

Macro Outlook Summary

December 2024

Following our comments last month about positive staffing changes at the US FTC it came as something of a surprise to see the UK government join in and fire Markus Bokkerink, Chair of the Competition & Markets Authority (CMA) for not being focused enough on 'growth'.

Whatever the rights and wrongs of this action the outcome will surely support more M&A involving UK companies which will create more opportunity for the Event Traders theme. Looking back at 2024 it seems to us that general investor perceptions of what worked and didn't work are more disconnected from reality than usual.

On government bonds most investors would say it was a reasonable year, probably with some gradual yield reductions as central banks started cutting rates. While this was true at the very short end it was hopelessly wrong for benchmark 10Yr bonds which had a roller-coaster year, reaching their lowest yields in September and then rising across all major economies to end the year net higher by 30-70bps. This was the result of inflation expectations being re-calibrated significantly upwards in the final quarter which means tighter financial conditions going forward and restrained growth. Not usually the backdrop for an equity bull market but equities around the world were bought nonetheless. The second perception vs reality disconnect relates to Asia.

Again, most non-professional investors would say that Japan and China equities had a tough year and were probably flat to down. In fact Japan gained 19.5% and China 17.5%. China 10Yr rates fell 90bps last year – the only major economy to achieve a longer-term rate reduction. Inflation is hovering around 1%. Monetary conditions are being eased gently by the PBOC and the economic stimulus plan is being actioned. An inflection point in consumer sentiment could be the big event of 2025 and it would trigger an equity rally in a market that foreign investors neither own nor generally believe in. While the path for China will continue to be bumpy and doubted by onshore and offshore investors, there are interesting prospects for low-risk gains not just in China but across Asia in our view.