GIBRALTAR ASSET MANAGEMENT

STOCKBROKERS & INVESTMENT MANAGERS

Market Commentary - January 2025

FTSE 100	**8,228**	S&P 500	5,942
Resistance	8,360	Gold	$2,634
Support	8,085	GBP/EUR	1.2062
VIX	16%	GBP/USD	1.2475

Introduction:

We wish all our clients and readers a very Happy New Year. 2024 was a good year for shares. The start and middle were better than the finish, as confidence that inflation and interest rates were heading decisively lower began to diminish. But with the re-election of Donald Trump and the direction of travel for interest rates still remaining down, we see stock markets returning close to their long-term averages of 10% over the next twelve months. We continue to favour perceived beneficiaries of this political and economic environment such as energy, financials, utilities and real estate.

Market Outlook:

Over the long term *(since 1962), the FTSE All-Share has returned 7.2% per annum and that does not include the average 3.8% dividend yield earned on top. Therefore, 'strategically', it pays to be in the market. Also, considering inflation averaged 6.2% over the same period, it is vital that an investor invests in equities in order to preserve the purchasing power of their money. However, markets can be subject to swings in the interim and investors should be mindful of these with a view to protecting their capital and thus maintain a 'tactical' view.*

Our allocation to the stock market remains at overweight. We expect the economy to continue expanding in 2025, remaining on a growth path that is supported by low unemployment, strong corporate earnings and an economy bolstered by above-trend government spending. The key, as usual, will be consumer spending, which accounts for approximately two-thirds of overall GDP. At this juncture, the consumer is bolstered by low unemployment, standing at just 4.3%. New academic research indicates that full employment is consistent with a 4.3% unemployment rate. Inflation is steadily falling towards its 2% target and interest rates are set to fall further. If rates do continue to head lower on mild inflation news, while earnings growth accelerates, then this new bull market should have more years to run.

Popular Wall Street wisdom states that the best outcome in Washington is gridlock. Yet the US market has outperformed in years in which one party controls presidency, House, and Senate. And the market does best when the GOP is in control. Interestingly, the US stock market is not looking overly expensive, even at these elevated levels. The current forward P/E ratio for the S&P 500 is 21 times, within the normal range of 15-24x. The ratio of the S&P 500 price to an ounce of gold is now 2.3, within the historical range of 1 to 3.

The VIX Volatility Index tended to trade in the 20 or above range for most of the 2020-22 period, as investors navigated the pandemic, the supply-chain crisis, and spiking inflation. Outside of a spike to the high 30s in August, the VIX has been below 20 for most of 2024. The index is currently 16. The reduction in VIX is consistent with bull markets, which tend to be periods of reduced market volatility.

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Market Outlook (cont):

When we examine the risks, we note that some of the old risks are fading away. These include supply chain, inflation, Russia, recession, and restrictive central bank policy. A lingering concern is inflation, as eliminating the final percentage point of inflation on the way to the 2% target is always challenging. China is a risk from both an economic and geopolitical perspective. The economic risk occurs if this massive market remains stuck in the malaise that has existed since the zero-tolerance COVID lockdowns. The geopolitical risk occurs if the government decides to distract from economic struggles by attacking Taiwan. Finally, investor complacency and the absence of fear are a risk. When the market is complacent, VIX is low, and investors are fully invested, an extraneous event - geopolitical or economic - can spur a pendulum swing to fear and panic, and a market selloff. On balance, the current level of the VIX suggests that investors are comfortable with the balance of risk and reward in the market.

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Recommended Investment:

Tritax Big Box REIT plc

This investment trust, listed on the LSE (BBOX.L), is a leading investor in UK large-scale logistics assets ("Big Box"). These are a critical component of modern supply chains. As such, Tritax offers a compelling investment case for those seeking exposure to the growth in e-commerce and logistics while benefiting from stable, inflation-linked income. Its high-quality portfolio, long leases, and strong tenant base provide a balance of growth and security, making it a potential cornerstone for income-focused and long-term investors.

Its portfolio is valued at £6.4bn, making it the largest such UK enterprise of its kind. This scale offers the potential for lower cost of capital, improved share liquidity and an enhanced credit rating and puts the trust on the cusp of FTSE 100 inclusion. The assets are typically modern, in prime locations and fully let on long leases (an average of 14 years) to institutional-grade tenants with upward-only rent reviews. Customers include some of the biggest names in business such as Amazon, Morrisons, Co-op, B&Q, Tesco, Argos, Ocado, M&S and Currys. The company's portfolio includes state-of-the-art logistics facilities located near key transport networks, such as motorways, ports, and urban areas, which are critical for last-mile delivery. These prime assets are difficult to replicate, providing competitive advantages.

The structural drivers of demand for "Big Box" assets are compelling and, combined with a significant element of inflation linkage, should continue to provide scope for rental growth. The business's exceptional portfolio is well positioned to take advantage of the changing dynamics in the logistics market, in particular technical innovation in the form of e-commerce. The continued rise of online shopping drives demand for logistics and warehousing facilities. Companies like Amazon, Tesco, and Ocado rely on such strategically located distribution hubs.

