

RATHBONES

INVESTMENT VIEW

BROAD EARNINGS IMPROVEMENT BRINGS GOOD NEWS

JULY 2024

A WIDELY EXPECTED CHANGE OF GOVERNMENT MAY BOLSTER UK SENTIMENT, WHILE THE US ELECTION IS ON A KNIFE'S EDGE

Earlier this year, stock price gains had been broadening out from last year's very narrow list of winners, but substantial profit growth was still relatively rare and the average company's profit outlook was being downgraded by industry analysts. As we approach the end of the second quarter, the good news is that profit expectations have broadened out, in line with our more optimistic outlook for the global economy as some key risks continue to fall away.

Economic data has started to disappoint consensus expectations in some places – European survey data, for example, in the wake of the surprise announcement of a French election. This sort of noise is common ahead of elections: it's rarely a signal.

As for the US, there are a few signs that middle-class consumers are starting to come under pressure from past changes in interest rates. We remain optimistic and see only a relatively low risk of a US recession developing over the next year. That does stop us from being very overweight riskier assets, however.

Accordingly, we prefer to lean away from consumer-oriented companies in favour of industries that stand to benefit from investment spending on the long-term themes of a changing world, such as cloud computing, AI, government-mandated industrial policies or ageing societies.

The race for the White House

With a potentially very significant and uncertain US election approaching, some investors are nervous about the prospect of another Donald Trump presidency. In contrast with the foregone conclusion of the UK election, the race for the White House is on a knife edge, and the contests for the Senate and House are also very tight.


There are also big differences between the Republicans and Democrats in the consequential policy areas of corporate taxation and trade, and no clear view on which outcome markets would prefer – that's likely to vary from issue to issue. In this context, it doesn't make sense to premise investment decisions on any single outcome – we need to be prepared for a range of possibilities.


Importantly, we think lingering US inflation stresses will continue to wane throughout 2024. Admittedly, US Federal Reserve (Fed) policymakers will want to see the recent evidence of slowing inflation continue over the coming months.

Amid the contrasting uncertainty surrounding the US versus the UK election, we also note that the outperformance of US equities over global peers – which we've become accustomed to over the past decade or so – is not a permanent state of affairs.

For sure, we believe in making the most of a global opportunity set and America is abundant with opportunities, but investment flows have been coming back to the UK to take advantage of valuations that our analysis suggests are inexplicably cheap. As we've discussed previously, we believe UK equities warrant a higher allocation than the 4% or so in the global equity benchmark. When our fundamental analysis no longer suggests that, we will trim UK equities accordingly.

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