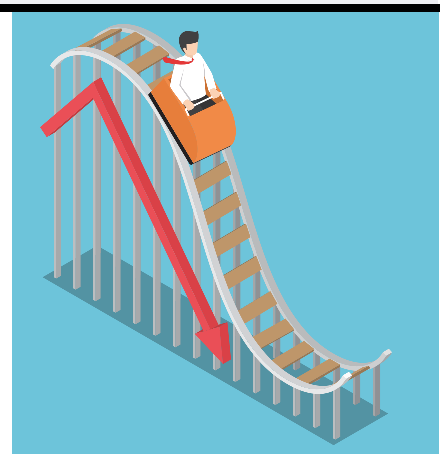
A wild ride?

Sandra Haurant looks back at what occurred within investment markets during 2024

Summary

• At the start of 2024, there were fears of a hard landing for the US economy – but the reality was less severe, with boosts to the US economy in the form of consumer demand and AI gains.
• The big tech firms fulfilled expectations and continued to fly.
• As a result, performance in the sectors on which they depend, particularly energy, has also been strong.
• In fixed income, credit ratings improved at aggregate emerging market level, while has benefited from structural reforms and other areas (including Argentina, Oman and Azerbaijan) have achieved investment grade from at least one agency.
• The US elections confounded the polls and had 'mixed market impacts' and the outlook is uncertain with Donald Trump's promise to cut inflation potentially at odds with his other promise to raise tariffs on foreign goods (which could increase inflation).
• ESG has faced a backlash from some quarters, but high numbers of managers are incorporating net-zero carbon targets into their funds.



It's been a turbulent year, in which around half the population of the globe went to the polls, geopolitics continued to be unstable, and what seemed to be a too-close-to-call US election turned out to be near enough a clean Republican sweep. We look at how the world of pensions investment navigated 2024.

What was expected to happen?

As dawn broke on 2024, the world's markets knew they were in for something of a bumpy ride. Russell Investments head of multi asset, EMEA, Alain Zeitouni, says: "At the start of 2024, most financial forecasters were still fearing a hard landing of the US economy that could lead to a very adverse outcome for equity markets, given that valuations (particularly in the technology sector) were very high from a historic standpoint."

But, he says, the predictions were not quite right: "Against all odds, despite elevated interest rates and inflation, the US economy has been very resilient and has continued to grow by close to 3 per cent year-to-date. This has been boosted by strong consumer demand, productivity gains coming from the AI revolution, and receding political risks. It has translated into strong equity returns, especially for US markets, which are up by 23 per cent as of 15 November 2024."

In some areas, though, predictions were on the nose. As XPS Group chief investment officer, Simeon Willis, says: "In terms of the economy, expectations at the start of the year were for sluggish growth, moderating inflation and central bank rate cuts. This is broadly what has played out."

What has happened in the equities markets?

Some of the success stories in equities were widely anticipated. WTW multi asset strategy director, Tessa Mann, says: "The 'Magnificent Seven' (Microsoft, Apple, Amazon, Nvidia, Meta, Alphabet (Google) and Tesla) continued to dominate headlines over 2024; as well as generating an outsized share of market returns." Indeed, Mann says: "On a price-weighted basis, the 'Magnificent Seven' have so far increased 57 per cent over the year to date (at the time of writing). This compares with a return of 103 per cent over 2023. Nvidia's stock price has increased by nearly 200 per cent over the year to date."

Linked to this is one of 2024's surprises. "Utilities have been the stand-out success story within equity markets," says Zeitouni. "Usually, they are defensive stocks with an elevated level of debt; in an environment where growth stocks have overperformed and with elevated interest rates, you would not expect utilities to perform strongly."

However, Zeitouni explains, the rise of artificial intelligence (AI) is leading to an increased need for power usage, which, he says, "should drive electricity prices upwards and benefit the overall sector". What's more, deals between some of the tech giants and private energy companies have helped lead to overperformance in utilities, which were up by 25 per cent in mid-November 2024, Zeitouni adds.

And in other sectors?

As a result of geopolitical instability and rising defence budgets, another standout sector in 2024 is defence technology, according to Global X ETFs head of investment strategy, Morgane Delledonne.