Modern, strategically located Big Boxes can provide companies with the nucleus for effective distribution to other parts of their supply chain. By centralising previously dispersed distribution into fewer, larger facilities, occupiers can optimise staff and stock management, capture economies of scale, reduce costs and improve delivery times. Tritax is committed to Environmental, Social, and Governance (ESG) initiatives, such as developing energy-efficient buildings and promoting carbon reduction, making it appealing to ESG-conscious investors.

The REIT has performed well since its launch in December 2013, with an annualised NAV total return of 7.7%. Despite market volatility, Tritax has shown resilience with a strong balance sheet, high occupancy rates, and consistent rental growth. Its diversified tenant mix reduces reliance on any single sector or client.

Like many property trusts, Tritax has traded at a discount to NAV for much of its history. However, the fund has dramatically de-rated as of late and its shares now trade at a 27% discount to NAV (vs a 12-month average of 16%), which we believe makes this a very attractive entry point. Further falls in interest rates will surely help to narrow this discount. With a 5.5% dividend to boot, we rate the shares a strong buy.

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Post of the Month:

"Two thirds of respondents to a recent market outlook survey by broker Jefferies believe the FTSE 100 index will be higher by the end of 2025"

Midway through 2024, prospects for UK equities were generally positive, if for no other reason than a prospective decline in the risk-free rate of return (interest rates tend to move in the opposite direction of the stock market). But that earlier optimism, muted though it may have been, has dissipated slightly as the spectre of stagflation has again loomed into view.

The Bank of England has been attempting to contain value-destructive inflationary effects without choking-off growth in the economy. A tall order, but it was making some progress, at least until the maiden Budget of chancellor Rachel Reeves. Some inflation anxieties have been rekindled thanks to a £25bn increase in employer National Insurance contributions and a higher than expected 6.7% increase in the national living wage. The latest Budget stands to further increase the size of the state at a time when the economy is crying out for major reforms, rather than the burden of debt-servicing. UK government spending will represent 44% of national income in 2025, well above the pre-pandemic average. The UK national debt is now roughly in line with annual GDP at £2.8tn, so over the past year the country has spent £102bn on debt interest, which is 8.4% of government spending - broadly in line with the size of the country's education budget. Though the relationship between state finances and stock market performance is often difficult to discern, there is an argument that says market prices tend to increase more rapidly whenever permanent reductions in government debt and/or spending are being pursued.

Interestingly, FTSE 100 stocks are still trading at an average 50% earnings multiple discount to their S&P 500 counterparts. That gap may start to close in the months ahead. The domestic index is finding additional support because M&A volumes are improving. It's also worth remembering that the UK benchmark index has demonstrated its safe-haven status whenever the much-vaunted US mega-cap tech stocks have been on the wrong side of a market correction.

Taking into account all of the fiscal issues, the good news is that the MPC will probably still opt for further rate cuts if it's thought that risks to the economy are weighted to the downside. That should be positive for the performance of UK equities. If interest rates continue to contract, investors could reposition the fixed-income portion of their portfolios in favour of other asset classes. And even though the UK benchmark performed slightly better than its long-term average in 2024, forward multiples still look very attractive compared to major overseas markets. The FTSE 100's dividend outlook remains attractive, with the implied forward yield pushing 4%.

In summary, the main macro stumbling block is once again whether inflation proves to be stickier than anticipated, raising the prospect of higher interest rates for longer. Budgetary measures could certainly constrain aggregate demand in the UK economy, but the characteristics of the UK benchmark mean that it could still register new highs even if this is the case - driven, at least in part, by increased M&A activity. With its forte in services exports, Britain is also less exposed to potential US tariffs compared to its European peers. Financial markets and international investors are taking note. Wall Street banks and fund managers are more upbeat about UK equities. Analysts reckon the FTSE 100's oil and banking stocks could benefit from Donald Trump's deregulation agenda, while also offering diversification from frothy-looking US tech valuations.

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Quote of the Month:

"It must be apparent to intelligent investors that if anyone possessed the ability to do so [forecast the immediate trend of stock prices] consistently and accurately he/she would become a billionaire so quickly they would not find it necessary to sell their stock market guesses to the general public" - David L. Babson

We are often asked our thoughts on the latest automated trading system promising each riches, crypto platform guaranteeing huge returns, or the comments of some guru speaking on CNBC. It has always been our view that if a programme was so profitable, why on earth would the owner be looking to sell it. If the commentator was that wise, why are they bothering to appear on television rather than relaxing on their yacht? The simple truth is there is no such thing as a free lunch and no one necessarily knows any more than you (though they may be better at talking). Trust your own instincts and have confidence in yourself.

Economics:

According to leading economists, higher government and consumer spending will restore growth in the UK economy in 2025, helping it to outperform European peers that are more exposed to the threat of political instability and new trade wars. But households will not feel much better off, as wage growth will slow and rising unemployment will fuel anxiety. Meanwhile, inflation will linger stubbornly above 2%, limiting the scope for the Bank of England to cut interest rates, as businesses feel the effects of rising taxes. Britain will continue to lag the more dynamic US economy and GDP growth will be too slow to avert the need for the government to raise taxes again later in the parliament.

