Comment

February 2024

UK equities lag US on appetite for growth

Optimism returned to capital markets in February, mainly fuelled by good results from US tech stocks. The UK reporting season also peaked last month but here the news was mixed and left the domestic market trailing its American counterpart. The appetite for tech and growth stocks returned and left UK stocks lacklustre partly because of their bias to value. Consequently smaller companies, where expectations of growth drive sentiment, had a better month than the middle and larger sized companies.

Expectations of changes to interest rates were volatile and early hopes of cuts were trimmed back as the month progressed. Perceptions that inflation is stickier in the UK than the US led participants to believe that rate cuts in the UK will be later than in the US and contributed towards a slight strengthening of sterling against the dollar. That too had a modest negative impact on larger UK stocks with their tilt towards overseas earnings. When translated back into the home currency those profits buy slightly fewer pounds.

An additional blow to the UK market, where several large mining companies are listed, was concern about the prospects for China. It is now the largest market for many important commodities and weakness in demand there was reflected in lower prices for some. This was undoubtedly a factor in the negative return of the Material sector in the UK stock market. This was the second worst after Real Estate where the impact of Covid on changing work patterns is still being digested.

Other sectors with negative returns were Utilities, Consumer Services and Communication Services. However, on a positive note, and suggestive of some optimism in the domestic economy, was a strong return from the Industrial Sector closely followed by Information Technology. Energy and Financials also made encouraging progress over the month.

Valu-Trac Investment Management Limited

VT Munro Smart-Beta UK Fund

Visit our website at https://www.munrofunds.co.uk