January 2024 | Monthly update

Omnis Agility

Global markets react to inflation pressures, slower interest rate cuts, political uncertainty and trade tensions

Market-moving events

UK inflation rises as rate cut hopes fade: The Bank of England kept rates at 4.75%, as inflation rose to 2.6%. Wage growth of 5.2% and a struggling economy, which shrank by 0.1% in October, led markets to reprice 2025 rate cut expectations. Businesses criticised October's Budget for deterring investment, while job cuts accelerated to their fastest pace since the pandemic.

Euro area growth weakens as ECB cuts rates. The ECB cut rates by 0.25% to 3% in December amid ongoing struggles. Inflation rose to 2.2%, but growth forecasts were downgraded as political instability in France and Germany added uncertainty. The euro weakened, reflecting trade tensions and weak exports, while business confidence was subdued.

US markets dip as inflation lingers. US stocks slipped after the Fed cut rates by 0.25% but signalled slower easing in 2025. Inflation rose to 2.7%, with core inflation steady at 3.3%, keeping pressure on monetary policy. The labour market added 227,000 jobs, but unemployment edged up to 4.2%. Market concerns grew over Trump's potential tariffs and their impact on inflation.

Investment highlights

A mixed month for markets. US stocks were weak, while Japan was notably strong. Large caps outperformed small caps as markets priced in fewer rate cuts for 2025. Growth stocks outperformed value driven mostly by large-cap tech outperformance. Government bonds outperformed corporate bonds, but fixed income as a whole struggled over the month.

Tactical asset allocation. Rate cuts should pave the way for out-of-favour asset classes to come back into vogue, including value, small cap and sovereign debt. Investors are already tilting their portfolios to these areas. We recently added new ETFs to the Omnis Agility portfolios to capture these themes, LATAM equities, UK Smaller Companies, and US energy ETFs. You can read more about these trades here.

We remain cautiously positioned. We have an overweight allocation to bonds and slight underweight in equities. Although stock markets have rallied, a weaker economy could put pressure on company revenues. Our central case remains falling inflation, a peak in the interest rate cycle and a soft landing, but with a larger than normal risk of a deeper recession.

Asset allocation

Red = underweight
Amber = neutral weighting
Green = overweight

equities

Negative = UK, US
Neutral = Asia, Japan, emerging markets + Europe

bonds

Negative = corporate bonds
Positive = gilts, global bonds + strategic bonds

alternatives + cash

Negative = absolute return bonds + diversified returns
Positive = short-dated bonds + cash

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