Luna Investment Management

The Luna Perspective

Quarterly Market Commentry
July 2024

The second quarter of the year continued with strong momentum. Global economic data continues to improve, whether that be inflation falling to Central Bank targets or economic growth surprising on the upside. The prospects of interest rates being cut remains very live and most equity markets increased during the quarter. Not even a "surprise" election in the UK could scupper the party.

The UK is out of recession. Not only that, the economy is bouncing back strongly. UK gross domestic product is estimated to have increased by 0.7% in Quarter 1 2024, following declines of 0.3% in Quarter 4 and 0.1% in Quarter 3 2023. Coupled with this, we had good news on inflation, with the UK Consumer Price Index (CPI) falling to 2%, in line with the Bank of England target and the first time in nearly three years.

The spotlight remains on global Central Banks; inflation remains "sticky" in the US and the Federal Reserve have said that they expect only one interest rate cut in 2024, when earlier in the year markets were hoping for four such reductions. The European Central Bank did decide to cut interest rates by 0.25%. Closer to home, the announcement of the early UK election scuppered hopes of the Bank of England cutting rates in June but it is looking likely that they will reduce interest rates by 0.25% at the meeting in August. It was therefore a quieter quarter for bond markets on the back of hotter than expected US inflation data.

It was quite a surprise to most (maybe not all betting politicians!) that the next UK election is going to be held on US Independence Day, 4th July. At the time of writing the result is unknown, however we do not expect this event to cause major volatility in the UK sterling, gilt or equity markets with both major political parties being relatively centralist and with little wriggle room.

Corporate activity remains buoyant, assisting the improvement in investor sentiment further. This is either via share buybacks, dividend announcements or merger and acquisition (M&A) activity. One of the largest companies in the FTSE 100, Shell, announced a massive $3.5bn share buyback programme. Prudential also recently announced a $2 billion share buyback, which is c.10% of the current market capitalisation.

On the M&A front we are seeing takeovers across the breadth of the UK market and across a whole host of different sectors. In addition, this has encompassed relatively large companies rather than being solely at the small cap end of the market. One such proposed deal concerned mining giant Anglo American, which recently rejected a £34 billion bid from rival BHP Group. Hargreaves Lansdown, the FTSE 100-listed Bristol broker, initially rejected, but later accepted, a takeover bid from a group of private equity firms.

The acceleration of corporate activity meant that the FTSE All Share delivered a total return of 3.7% during the quarter with the S&P 500 returning 4.2% - thanks in part, again, to the technology names, including Nvidia which powered on. On the downside, the Nikkei 225, perhaps being prone to some profit taking after a strong period, ended up falling by 7.7%.

The majority of investment market fundamentals remain robust and, assuming no new geopolitical shocks, we remain optimistic about further positive returns for the remainder of the year.

As ever, if you have any questions please get in touch on 0161 518 3500 or email a member of the team.