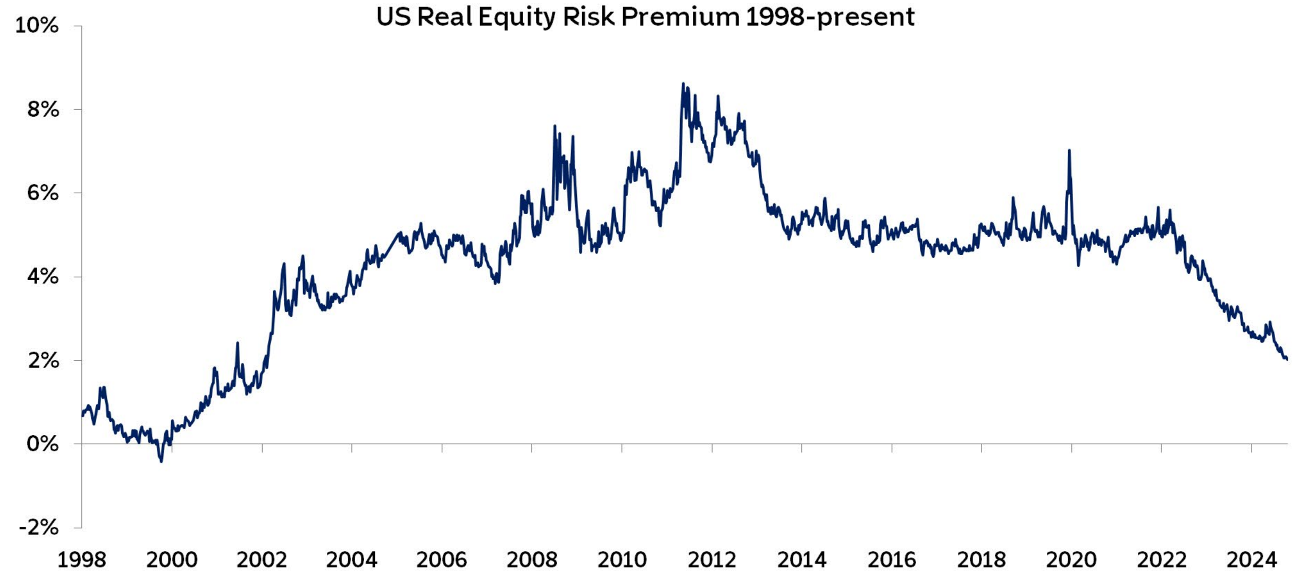
Chart of the Week

3 February 2025



Source: Bloomberg Finance L.P., as at 24 January 2025.

Premium Grade

Tom Delic
Fund Manager

What this chart shows

This chart illustrates the real equity risk premium (ERP) of US equities, by plotting the inverted 1-year forward price-to-earnings (P/E) ratio (i.e. forward earnings yield) of the S&P 500 and subtracting the yield on 30-year US inflation-linked bonds. The result provides a historical perspective on how the compensation for taking equity risk, relative to the long-term real risk-free rate, has evolved over time.

A higher ERP implies that equities are offering greater compensation for risk, often due to pessimistic economic expectations or market volatility. Conversely, a lower ERP suggests confidence in growth prospects or an increased appetite for risk-taking, potentially signalling frothy equity valuations or tighter monetary conditions.

Over the period we can see key inflection points, such as the dot-com bubble (1999-2000), the global financial crisis (2008-2009), and the market turbulence following the COVID-19 pandemic (2020). Sharp increases often correspond to heightened investor uncertainty, where falling bond yields and reduced equity valuations boost the ERP. Conversely, declines suggest improved investor confidence, rising bond yields, or elevated equity valuations reducing the risk premium. The recent trajectory has been a combination of both these factors, increased equity valuations despite rising real rates.

Why this is important

A long duration asset such as a 30-year inflation linked bond offers a meaningful comparator when assessing the risk you are willing to bear as an equity investor. In the case of US equities, investors are only receiving a 2-percentage point risk premium over and above long-term inflation protected returns of over 2%. While earnings growth may be enough to offset both inflation and valuation compression over a period of three decades, the intervening period can be painful for investors.

For multi-asset investors, this measure can provide a key consideration for portfolio allocation and valuation analysis. The era of low interest rates distorted the investment landscape post the global financial crisis of 2008, making equities a consistently attractive option from a relative perspective, with few alternatives. The increase in interest rates over the last three years has inflicted significant pain on bond holders over this period of normalisation. While today's 30-year US real yield of around 2.5% may not be a highly compelling proposition on an absolute basis, they are at their most competitive versus equities for over 20 years. This provides genuine diversification opportunities for investors, particularly in the light of elevated equity valuations.

