

# MARKET UPDATE

Welcome to our weekly newsletter, where the Manager summarises the key market developments over the last seven days.

## The Noise

British living standards will start to rise again this year, per the National Institute of Economic and Social Research (NIESR), though it won't be until 2027 that poorer households recover their pre-pandemic spending power. The NIESR have put pressure on the next government, expected to be elected in 2024, to boost the country's slow economic growth rate, and have said they should resist the temptation to offer voters tax cuts and instead invest in catalysts for growth. Wages are likely to grow at a faster rate than inflation through 2024, which will improve purchasing power, but long-term economic growth is what's required to maintain strong wage growth.



Bonds have had a trickier start to the year than equities, as they endured yet another rough week, as Central Bankers globally pushed back against market expectations of a rapid pivot to interest rate cuts in the first quarter of 2024. A reassessment of the timing for potential interest rate cuts by the Federal Reserve is creating ripples in the fixed income market, increasing the risk for those anticipating that the impressive rally witnessed at the close of 2023 would persist into the current year. Many are now recalibrating those bets following the stunning US jobs data, which indicated accelerating wages and continued low unemployment. Prior to the jobs data, the US Federal Reserve had cautioned that a strong economy could spur an inflationary rebound should interest rates be cut too soon, so the latest data release has all, but, squashed hopes for a Q1 rate cut.

Global warming has exceeded 1.5C across an entire year, per the EU's climate service. This is the first time that global temperatures have surpassed the limits set by the Paris Agreement in 2015, which set the goal to pursue efforts to limit global temperature increase to 1.5C above pre-industrial levels. Achieving the goal is seen as crucial for avoiding some of the most damaging impacts of climate change, and though the first year-long breach doesn't break the Paris agreement, it does increase the chances of the world doing so in the long-term. Scientists are saying that further action to cut carbon emissions can still help to slow global warming, but comes as the Labour party has ditched its policy of spending £28 billion a year on its green investment plan. The conservatives also pushed back on some key climate related targets in 2023.



## The Numbers

Performance to 08/02/2024	1 Week	YTD	Absolute Level
<b>Equity USD Total Return</b>			
MSCI ACWI	1.30%	2.60%	745
MSCI USA	1.90%	4.80%	14134
MSCI Europe	-0.30%	-1.10%	8857
MSCI UK	-0.90%	-2.70%	7693
MSCI Japan	-0.70%	3.00%	8199
MSCI Asia Pacific ex Japan	1.70%	-3.10%	539
MSCI Emerging Market	1.60%	-2.50%	520
MSCI EAFE Index	-0.40%	-0.50%	2223

Performance to 08/02/2024	1 Week	YTD	Absolute Level
<b>Fixed Income USD Total Return</b>			
Global Aggregate	-1.60%	-2.80%	458
Global Treasury	-1.70%	-3.40%	540
Global IG	-1.60%	-1.90%	267
Global High Yield	-0.20%	-0.30%	1518
<b>Currency Moves</b>			
USD vs GBP	1.00%	0.90%	0.79
USD vs EUR	0.90%	2.40%	0.93
USD vs JPY	2.00%	5.90%	149
<b>Commodities USD Return</b>			
Gold	0.00%	-0.50%	1610
Oil	3.30%	6.10%	77

