



## Comment

January 2024

### Interest rates weigh on sentiment

After the optimism in December that interest rates could be coming down it was perhaps to be expected that buyers' remorse set in during January and depressed equity markets. Not only were hopes of lower interest rates scaled back but geopolitical tension, especially in the Middle East, raised concerns that growth in the near-term may not be as buoyant as previously expected. The interruption to shipping, raising freight costs and hence inflation, were the main concern. Worries about the pace of growth in China, especially around its property market, were also a factor. This had a specific negative impact on commodity prices which was evidenced by the Material Sector recording the largest drop in the UK market in January by some margin.

The Energy and Financial sectors also reported falls, although only about half as much as Materials. Expectations that business failures are set to rise in the near term probably impacted sentiment towards financial stocks. Weakness in Energy is slightly surprising as oil prices trended higher during January as tension rose in the Red Sea and Persian Gulf.

However, there were positive returns from several sectors; including Consumer Discretionary and Staples, demonstrating that the public still has money to spend and wants to spend it. A positive return from Industrials was also a welcome development and backs up the continued economic growth narrative even though it is much weaker than desired. Unusually, changes in foreign exchange rates were not a significant factor in the equity over the month as sterling remained about the same level against the dollar.

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#### **VT Munro Smart-Beta UK Fund**

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