Whitechurch Securities Ltd
WEALTH MANAGERS

Market Commentary

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Unloved and undervalued – two words synonymous with the UK market in recent years. Overshadowed by the performance of more tech-focused indices and exacerbated by a shift in favour of more globally focused asset allocation strategies, UK equities have tended to lag their developed market peers. Towards the end of 2023, with UK inflation significantly higher than in Europe and the US, the transition to **'black sheep'** was officially complete. In 2023, UK equities underperformed their US counterparts by nearly 10%.

But fast forward six months, and the backdrop is somewhat **less downbeat**. On inflation, April's Consumer Price Index came in at 2.3%, just 0.3% higher than the Bank of England's official long-term target (albeit a touch higher than forecasts). The summer months are now in play for a first rate cut (though with a General Election now confirmed for 4th July, June looks unlikely), while on the other side of the Atlantic stubborn inflation has the **US Federal Reserve (The Fed) in a bind**. With the UK economy also returning to growth after a shallow winter downturn, the UK was the best performing major region for the second consecutive month in May, returning 3.1%. Standing out was the performance of UK small caps, with the sector up 6% on average - their domestically focused business models seemingly a **vote of confidence in the UK economy**.

Like the UK, the **Eurozone economy has been largely out of favour** with investors over the last couple of years, despite the remarkable share price performance of several of the region's largest companies - most notably weight-loss drug manufacturer, Novo Nordisk. However, with net inflows topping €96 billion year-to-date, **sentiment appears to be shifting**. Markets still expect the European Central Bank to be the first to cut rates, potentially as early as this month. Optimism about falling rates, combined with a decent set of first quarter corporate earnings, saw European equities return 2.9% through May.

As regular readers of the Whitechurch monthly commentary will have noticed, it has become almost impossible to discuss US equities without commenting on one (or more) of the Magnificent Seven, such is their dominance of the market (30.6% of the large-cap index by weight, at time of writing) and headlines. Through May, it was once again **Nvidia that caught the eye** - the poster child for Artificial Intelligence reported another blockbuster set of quarterly results, including a **262% year-on-year increase in sales**. It is now the third largest company in the world (and rapidly closing in on Apple for second place), and accounts for a quarter of all US stock market returns year-to-date.

While corporate earnings generally impressed, **inflation remained uncomfortably above target**, easing to 3.4% in April after a slight tick-up in recent months. With the US election looming, The Fed has only a couple of months in which it could potentially cut rates, before any such move risks being perceived as politically motivated. But with inflation proving stubborn, policymakers find themselves in a tight spot – the risk that there are no cuts in the US this year is nonnegligible. Despite this, **US equities were among the best performers** through May, with the large cap index returning 3%.

Further afield, **China was a drag** on emerging market indices, as more disappointing economic data tempered a promising start to the month. Chief amongst the offending data points were retail sales, which grew 2.3% year-on-year to the end of April, well below market expectations of a 3.8% increase. **Falling car sales** were the largest detractor, despite a glut of new Chinese made EVs coming to market. In late April, Chinese battery manufacturer CATL unveiled a lithium iron phosphate battery capable of providing 1,000 km of range on a single charge (that's roughly the driving distance between Lands' End and Dundee), in the latest reflection of China's leading position in the electric car market.

While sticky US inflation has so far proved only a mild inconvenience for equity markets, it has proved a more **considerable headwind for bonds**. After a promising start to the month, uncertainty over the future path of interest rates weighed on government and corporate bonds alike, though most sterling assets finished the month in positive territory. Other rate sensitive areas of the market, including infrastructure and real estate, were highly volatile but tended to outperform their fixed income counterparts.

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