Weekly market update

week ending 31 January 2025

momentum
global investment management

The unveiling of DeepSeek's advanced AI model in China led to significant global market volatility, particularly impacting technology stocks and prompting a reassessment of competitive dynamics in the AI sector.

US

- Nasdaq Composite fell over 3% as Chinese startup DeepSeek unveiled a low-cost AI model, challenging US tech dominance and leading to significant declines in major tech stocks, including a 15% one-day drop in Nvidia shares.
- The Trump administration confirmed the implementation of 25% tariffs on imports from Mexico and Canada, and a 10% tariff on Chinese goods, citing concerns over immigration and drug trafficking.
- The Federal Reserve held its policy rate steady at a range of 4.25%-4.5%, with discussions emphasising the importance of rate stability over immediate cuts, given the economy's continued strong growth.
- Despite market volatility, several US companies reported robust earnings, contributing to investor optimism and partially offsetting concerns over international trade tensions.

UK

- AstraZeneca announced the cancellation of its £450 million expansion project in Liverpool, attributing the decision to reduced government funding under the Labour administration.
- The FTSE 100 index had its strongest month since November 2022, buoyed by healthy earnings reports and interest rate cut expectations.
- UK house prices showed resilience, rising despite ongoing affordability pressures, indicating sustained demand in the housing sector.
- The UK's trade dynamics faced potential challenges due to the US imposing tariffs on Canada and Mexico, with concerns about possible ripple effects on global trade.

Europe

- European markets experienced another weekly gain, with the Euro Stoxx 600 rising by 1.8%, influenced by US policy changes under President Trump, including a focus away from European trade tariffs.
- The European Central Bank cut interest rates from 3% to 2.75% and left the door open for further rate cuts, contrasting with the US Federal Reserve's stable approach, contributing to a weaker euro and favourable export conditions.
- The EU proposed new customs reforms to hold e-commerce platforms like Temu, Shein, and Amazon liable for unsafe or illegal products sold online, aiming to enhance consumer protection.
- European tech stocks were affected by global market reactions to DeepSeek's AI developments, leading to a reassessment of valuations within the sector.

Rest of the World/Asia

- Despite global market volatility, China's mainland blue-chip stocks showed resilience, with equities adding 1.1%, even after data indicated a surprise contraction in manufacturing.
- Chinese startup DeepSeek launched a free, open-source AI model rivalling Western counterparts, leading to significant impacts on global tech markets and challenging US tech dominance.
- The Japanese yen experienced a strong performance, driven by expectations of rate hikes from the Bank of Japan, influencing currency markets.
- Crude oil prices declined after President Trump reiterated calls for Organisation of the Petroleum Exporting Countries (OPEC) to reduce prices, with Brent crude futures dropping 2.2% to $78.5 a barrel.

Weekly market data

week ending 31 January 2025

momentum
global investment management

Asset Class / Region	Currency	Cumulative returns: Week ending 31 January	Month to date	YTD 2025	12 months
Developed Markets Equities					
United States	USD	-1.0%	2.8%	2.8%	25.9%
United Kingdom	GBP	2.0%	6.0%	6.0%	17.5%
Continental Europe	EUR	1.5%	7.0%	7.0%	12.1%
Japan	JPY	1.4%	0.1%	0.1%	11.9%
Asia Pacific (ex Japan)	USD	0.2%	1.4%	1.4%	17.3%
Australia	AUD	1.5%	4.6%	4.6%	15.2%
Global	USD	-0.5%	3.5%	3.5%	21.4%
Emerging Markets Equities					
Emerging Europe	USD	-0.2%	8.4%	8.4%	11.3%
Emerging Asia	USD	0.2%	0.7%	0.7%	19.0%
Emerging Latin America	USD	1.9%	9.5%	9.5%	-15.3%
BRICs	USD	1.3%	0.1%	0.1%	16.7%
China	USD	1.1%	0.9%	0.9%	34.8%
MENA countries	USD	0.3%	3.1%	3.1%	5.4%
South Africa	USD	1.1%	5.3%	5.3%	19.2%
India	USD	1.5%	-1.5%	-1.5%	5.1%
Global emerging markets	USD	0.3%	1.8%	1.8%	14.8%
Bonds					
US Treasuries	USD	0.5%	0.6%	0.6%	1.2%
US Treasuries (inflation protected)	USD	0.6%	1.3%	1.3%	2.9%
US Corporate (investment grade)	USD	0.4%	0.6%	0.6%	3.2%
US High Yield	USD	0.2%	1.4%	1.4%	9.7%
UK Gilts	GBP	0.8%	0.8%	0.8%	-0.5%
UK Corporate (investment grade)	GBP	0.9%	1.1%	1.1%	4.4%
Euro Government Bonds	EUR	0.8%	-0.2%	-0.2%	2.1%
Euro Corporate (investment grade)	EUR	0.8%	0.5%	0.5%	5.1%
Euro High Yield	EUR	0.5%	0.6%	0.6%	8.4%
Global Government Bonds	USD	0.1%	0.7%	0.7%	-0.8%
Global Bonds	USD	0.2%	0.5%	0.5%	0.2%
Global Convertible Bonds	USD	0.2%	2.3%	2.3%	10.7%
Emerging Market Bonds	USD	0.6%	1.2%	1.2%	8.2%

