Equity Research; 2024 Review and looking ahead

COLLINS SARRI STATHAM INVESTMENTS

Research Report

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Key Risks to Price Target

Not applicable

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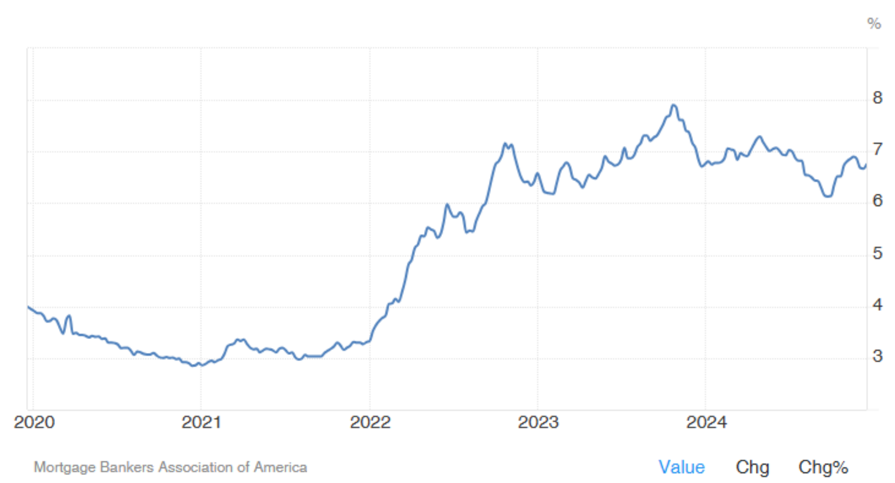
2024 : US developments

2024 was a year of two distinct halves. In January, hope sprung eternal, that 2024 would see swift declines in global interest rates. Investors were right about declines, but wrong on their pace and magnitude.

*In the US, 3.1% GDP growth, declining unemployment, firm consumer spending prevented significant monetary easing, that might have triggered a new inflationary round. Proximity to the targeted 2% CPI led to a 1% cut in Federal Funds over 2024 and the outlook is a for a 0.5% cut in Federal Funds over 2025 assuming 'fresh progress' on CPI.

US mortgage rate only marginally declined, remaining near 7%, dampening US property demand and prices (av. US home $357,469 +2.3% over 2024).

United States MBA 30-Yr Mortgage Rate



Over 2025 America's lofty valuations and risk over concentration remain concerns. The incoming Trump Administration's planned tax cuts and tariffs on most overseas countries, with an immigrant exodus, entail a higher risk environment and higher bond yields, likely preventing monetary easing.

2024 : UK developments

The MPC has been careful given 5%+ pay settlements during 2024. When coupled with the political reverberations of the surprise July election, the UK was in a 'wait and see' mode from 4th July election to 30th October budget.

The October budget was inflationary in providing 6.7% pay increases at the minimum wage level from April 2025, substantially above UK CPI levels. There was significant new NHS commitments (c. £22bn) and little public sector spending restraint going forward. 2024 ends with investors hopeful of 2 quarter point cuts over 2025, though more is required to lift UK GDP growth.

Gilt Yields

NAME	COUPON	PRICE	YIELD	1 DAY	1 MONTH	1 YEAR	TIME (EST)
GTGBP2Y:GOV **UK Gilt 2 Year Yield**	4.13	99.38	4.43%	+6	+14	+48	8:32 AM
GTGBP5Y:GOV **UK Gilt 5 Year Yield**	4.13	98.91	4.39%	+7	+21	+100	8:32 AM
GTGBP10Y:GOV **UK Gilt 10 Year Yield**	4.25	97.19	4.61%	+5	+32	+118	8:32 AM
GTGBP30Y:GOV **UK Gilt 30 Year Yield**	4.38	88.13	5.16%	+3	+37	+114	8:32 AM

source: www.bloomberg.com

UK gilt yields rose in 2024, (10 year +1.18%; 30 year +1.14%) despite the 0.5% cut in Bank rate. This is due to primary issuance given the large public sector pay rises alongside service sector inflationary pressures.

