January 2024 | Monthly update

# Omnis Managed Portfolio Service

With inflation fading and interest rates likely to fall, financial markets finished the year on a high

## Market-moving events

**Rate cuts may be on the horizon.** Stock and bond markets rallied in December owing to growing expectations that central banks have stopped hiking interest rates and are likely to start to reduce them from the middle of this year. Notably, the US Federal Reserve (Fed) suggested it could cut rates three times in 2024 if inflation continues to fall.

**Economic fortunes vary.** Across the developed world, inflation has continued to fade but economic performance is varied. The US economy grew 5.2% in the third quarter but investors are questioning the longevity of this strength. There are also concerns about the outlook for growth in the UK and euro area, where recession is possible owing to high interest rates.

**A soft landing for the US.** A strong labour market boosted consumer spending in the US, bolstering hopes of a soft landing for the economy, where recession is avoided. In contrast, high interest rates and elevated inflation weighed on the UK's consumers and businesses. UK growth flatlined in the three months to October, although a soft landing is also expected.

## Investment highlights

**An everything rally.** Diversified investors received a welcome Christmas present in the last three months of 2023, with strong performance across global financial markets. Expectations that interest rates have peaked and will probably fall in 2024 drove stock and bond markets higher. Commodities stood out as one of the few asset classes to fall over the year.

**An optimistic mood.** Last year started with concerns about inflation and recession, and yet things turned out much better than expected. The mood is more optimistic at the start of this year with expectations that inflation will remain subdued and central banks will cut rates. Financial markets will be watching closely to see if these expectations are realised.

**Cautiously positioned.** We're maintaining our overweight allocation to bonds and modest underweight in equities. An economic downturn is possible and the global economy would be badly placed if inflation reaccelerates. Our central case remains falling inflation, a peak in interest rates and a soft landing, but with a larger than normal risk of a deeper recession.

## Asset allocation

Red = underweight
Amber = neutral weighting
Green = overweight

If you'd like more detail on our asset allocation views then please visit our online dashboard.

equities

Negative = UK, US + Europe
Neutral = Japan + emerging markets
Positive = Asia

bonds

Negative = corporate bonds
Positive = gilts, global bonds + strategic bonds

alternatives + cash

Negative = absolute return bonds + diversified returns
Positive = short-dated bonds + cash

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