Monthly market review – June highlights

To 30 June 2024

June highlights

- Globally, stocks rose in June due to falling inflation and good corporate results
- UK and European shares fell back as investors awaited the results of July's elections in the UK and France
- The European Central Bank (ECB) cut rates, while the Bank of England (BoE) and US Federal Reserve (Fed) made no changes

Equities

Global equities rose in June, albeit with some regional variation. Falling inflation figures and good corporate results were positive for markets, although election fears caused some pullback in Europe. Equity indices rose in the US, Japan and emerging markets but fell in Europe and the UK. The MSCI World Index returned 2.07% in June (total return in US dollars).

Stock markets rose in aggregate in June, with good performance from large companies, although small-cap shares largely fell. In the US, economic data pushed major stock indices to fresh highs during the month. The technology-oriented NASDAQ Composite Index outperformed the broad S&P 500 Index. Japanese shares rose, as the quarterly Tankan report showed improving sentiment among manufacturers. However, the yen depreciated over the month. Emerging markets rose in aggregate, with good performance from India and Emerging Asia. Chinese stocks fell as the European Union announced new tariffs on imported Chinese electric vehicles.

On the downside, European stocks largely fell. France was among the worst-performing countries, as investors sold positions in response to the announcement of a snap general election. President Macron called a vote in the National Assembly after a surge in votes for the far-right National Rally in the European elections. In the first round, at the end of the month, President Macron's centrist alliance lost a substantial share of the vote. Major stock indices also fell in Italy, Spain and Germany. UK shares also finished the month lower, as investors grew wary before the general election in early July. The mid and small-cap FTSE 250 Index trailed the blue-chip FTSE 100 Index.

The broad commodity index rose in June. Oil prices increased after the OPEC+ meeting early in the month, as briefings from the group indicated some caution in plans to increase production. Gold and silver fell back slightly from recent highs.

Bonds and economics

The ECB followed the Bank of Canada (BoC) in cutting interest rates in June. The Fed and the BoE kept rates unchanged but set the stage for cuts in coming months. Government and corporate bonds rose during the month.

The ECB cut interest rates by 0.25% in June, its first rate cut since 2019. The decision was supported by all but one of the ECB's governors, and President Lagarde said the central bank had grown more confident about the inflation outlook. May's inflation data showed annual price rises of 2.6% across the eurozone, slightly higher than April's figure of 2.4%. Analysts anticipate another cut in September and perhaps one more before the end of 2024. European government bond yields fell in the month, meaning prices rose. However, there was some variation such as in France, where yields jumped due to election uncertainty.

The ECB's action followed a similar rate cut from the BoC, given falling inflation in the country. However, the Fed kept rates unchanged when its rate-setting committee met in June. Projections showed most policymakers believe there will be one cut in 2024 and four in 2025. The Fed's favoured inflation measure, the core Personal Consumption Expenditures Price Index, showed prices in the US edged up by 0.1% month on month in May, rising 2.6% over the year, as lower goods prices offset more costly services. In the UK, as annual consumer price inflation declined from 2.3% in April to 2.0% in May, the BoE kept rates unchanged but indicated it may cut rates in August. Government bond yields fell in both the US and the UK. Corporate bonds rose but performed slightly worse than government bonds.

Real Estate

According to the MSCI Monthly Index, total returns for May (the latest data available) were 0.5%, the same as in April. The retail and industrial sectors were the strongest over the month, returning 0.9 and 0.6%, respectively. Meanwhile, the office and hotel sectors lagged, with returns of -0.1% and 0.6%, respectively.

Declines within the office sector's capital values have slowed notably since the start of the year, while rental value growth has accelerated as prime space outperforms the rest of the market. Popular submarkets like the West End and the core of the City are seeing the greatest differentiation in demand between super-prime and secondary space, and this is expected to intensify as new supply drops off post-2025. Investors are still cautious around the sector, though, owing to elevated financing costs and an unwillingness to lend for secondary office space.

The retail sector remains popular with investors, as rising real wages and consumer confidence suggest a rosier outlook. Supermarkets are struggling with market share as the discounters (Lidl/Aldi) are gaining on the likes of Morrisons and Asda, while discretionary spending remains subdued. Retail warehousing and retail parks have strong rental value growth prospects, and pricing is strengthening across markets as economic conditions improve, though evidence is thin. Central London retail is also seeing shifts in consumer profiles as international travel continues to improve, with high-net-worth individuals making up a sizeable proportion of shoppers.