"Donald Trump's re-election amplified this trend, with proposals to increase US defence spending to 5 per cent of GDP, while NATO nations are targeting a minimum of 2 per cent amidst rising populism in Europe, following this year's European parliamentary elections. Investments in technologies such as AI, cybersecurity, and unmanned systems have surged, aligning with projected 40 per cent growth in global defence spending by 2030," says Delledonne.

Other central themes have been the reshoring of industrial capacities, reducing supply chain dependencies – particularly in energy. "Infrastructure investment remains uneven. In the US, 40 per cent of Infrastructure Investment and Jobs Act (IIJA) funds have been allocated, but regulatory and administrative delays hinder further progress. Nevertheless, the remaining 60 per cent of this bipartisan stimulus represents significant long-term growth potential," Delledonne explains.

Infrastructure investment in Europe has largely been focused on renewable energy (including nuclear) as well as digital transformation. "Public-private funding integration ensures scalability and creates opportunities across industries from construction to advanced technologies," says Delledonne.

How did fixed income fare?

"At an aggregate emerging market level, credit ratings have improved this year. For example, year-to-date, 64 per cent of the sovereign rating actions were upgrades. This is stronger than any year we have seen since the Covid-19 pandemic," says Payden & Rygel senior vice president and emerging market sovereign analyst, Alexis Roach.

"Within the emerging markets (EM) universe, we focus on individual country stories instead of regional winners and losers, given the, at times, significant performance dispersion within regions," adds Roach.

"India continues to be a country story that we think is well-positioned from an investment perspective. This is due to recent structural reforms, strong growth, and a growing menu of investment opportunities available for foreigners." Other countries meriting attention are those that achieved investment grade from at least one agency, says Roach – notably Azerbaijan, Oman, Paraguay, and Serbia, she says.

And, Roach adds: "There are also countries where there has been a surprising turnaround in macroeconomic policy. […] in Latin America, Argentina is the stand-out this year, in that regard. Argentine bonds have rallied close to 90 per cent year to date, due to the success of a macroeconomic stabilisation implemented by its recently elected President, Javier Milei. […] Costa Rica has also performed well after implementing an important fiscal adjustment after the pandemic."

What can we expect as the year draws to a close?

Of course, it's impossible to discuss 2024 without mentioning elections. As Willis says: "The US elections were a source of considerable unease *[at the start of the year]*, and in the EU a clear tilt towards right-wing politics was emerging."

In the US, the polls had many believing that the battle would be tight, and that we would be in for a long wait before the result was clear. Of course, that's not how things panned out – and, says Delledonne, Trump's decisive victory has had "mixed market impacts".

"Stocks fell in response, reflecting concerns over inflationary pressures from tax cuts and proposed tariffs, which could disrupt supply chains," she says. "However, increased defence and infrastructure spending are expected to bolster US innovation and manufacturing. Investors are cautiously navigating volatility through defensive and income diversification strategies, including covered calls on US benchmarks."

An immediate surge was seen in the world of Bitcoin, due to an assumption that a Trump administration could wave in less stringent regulation. But, Willis warns: "Contrary to conventional wisdom, this does nothing to lend support to its investment case. The main role of currencies is to facilitate transactions – not direct investment. The case for not investing in Bitcoin hinges on its lack of income. Bitcoin doesn't pay interest and the carry trade doesn't work on an asset with no carry."

Nonetheless, Willis says, the markets will have a close eye on upcoming changes: "Trump has continually raised the prospect of tax cuts and tariffs on foreign goods. It is highly likely these actions would be inflationary, something Trump has also vowed to reduce. The election resulted in sharp rallies in markets driven by these expectations of tax cuts and deregulation. The combination of winning the upper and lower house, plus his cabinet appointments so far, suggest that he's better placed to get them implemented than his first term."

One area that merits closer attention is that of environmental, social and governance (ESG) strategies. Here, says Willis, we have seen a "mixed mindset", including a "prominent backlash against ESG, particularly in the US, feeding through to behaviour and policy of international investment managers."

In this context, a number of investment managers have withdrawn from industry initiatives such as Climate Action 100+, says Willis. "That said, more managers than ever are incorporating net-zero carbon targets into their funds, and the general adoption of good ESG practices continues to build in the asset management industry." But this could all change again, with advent of another Trump administration, and the prospect of a US withdrawal from the Paris agreement.

While some predictions made at the start of the year proved to be off the mark, then, one overriding forecast has held true. There's no doubt that we continue to live in interesting times.

Written by Sandra Haurant, a freelance journalist