However Q4 2024 ends with the UK economy flatlining at 0%-0.1% GDP growth and the prospect of employers cutting payroll over 2025. The challenge for the new government is a UK population with nearly 9.25m 'economically inactive' drawing £88bn p.a. The UK needs to get back to work post pandemic but this has been slower than overseas.

ECB is providing monetary easing quickly

The ECB cut its financing rates on four occasions, each 0.25% cuts to 3% over 2024 significantly diverging from both the BoE and Federal Reserve. The pace of these cuts, since June 2024 was also notable.

Market expectations for a repeat 1% drop over H1 2025 bringing rates to 2% by summer may be slightly optimistic. However Europe's better inflation performance has made this possible, with the ECB target 2% rate being achieved in October. The ECB expects CPI of just 2.1% in 2025 down from 2.4% in 2024.

The political impasse in France and Germany and EU sensitivity to the risks /vagaries of the incoming US administration both on tariffs and defence spending could add significant volatility over 2025. The Eurozone starts 2025 with a cheap valuation buffer: iShares MSCI Eurozone ETF P/E 14.5x; Germany P/E 15.8x (iShares MSCI Germany ETF).

Shrinking London market and key challenges

The contraction in London blue chip listings, accelerated in 2024. The sobering fact is that in 2024, 45 companies announced either the cancellation or transfer of their primary listing, the fastest rate since 2009. The combined market cap loss is a staggering 14% of the current blue chip index.

The main reason is London's low valuation trap. This is a function of stamp duty, Brexit related factors, lack of institutional support (UK pensions funds only have a 4% exposure to UK equities from > 40% in the 90's), regulatory burdens. Alongside the natural competitive pull of New York's deep liquidity pools this is a challenge to the survival of London as a global financial centre. According to Bloomberg, London has traded at a 40% discount to other leading indices over 2024. Tackling this 'twilight period' with the corporate pool steadily draining down should be a priority.

Simplification/ downsizing has been an issue as well, Just Eat Takeaway cited the 'administrative burden, complexity and costs associated with the disclosure and regulatory requirements of maintaining the LSE listing' alongside low liquidity and trading volumes. Just Eat ended its secondary listing in London on 27th December 2024.

London IPO activity in 2024 was the lowest in 15 years at just 11 companies. In the mid-caps the two new arrivals were Raspberry Pi (IPO at 280p in June) and in December, Canal+ which flopped badly from its 290p IPO price losing almost 100p in the following week. IPO pricing has been poor in recent years.

Chancellor Rachel Reeves understands the factors draining London's population of large cap listed companies and that solutions are vital. The previous government swerved pushing institutions and UK investors into investing more in UK listed equities – a stance the new government appears to share. Reeves could address the issue substantively in the next Budget. It is one area where she is not hemmed in by pre-election promises.

Another key challenge for the government is retaining the highly mobile top 1% and attracting new UHNW. The 'income tax pyramid' that makes up a quarter of UK government income is increasingly sensitive to the very top earners (around 60% income derives from the top 10% of earners and 30% from the top 1%). The forthcoming end of the non-UK resident domicile rules from 6th April 2025 represents a key transition and test for London's ability to hold onto its high earning population.

Conclusion

UK blue chips pedaled along in 2024 rising c. 5% (ex 3.25% dividends). Given weakness in oil & gas and mining, the political 'wall of worry', stagnant GDP, this was a steady performance. The UK's low technology density is a headwind, vs US techs (up 29%) and US blue chips (up 15.3%).

Is the inflation demon tamed? Arguably yes. But the growth angel must now return. Investors also need reassurance that the fiscal picture will not suddenly change again, and hence another tough Budget. I am hopeful that UK companies continuing with share buybacks (c. 40% of blue chip companies have a buyback program) and consistent dividends, these factors will eventually help lift UK listed returns.

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