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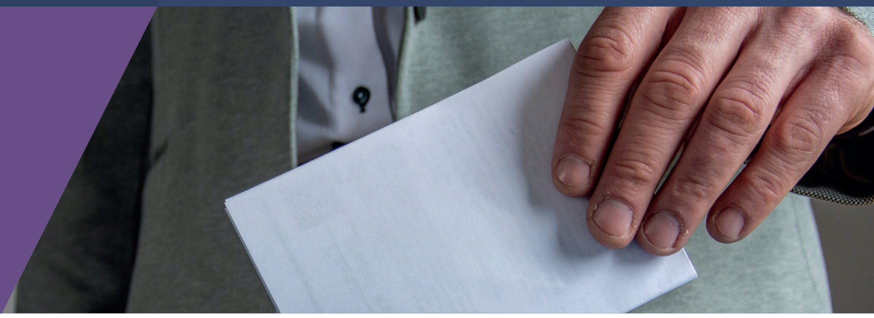
Ascot Lloyd
Independent Financial Advice

Investment Commentary



Tech Surge, Economic Fluctuations, and Political Shifts

US Equities and the Dominance of Tech Giants

US Equities climbed 3.2% in May in sterling terms, but this hides a rather sobering truth.

The Magnificent 6 (Tesla is no longer considered a gang member) i.e., Microsoft, Apple, Nvidia, Amazon, Meta, and Alphabet account for just over 1% of the companies in the S&P 500 index, but almost 30% by market value.

> Those six technology companies' share prices rose in aggregate over 15%, which simple maths tells us the other 70% (494 companies) of that index together lost 1.3%.

UK Market Performance

The UK market saw the FTSE 100 index of our largest companies rise by 2%, but medium and smaller companies both saw rises of over 4% during the month.

UK company shares have gained over 15% through the last 6 months. This does not reflect a sudden reappraisal of our economy's prospects, but rather a realisation of how cheap the market had become after 3 years in the wilderness.

Far East Market Trends and Bond Prices

In the Far East, returns for sterling investors were not so great in May, while bond prices continued to be subdued given the reduced expectations of US rate cuts through the rest of 2024.

Portfolio Performance and Inflation Outlook

Investors in medium risk portfolios will consequently have had lower returns given their equity exposures are around 50-60%, with cash and bonds taking up the balance. However, I believe inflation numbers are being interpreted unduly negatively, and that we'll have seen another rate cut in Europe, the UK, and yes, the US by September. This will cut bond yields and increase prices concomitantly.

US Economic Data: Mixed Messages

On the economic front, US data released during May offered mixed messages.

At the same time, producers are battling elevated input costs—half of the 14 industrial sectors reported contracting activity in May, overall manufacturing stagnating, and low order books suggesting demand is weakening. This has renewed speculation on the likelihood of a recession if the US Federal Reserve remains too cautious on rate cuts. On the other hand, a gauge of export demand saw activity picking up, while factory employment was the highest for 2 years.

> The regular survey of supply managers indicated US manufacturing is struggling to gain momentum due to high borrowing costs, restrained business investment in equipment, and lower consumer spending.

Political Developments: Trump and the US Election

Former President Trump's tribulations continue, now adding the title Convicted Felon to his résumé. This has had no effect on markets which still see him holding a narrow lead over incumbent Joe Biden. Sentencing on July 11th might change that dynamic somewhat, so we'll revisit this later in the campaign.

UK Snap Election and Market Implications

Of course, the big announcement here was Prime Minister Sunak's declaration of a snap election, due on 4th July. Frankly, from a markets' viewpoint, the election appears to be a non-event.

Note the equity market was unmoved at the news; **most participants seem to expect a Labour victory in any case given their 20% lead in the polls –** it's just the scale of the win (or defeat depending on your viewpoint) that is debatable. The bookies price a Labour win at 1/7.

Potential Impact of a Labour Victory

So, might we expect negative connotations from a Labour win? Markets (and businesses for that matter) like government policy to be financially responsible and reasonably predictable, which allows for a longer-term investment outlook.

In my working experience (through 11 previous General Elections), capital markets have been typically nervous about potential Labour policies where the left-wing of the party dominated strategy.

Last September a Bloomberg survey of investment managers revealed that **almost two-thirds of professional investors** thought that a Labour victory (or a Labour-led coalition) would be the most 'market-friendly' outcome of a forthcoming election. **Only 25%** thought that a clear Conservative re-election would be best for financial markets.

The centrist 'New Labour' campaign in 1997 successfully cast off the anti-business reputation of its earlier manifestations, winning by a post-war record majority. Keir Starmer's party seems very keen to distance itself from the more recent socialist version which has suffered four consecutive election defeats, culminating in Jeremy Corbyn's leadership until 2019. Corbyn was suspended by Labour in 2020 and was blocked from running as a Labour candidate in 2023. Rachel Reeves, a former Bank of England economist, is likely to be Labour's choice as Chancellor should they come to power. She is known to be cautious from an economic policy point of view—something of a counterpoint to the experience under Liz Truss's brief dalliance with leadership.

Government Role and Market Expectations

All that said, a government's job is to run the country day-to-day; it drafts laws, sets taxes, and decides how much additional finance it needs to borrow to pay for policies it wants to implement. It has no control over interest rates (the independent BoE does that), nor control over pre-tax prices of local goods and services (i.e., inflation), nor private sector wages.

In other words, a change of government is unlikely to have any impact on the economy in the short-term.

Caveat on Poll Data and Market Predictions

At this point, I have to apply a caveat – this century is replete with examples of poll data that later proves to have been spurious: Brexit and Trump (both 2016) spring to mind. Similarly, what the market expects a politician to do may not prove prescient; many an earnest politician discovers pragmatism when they gain office. The lesson for us all is not to make investment decisions based on poll numbers or political posturing.

What's coming up?

We will shortly be publishing the latest 'Stay In Touch' newsletter, featuring how financial advice affects mental health, the benefits of setting up a lasting power of attorney, and the potential impact of marriage tax allowance.

#StayInTouch

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

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