

Spring Newsletter 2024

March 2024

As we transition into the bloom of Spring (and escape one of the most torrid Winters on record!) we can now reflect on the ever-changing dynamics of the financial landscape since our last update before Christmas. In this newsletter, we will delve into a number of key political and economic matters and provide insight into their potential impact on financial markets.

Primary discussion points since our Winter Newsletter:

- **Inflation**
Still at the forefront of government minds. What happens next?
- **The UK Investment Market**
Undervalued and a potential source of opportunity
- **The Global Political Landscape**
Two wars rage on, but has the world accepted that this is the new level of stability we can expect?
- **Market outlook and strategy for 2024**

Inflation: A persistent challenge, but one that is almost resolved.

At long last, the Monetary Policy Committee (MPC) seem to have finally brought the UK rate of inflation back under a level of control. The monetary policy employed by the UK to tackle inflation, which drove interest rates from 0.25% to 5.25% in just 18 months, is perfectly highlighted in the charts of Figure 1 & 2 below. Now, with the inflation figures at a much more modest level of 4%, we must ask, 'what is Bank of England likely to do next?'

It is all but inevitable that the next move for interest rates will be down. Following statements from the MPC, the market is expecting the first rate cut to occur in Summer 2024, which will probably instigate a succession of rate cuts as we head into 2025.

Applying this expectation to investment strategy; rate cuts are (usually) a strong predictor for investment market growth. This theory stems from the fact that as lower-risk, interest giving investments become less attractive, investors will start to move money toward more risky and volatile assets in pursuit of superior returns. Though this is the theory, as everyone reading this will know, reality can inevitably surprise in every endeavour. With that considered, this may instigate a few thoughts in your own minds regarding your own portfolio allocation, so we welcome you to get in touch should you have any questions.

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Figure 1: Annual CPI – Jan14-Jan24 – Source: ONS

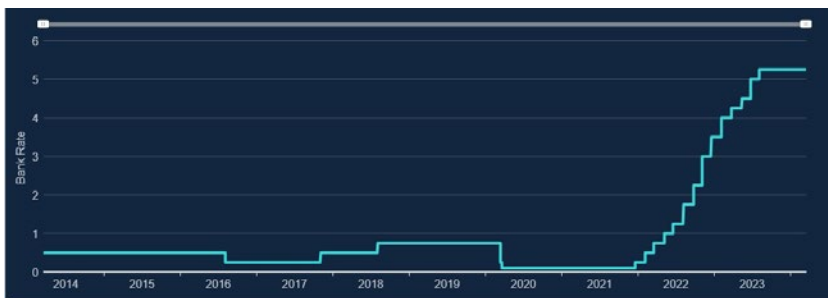


Figure 2: Bank of England Base Rate of Interest – Source: Bank of England Database

The UK Investment Market: An overlooked opportunity?

With headlines of AI, the booming US tech market and Bitcoin soaring passed \$70,000, is the investment world overlooking a hidden gem in the UK investment market? It is a little-known fact that, ‘the UK market is currently trading at its all-time cheapness relative to the US and global equity markets’ – Schrodgers.com. See Figure 3 below showing the relative value comparison vs the US market.

Since Brexit back in 2016 (now nearly a decade ago...) consumer sentiment on the UK has been extremely low. Couple this with the Covid Pandemic, and more recently the war in Ukraine, although UK companies continue to produce record profits, the market is left staggeringly undervalued when compared with practically every market on earth! It is our belief that this undervaluation, coupled with the potential for economic recovery, may provide attractive prospects for investors. Certainly, a topic worthy of discussion over the coming months.

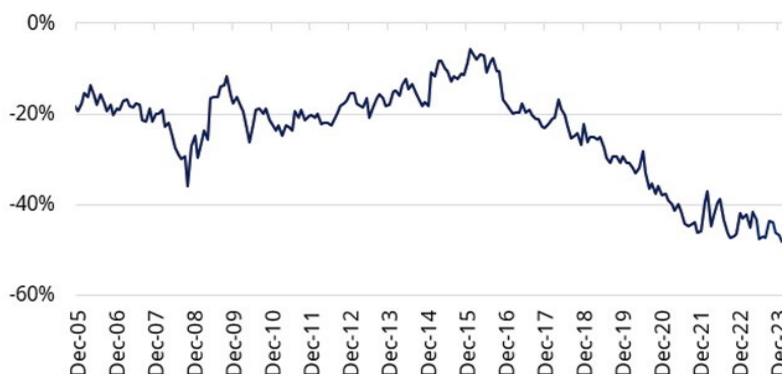


Figure 3: Relative value of UK market vs the US market – Source- Schrodgers.com

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The Global Economy – Another conflict in the headlines, but market confidence growing in a more volatile world.

2023 was another year of conflict, and though the war between Russia & Ukraine has slipped deeper into the tabloids, the politically divisive war between Israel and Palestine has certainly taken its place in 2024. For as long as financial market data has existed, conflict has caused market uncertainty, and uncertainty has caused increased volatility, and yet... in a world that is accustomed to rapid change, it seems as though many investors are more comfortable with the added risks and potential rewards that markets can offer.

After a few years of turmoil, bond and equity markets are now showing signs of recovery. Perhaps this year may turn out to be the most positive since Putin began his invasion back in February of 2022! We shall see...

Executive Summary, Market Outlook & Strategy for 2024

As we did in the Winter Newsletter, we would like to emphasise just how extraordinary and unique the circumstances that we have all lived through over the last few years have been, so here is a fun (or not so fun) fact that may highlight this; we have all just lived through the most volatile 5-year period in financial markets since the 2nd World War...

So, in a time where markets are as volatile as they get, where do we feel the opportunities lie?

We feel that money-market investments remain an attractive option for investors, but as interest rates begin to taper, equities and government bonds should offer opportunity for investment. Furthermore, bond markets are set to begin the next 'super cycle' as interest rates begin to fall, with forecasts predicting yields to return to a nominal c.5% annualised return over the next decade or so.

No matter the situation, it is always important to remember that war, recessions, banking crisis and even a global pandemic have all happened before and likely will all happen again at some point (should the world as we know it keep spinning!). The fact is that investing for the long-term with appropriate horizons and budget planning has been a strategy that has stood the test of time.

Kind regards,

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Investment Committee

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