## The Nuance

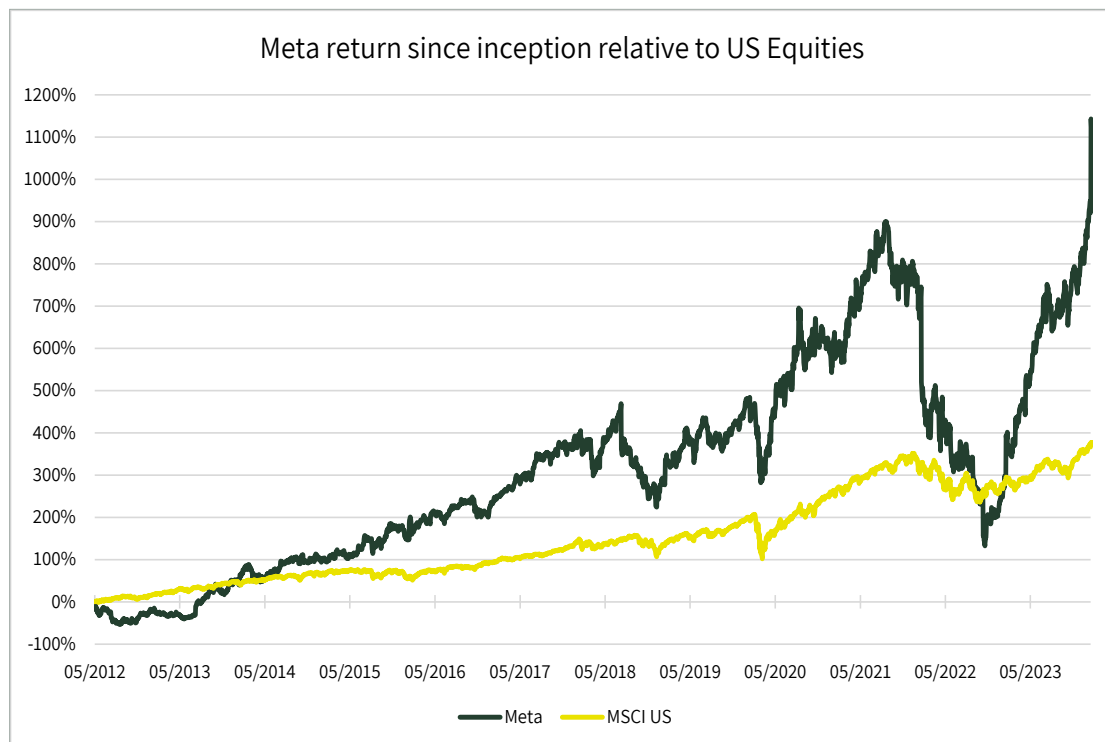
As China celebrated Chinese New Year during the weekend, consumers who prepared for the occasion might have noticed that the goods and services they'd typically purchase are actually less expensive than they were last year. This is due to China suffering its biggest fall in consumer prices since 2009, with the Consumer Price Index (CPI) falling by 0.8% in January from a year earlier. This is pointing to persisting deflationary pressures in China, with January's CPI reading following a 0.3% drop in December, per the Chinese National Bureau of Statistics. The annual CPI decline was mainly led by a sharp drop in food prices, with analysts warning that the overall deflationary trend in the economy poses a potential risk of becoming ingrained in consumer behaviour.



Since early last year, the world's second-largest economy has been dealing with slowing prices, prompting policymakers to lower interest rates in an effort to stimulate growth. This contrasts with the efforts of many other developed economies, which have been focused on taming stubbornly high inflation. Though the Chinese economy met its official target by growing 5.2% in 2023, a deepening property crisis coupled with mounting deflationary risks and lacklustre demand casts a shadow over the 2024 outlook. Monetary policy easing is already underway to help stimulate the economy, with reserve ratio requirements (which dictates how much a bank must keep in cash as reserves) being cut by 50 basis points.

## Weekly Spotlight

Friday, 2<sup>nd</sup> February 2024, saw Meta soar a record \$196 billion in stock market value, the biggest one-day gain by any company in Wall Street history. Meta (Meta Platforms, Inc. formerly known as Facebook Inc.,) is a California-based multinational technology company that owns popular household name social media platforms such as Facebook, WhatsApp, Instagram and Threads. Meta's stock increased by an impressive 20.3%, resulting in not only its biggest one-day percentage increase in a year, but also, it's third biggest since its first Wall Street appearance back in 2012. Its value now stands at over \$1.22 trillion. The chart below shows Meta's total return since its initial public offering in May 2012, relative to the broader US stock market.



Disclaimer: Past performance is not a reliable indicator of future returns.  
Source: Morningstar, all returns in US Dollars.

So, what caused this spike in value? Early in 2023, Mark Zuckerberg, the Facebook co-founder and Meta CEO, announced a “year of efficiency”, a strategic move with the aim of making Meta a better technology company with an improved financial performance, source Meta News. Cost savings and a reduction in expenses, namely from large staff redundancies along with strong advertising sales and an influx of active users helped boost their fourth quarter results, leading to a 25% revenue increase. Towards the end of 2023, Meta also announced that artificial intelligence (AI) would form part of its biggest investment for 2024, with a focus on increasing its generative AI offering across its product range.

In its fourth quarter and year-end report, Meta declared its first cash dividend (periodic payments of cash made by a company to its shareholders) of 50 cents per share, stating “We intend to pay a cash dividend on a quarterly basis going forward”, source Meta Investor Relations. Naturally, this is an appealing incentive for investors, especially those with an income focus, and unsurprisingly, some hours later its share price skyrocketed. Interestingly, in February 2022, the headlines surrounding Meta’s stock price were almost entirely contradictory. At the time, the social media giant’s shares plummeted by 26%, resulting in a market value loss of over \$200 billion – the biggest single-day market value decline for a US company. This example should serve as a reminder that betting on one company or sector creates unnecessary vulnerability. Diversified portfolios can minimise these risks, but as ever, there are no exact guarantees with investing, especially in the short-term.



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