It's been a topsy-turvy last year for the euro zone with its largest economies, Germany and France, seeing political and economic turbulence that means neither has a budget in place for 2025. Economists say the trajectory for both countries is worrying, warning that the absence of growth, fiscal imbalances and political intransigence could lead to decline and a loss of standing for Europe, as a whole. *"The situation today is different from the earlier sovereign debt crisis insofar as Europe's most acute problems are no longer concentrated in smaller economies like Greece. Instead, it is Europe's two most important economies that are struggling,"* Neil Shearing, group chief economist at Capital Economics said in analysis in December. *"Europe faces ongoing decline without fundamental reform at its core,"* Shearing said, noting that if this is not carried out, *"it is difficult to escape the conclusion that Europe's future is one of very low growth, continuing concerns about fiscal sustainability and a dwindling sense of standing in a world increasingly characterised by a superpower rivalry between the US and China."*

The US economy is pulling ahead of its global peers. Inflation is moderating, and the Federal Reserve is cutting interest rates. The economy is doing better than most economists predicted a few years ago. Forecasters widely warned that the Fed would seriously harm the economy as it tried to control runaway inflation by sharply raising interest rates in 2022 and 2023. Yet even now, the Fed's higher-for-longer rate forecasts are a sign of strength. The unemployment rate stands at a historically low 4.2%. Gross domestic product is growing at a solid clip. Productivity growth is robust, people are starting businesses, and consumers are spending. *"It's an economy that adds up to be the envy of the world,"* said Diane Swonk, chief economist at KPMG US.

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Seasonality: *"History doesn't repeat itself, but it does rhyme" - Mark Twain*

January

January is the 6th in the ranking of monthly performance, rising 54% of all the years in January, with an average return of 0.4%. In an average January shares usually start trading strongly in the first few days most likely a momentum effect from the surge in prices traditionally seen in the last two weeks of the year. However, that ebullience soon wears off and prices then slide for the rest of the month until recovering somewhat in the last few days.

First Quarter

The FTSE 100 has risen 28 of the 41 years (68%) between 1984 and 2024, posting an average gain of 1.3%.

November - April

Delaying re-entering the market from St. Ledgers Day to Halloween has yielded statistically significant outperformance with the FTSE All-Share rising an average 13.4% from Halloween to May Day since 1965. There is a 1-in-2,000 chance of this arising by chance in random data. One explanation for this is that as the nights draw in during winter, we become anxious and depressed, which means share prices fall and expected returns rise. This then leads to a decent winter rise.

First-Year US Presidential Cycle

The stock market tends to bottom out during the second year of each new presidential term and then recover strongly in the final two years. This is due to each Administration ensuring that the economy is strong by re-election time. Unfortunately, the excessive stoking of the economic fires creates excesses, including over-priced stocks, leading to poor stock market returns in the first two years of the next term.

Chinese New Year - Year of the Dragon

The Chinese calendar revolves around a 12-year cycle where each year is associated with an animal (rat, ox, tiger, rabbit, dragon, snake, horse, goat, monkey, rooster, dog and pig). Each New Year starts between 21st January and 21st February, the exact date being dependent upon a variety of complex factors. The best performing animals since 1950 have been the goat and dog. The worst performing animals have been the rooster and snake. *The Year of the Dragon is believed to foster growth, progress, and abundance. For investors in Chinese stocks, that would be a most welcome break from the past few years.*

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Investment Calendar:

13th January	Full Moon (markets tend to reach a low point around this time)
17th January	Options Expiry Day
28th January	FED Meeting
30th January	ECB Meeting

Technical Analysis:

With the FTSE 100 trading right on its 20-day moving average, it is difficult to predict its future direction. That's because securities tend to pull towards their 20-day m/a and the FTSE certainly did that in the last few weeks of December, staging a late end-of-year rally. The RSI, at 44%, is pretty neutral - the market is neither overbought nor oversold. The market is trending slightly (ADX is 22), suggesting we should look at the moving averages for likely direction. Unfortunately, the 50-day and 200-day moving averages are lying at 8,200 which is slightly below the current level. Upside appears to be capped by the recent high of 8,360. In summary, bar any market shock, we see the FTSE trading in a narrow range in the weeks ahead.

"The illusion of randomness gradually disappears as the skill in chart reading improves" – John Murphy

Chart Legend:

20 day moving average	(signifies the short-term direction of the security. prices tend to gyrate around their 20 day m/a)
50 day moving average	(signifies the medium-term direction of the security)
200 day moving average	(signifies the long-term direction of the security - whether it is in a bull or bear market)
	(an indicator that measures 2 standard deviations away from the 20 day m/a)

Technical Analysis Guide:

RSI (relative strength index) - indicates whether a security is overbought (above 70) or oversold (below 30). Also when the RSI moves above 50 that is considered bullish (or vice versa).

ADX (average directional index) - indicates whether a security is in a trend (above 20) or not in a trend (below 20). For trending markets moving averages work best when considering lines of support/resistance. ending markets Bollinger Bands work best (sell at upper band, buy at lower band).

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