MARKET UPDATE – NOVEMBER 2024

The Minster Partnership

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We discussed the challenging global economic backdrop for investments over the last few years, as well as the outlook for the coming months and years.

Inflation continues to be the key driver of interest rate policy across the world. Inflation has fallen substantially in most regions, and we now expect to see global interest rates continue to fall.

The Consumer Prices Index (a broad measure of UK inflation) was 1.7% over the year to September 2024. This is below the Bank of England’s target rate of 2.0% and in stark contrast to its peak of over 11% in 2022. This undoubtedly creates a more stable financial environment and has provided sufficient confidence for the major central banks, including the Bank of England, to begin cutting interest rates in recent months.

Central banks now face a challenge over the timing and extent of further cuts to interest rates. In the UK, wage inflation and core inflation (excluding volatile energy and food prices) remain elevated, and this causes a dilemma for the Bank of England: how quickly and aggressively should they proceed with cutting rates further? The recent budget in the UK may increase inflationary pressures, and the Trump victory in the US presidential election is also likely to be inflationary. This may mean that interest rate cuts in these regions may be slower than previously expected.

In the coming months we expect to see investment markets recover further as inflation stabilises and global interest rates fall further. We have now moved into a new economic cycle of falling interest rates and we expect this backdrop to be supportive of both equities and bonds. It is common for a significant portion of the total return for the new market cycle to be achieved in its relatively early stages, hence the importance of remaining invested throughout.

We are cautiously optimistic on the outlook for investments, although volatility may continue to be elevated this year, and we expect investor patience to be further rewarded as economic prospects improve.