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Investor trends survey

Q2 2024

Welcome to the latest edition of our investor trends survey (previously called the quite interesting survey), a quarterly survey of the views of a selection of leading UK and global fund groups. This edition is based on data collated in the second quarter of 2024.

Executive summary

The latest survey found that:

- UK growth expectations have noticeably risen - a sign of an improving economic picture.
- Six in 10 of the respondents expect Labour's policies to enhance economic growth.
- August was correctly seen as the most likely month for the first interest rate cut in the UK (41%), while in the US it was September, with a 55% probability overall.

This is the second edition of the investor trends survey, where leading UK and global fund groups are asked a range of questions covering their macroeconomic forecasts, as well as their views on how geopolitical issues might impact financial markets.

The survey was sent to our investment partners, a group of leading fund groups including the likes of BlackRock, Fidelity, Schroders, and JPMorgan. We work closely with all of these managers, who each manage underlying funds within our multi-asset portfolios.

Our questions this quarter:

1. What are your expectations for real GDP growth for 2024 and 2025 in the UK, US, and eurozone?
2. What are your expectations for headline CPI for the end of 2024 and 2025 in the UK, US, and eurozone?
3. What are your expectations for central bank interest rates for the end of the 2024 and 2025 in the UK, US, and eurozone?
4. What are your expectations for earnings growth for 2024 and 2025 in the UK, US, and eurozone?
5. When do you expect the Bank of England and the Fed to make their first interest rate cuts?
6. What effect will the Labour Party's economic policies have on growth?
7. What could derail the strong performance of US mega-cap tech stocks?
8. Which investment factors can best be described as structural or cyclical drivers?
9. Are changing global supply chains having a positive, negative, or uncertain impact on your appetite for emerging market equities outside of China?
10. How concerned are you about the potential global financial market impact of escalating trade tensions between the US and China and further implementations of tariffs?

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Lindsay James, Quilter Investors investment strategist

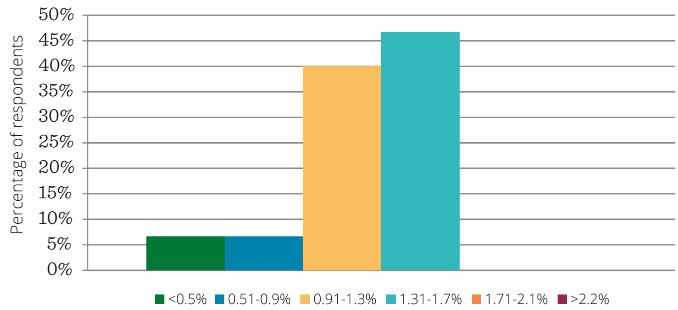
Key findings

UK economy turning a corner?

There is a sense that following a short, shallow recession at the end of 2023, green shoots are beginning to reveal themselves in the UK economy. With inflation back at target and rate cuts now being enacted, fund groups are upping their forecasts for UK growth in 2025. The weighted average predicted growth rate is now 1.22%, up from 0.98% last quarter.

Meanwhile, we are seeing a less obvious shift in Europe and the US, where respondents have massed towards the centre of expectations. It is clear that for the US in particular, a soft landing is becoming a unanimous view, with one respondent saying this was now their assumption.

Expectations for GDP growth in the UK (by end of 2025)



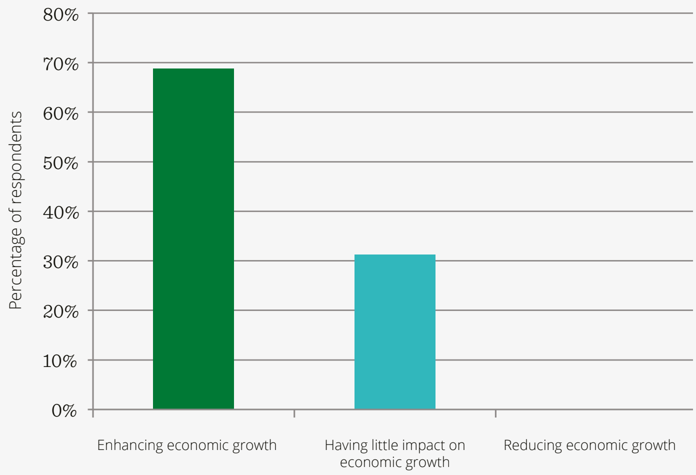
Labour's election win should give UK an economic boost

Positive overtures between Labour and the City have not always been common, but it is clear the narrative has changed with the general election campaign. More than two thirds (69%) of respondents expect Labour's policies to enhance economic growth. Three in 10 (31%) saw little impact and no respondents believed they would reduce economic growth.

While a boost is expected, many respondents were sceptical about just how strong this was likely to be. However, it was the political stability Labour is likely to bring that the fund groups were most positive about, with one saying that it could see overseas investors reassess the attractiveness of UK equities.