Asset Class / Region	Currency	Cumulative returns: Week ending 31 January	Month to date	YTD 2025	12 months
Property					
US Property Securities	USD	-0.5%	1.0%	1.0%	13.3%
Australian Property Securities	AUD	-0.6%	4.7%	4.7%	18.2%
Asia Property Securities	USD	1.9%	1.0%	1.0%	-2.7%
Global Property Securities	USD	0.4%	1.3%	1.3%	9.1%
Currencies					
Euro	USD	-0.9%	0.7%	0.7%	-4.0%
UK Pound Sterling	USD	-0.3%	-0.5%	-0.5%	-2.1%
Japanese Yen	USD	0.6%	1.7%	1.7%	-5.4%
Australian Dollar	USD	-1.0%	1.1%	1.1%	-5.1%
South African Rand	USD	-1.0%	1.6%	1.6%	0.3%
Swiss Franc	USD	-0.3%	0.0%	0.0%	-5.3%
Chinese Yuan	USD	-0.1%	0.8%	0.8%	-1.0%
Commodities & Alternatives					
Commodities	USD	-1.4%	3.0%	3.0%	8.1%
Agricultural Commodities	USD	0.3%	3.3%	3.3%	5.4%
Oil	USD	-2.2%	2.8%	2.8%	-6.1%
Gold	USD	1.0%	6.6%	6.6%	36.5%

Source: Bloomberg Finance L.P. Past performance is not indicative of future returns.

For more information, please contact:
Distribution Services

E: distributionservices@momentum.co.uk

T: +44 (0)207 618 1806

momentum
global investment management

Important notes - This document is only intended for use by the original recipient, either a Momentum Global Investment Management Limited (MGIM) client or prospective client, and does not constitute investment advice or an offer or solicitation to buy or sell. This document is not intended for use or distribution by any person in any jurisdiction in which it is not authorised or permitted, or to anyone who would be an unlawful recipient. The original recipient is solely responsible for any actions in further distributing this document, and in doing so should be satisfied that there is no breach of local legislation or regulation. This document should not be reproduced or distributed except via original recipients acting as professional intermediaries. This document is not for distribution in the United States.

Prospective investors should take appropriate advice regarding applicable legal, taxation and exchange control regulations in countries of their citizenship, residence or domicile which may be relevant to the acquisition, holding, transfer, redemption or disposal of any investments herein solicited.

Any opinions expressed herein are those at the date this document is issued. Data, models and other statistics are sourced from our own records, unless otherwise stated. We believe that the information contained is from reliable sources, but we do not guarantee the relevance, accuracy or completeness thereof. Unless otherwise provided under UK law, MGIM does not accept liability for irrelevant, inaccurate or incomplete information contained, or for the correctness of opinions expressed.

The value of investments in discretionary accounts, and the income derived, may fluctuate and it is possible that an investor may incur losses, including a loss of the principal invested. Past performance is not generally indicative of future performance. Investors whose reference currency differs from that in which the underlying assets are invested may be subject to exchange rate movements that alter the value of their investments.

Under our multi-management arrangements, we selectively appoint underlying sub-investment managers and funds to actively manage underlying asset holdings in the pursuit of achieving mandated performance objectives. Annual investment management fees are payable both to the multi-manager and the manager of the underlying assets at rates contained in the offering documents of the relevant portfolios (and may involve performance fees where expressly indicated therein).

MGIM (Company Registration No. 3733094) has its registered office at The Rex Building, 62 Queen Street, London EC4R 1EB. MGIM is authorised and regulated by the Financial Conduct Authority in the United Kingdom (registration no.232357), and is exempt from the requirements of section 7(1) of the Financial Advisory and Intermediary Services Act 37 of 2002 (FAIS) in South Africa, in terms of the FSCA FAIS Notice 141 of 2021 (published 15 December 2021). For complaints relating to MGIM's financial services, please contact distributionservices@momentum.co.uk