. In the US, the proportion has been less than half that.

And finally...

We should mention that Gold and Bitcoin also reached all-time highs. Bitcoin has become little more than a weathervane for risk tolerance, but Gold has generally been strong when all other assets are stressed, so how do we explain its ascent when all seems to be going well? It appears gold bugs are expecting imminent and significant interest rate cuts, or more ominously market stress, e.g. the bursting of a tech-market bubble.



Simply put, in the absence of market stress, Gold has an inverse relationship with interest rates because it generates no income.

What's coming up?

We will shortly be publishing the upcoming 'Stay In Touch' newsletter, which will cover topics such your tax year-end checklist, what financial advice to give your younger self, and an in-depth analysis of the latest Spring Budget.

#StayInTouch

Should you need any help or advice regarding your financial planning, please don't hesitate to get in touch.

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