



MARKET UPDATE –  
MAY 2024

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**The Minster Partnership**

# Market Recovery Expected - The Minster Partnership

Global inflation continues to be a key driver of both interest rate policy and ultimately, investment markets and valuations. Inflation has fallen substantially across the globe, and the interest rate hiking cycle appears to be over in most of the developed world.

The Consumer Prices Index (a broad measure of UK inflation) was 2.3% over the year to April 2024, only marginally above the Bank of England's target rate. This is in stark contrast to the peak of over 11% in 2022 and is expected to provide a more stable financial environment. Financial markets are expecting interest rate cuts as we move through 2024; with the first cut in the UK now likely to be after the general election.

The Bank of England and other central banks now face a challenge over the timing and extent of cuts to interest rates. This has been evident in the seemingly conflicting tone of comments from key central banks this year. Although inflation has fallen substantially, it remains above central banks' targets in many regions of the world. This is providing a dilemma: how quickly and aggressively should they act in response to tentative signs of the economy slowing?

In the coming months we expect to see investment markets recover further as inflation stabilises and interest rates begin to fall. This should mark the transition into the recovery phase and a new economic cycle, 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 trajectory for investment markets over the next year and beyond, although volatility may continue to be elevated. Whilst this period of adjustment over the last couple of years has been frustrating for investors, we expect patience to be further rewarded as economic prospects improve.