



Comment

December 2023

Looking ahead to lower interest rates

Expectations that US interest rates, and possibly UK rates as well, will start to move lower in 2024 were the main drivers behind a modest, but meaningful, upward move in UK listed equities in December. A corresponding small drop in oil prices also helped to create positive sentiment.

That was why, within UK Equities, the Energy sector was the only one to record a fall in December. This was in sharp contrast to the double digit gain from the Property sector which would be a clear beneficiary of lower borrowing costs. It probably also incorporates an element of recovery from a strongly oversold position earlier last year when occupancy rates for offices were being questioned in the wake of a reluctance by many to abandon Covid-driven working from home.

Despite lacklustre economic growth in 2023 companies in the Consumer Discretionary sector enjoyed a strong run in December. Maybe hopes of a generous pre-election budget were underpinning that change in sentiment.

So it was changes in valuations rather than changes in expectations of earnings that drove share prices in December. Indeed, total dividends actually paid by UK companies in 2023 are still below the previous peak set in 2019. This is a solid reminder of how much economic damage was inflicted by the COVID crisis and the inflationary effects arising as a result of the war in Ukraine. Recovery from these setbacks is likely to be slow rather than spectacular.

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