"If successfully delivered we expect these policies to support economic growth and offer a more predictable framework for business and investment decisions, which can attract both domestic and international investment," they said.

Labour's economic policies and impact on economic growth



Interest rate cuts around the corner

With the seemingly positive mood music around the economy and inflation back at target for now, it is no surprise that fund groups correctly predicted August as being the first month that the Bank of England would cut rates. August was given a 41% probability for the first cut, while September stood at 34%. The Bank of England duly delivered and brought interest rates down to 5% on 1 August.

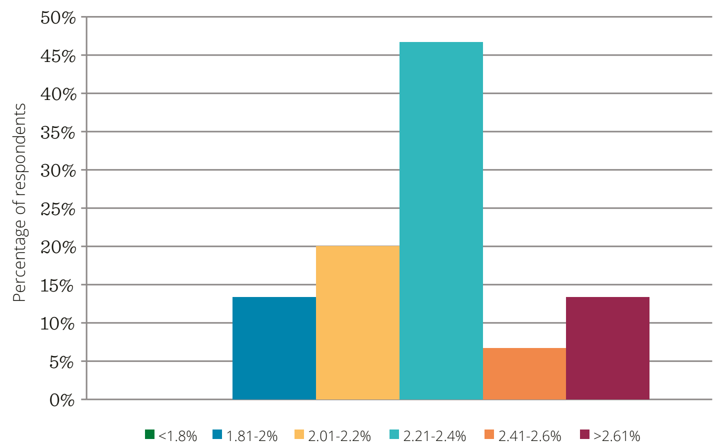
However, although further rate cuts are anticipated, there is little consensus view in the UK for where interest rates will sit by the end of 2025, with views ranging from 2.5% to 4.5%. This is mirrored for the eurozone, while for the US nearly half of respondents (46%) saw the range between 3.76% and 4.25%.

While the exact path for interest rates remains uncertain, respondents do appear to be settling on September as the month the Fed pulls the trigger and cuts interest rates, with an implied probability of 55%. The start of the year saw the expectations for interest rate cuts reach fairly ambitious levels, with as many as six priced in, but these have since been reined back in. Perhaps indicative of the experience of 2024, one respondent said that they expect one or two cuts this year, but slightly less than what is being priced in by markets for 2025.

Looming over this path for interest rates remains inflation. Nearly half (47%) of respondents expect UK CPI to end the year between 2.51-2.85%, significantly higher than where it is now. Meanwhile, two-thirds expect it to remain well above the 2% target level by the end of 2025. Inflationary fears are clearly present among investors, as last quarter there was a wider spread of views and little consensus.

Strong economic performance in the US is clearly making many come to the conclusion that inflation will remain above target there too, with 80% expecting it to be more than 2.21% next year, up from 69% at the last survey.

UK headline inflation expectations (by end of 2025)



Earnings present a major risk for markets

While respondents are getting less pessimistic on US earnings growth next year, there are still concerns market expectations may be missed. In the previous quarter, 58% expected earnings growth to be lower than 10% in 2025, but that figure dropped to 25% this quarter. However, the vast majority (75%) still expect earnings growth below 13%, and so miss the 14% that is currently the market consensus.

One sector perhaps most exposed to the effects of lower earnings than expected is mega-cap tech stocks. Despite higher interest rates working against them, these businesses have been propelled by the huge benefits artificial intelligence is expected to deliver. However, fund groups see the biggest risk to the strong performance from limited adoption of AI by corporates, closely followed by the lack of earnings upgrades and high valuations.

A Republican clean sweep at the upcoming election and an economic slowdown in the US were seen as the least likely to derail the performance of this sector. Highlighting the range of risks to tech stocks at present, one respondent did also raise the risk of supply-chain disruption in Taiwan should we see an escalation of tensions there, but it was accepted that this risk remains low for now.

China vs emerging markets

China has been a source of pain for investors for a number of years now, as both economic and regulatory issues bite for Asia's largest economy. With a return to the US Presidency for Donald Trump a real possibility, we could see a reignition of the trade tensions that came to dominate the Republican's first term in charge. Given the history between Trump and China, fund managers appear to be calm on the impact for markets, with one commenting: "China has very large end markets outside of the US and Europe. It is also not the first time tariffs or sanctions have been levied against China and many corporates there can and do adapt to new rules."

Some were a little bit more pessimistic on the outcome, with nearly half (47%) noting their worry on the financial implications. The fallout could also impact emerging markets, but it is clear from the fund group's responses that they see any tariffs on China as ultimately beneficial for wider developing economies. Half of the respondents saw changing global supply-chains as a positive outcome for emerging markets outside of China, with only one in seven (14%) thinking they would be negative. Indeed, delving into the responses, the fund groups see countries such as Mexico being net beneficiaries of US protectionism as its neighbour looks to bring as much of the supply chain to the US border as possible. While not every country will benefit, it is clear professional investors expect emerging markets to outperform Chinese equities for as long as trade tensions persist.

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