

Hymans Robertson Investment Services (HRIS)

# Investment matters: what advisers should expect in 2024

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## Key takeaways:

Inflation is expected to continue to fall, but at a slower pace than we saw at the end of 2023.

The Bank of England will likely be behind other major central banks in cutting interest rates.

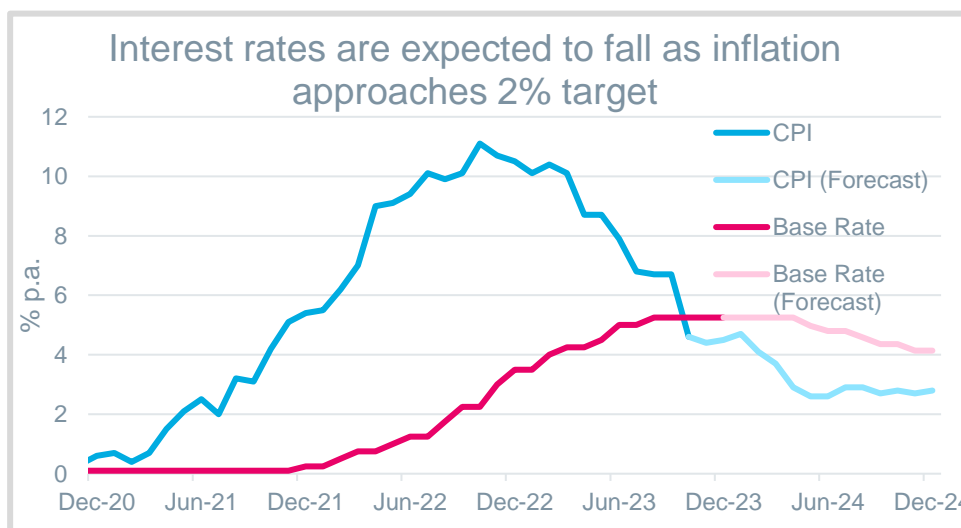
All of which means consensus forecast for inflation at the end of 2024 is around 2.7% while market pricing for interest rates is around 4%.

A lot can change in a week in investment markets. Given this, a year can feel like a different era. In January 2023, we were in the middle of the sharpest increase in interest rates for decades and economists were expecting a recession in most developed countries. Roll on 12 months, investors are now looking ahead to interest rate cuts and, instead of recession, latest data showed the US economy continues to produce strong growth. Even the UK economy, which looked destined for a deep contraction, has held on to growth.

All of which highlights the challenges of making short-term forecasts and reiterates why we take a long-term strategic approach to investing. That said, it is important to understand what is driving short-term investor behaviours. So with that in mind, here are four key investment matters that we believe advisers and their clients should be paying attention to in 2024.

### 1. Inflation and interest rates are likely to remain top of investors' agendas, but growth prospects are also important

Inflation has fallen considerably in the UK from its 11.1% peak, thanks in part to an aggressive policy of interest rate increases from the Bank of England. The job isn't done yet, but only a few months after potentially the last rate hike, investors are already looking ahead to potential interest rate cuts in 2024. Once the major central banks of the world have pivoted from tightening to easing, investors' attention may turn to what the impact of the tightening has been. Now, as much as ever, feels a sensible time for investment portfolios to be well diversified to capture the relevant market opportunities, but equally important to be insulated from the worst of any adverse market outcomes.



Source: ONS, Bank of England, Consensus Forecasts

## 2. The expected fall in cash rates is likely to reduce the attractiveness of money market funds

Cash rates and flows into money market funds increased notably over 2023. Looking forward, we believe the strategic investment case for cash has decreased. Yes, cash rates are attractive now, but they are expected to fall during 2024. In addition, the expected return of assets, like bonds, are significantly higher than where they were 12-18 months ago.

## 3. Elections have the potential to increase short-term market volatility

There is huge potential for a change in the political wind, with over half the world's population voting in more than 70 elections this year. Elections can impact markets in various ways. The uncertainty can lead to market volatility, especially when polls are tight (currently that's a yes in the US and a no in the UK). Governments' tendency to move toward more pro-growth policies in the lead-up to an election, to try and gain favour with the electorate, can sometimes be supportive for markets. But ultimately, over the longer-term, the evidence highlights that markets and economies will tend to be driven by stability and strong underlying economic fundamentals.

## 4. Regulatory change

Regulatory change is an ongoing challenge for all. In 2023, Consumer Duty was front and centre for most involved in the retail investment market and it is likely to continue to form part of 2024 discussions as we all reflect on its implementation. Other regulations which we expect to dominate discussions include:

- the FCA's Sustainable Disclosure Regulations (including the anti-greenwashing rules), which were published in November. This could have major implications for the way sustainable investment funds are named and marketed; and
- The FCA's review of retirement income advice which is expected in Q1 2024. This is likely to focus on advisers' approach to advising clients that are approaching or are in retirement.

The above have potential notable implications for those involved in the Retail Investment market. It is important all parties reflect on the precise implications for them and their adviser processes.



**Jack Richards**  
Investment Manager

Cash rates may currently look attractive, but they should fall over the year, reducing future returns. On the other hand, other asset classes are expected to benefit from the lower interest rates.

Elections this year could cause short-term volatility but the impact on markets tends to be fleeting.

As well as the implications of Consumer Duty, advisers will also need to understand the impact of the FCA's SDR and Retirement Income advice review.

### Risk warning

*The value of your investments and the income from them may go down as well as up and neither is guaranteed. Investors could get back less than they invested. Past performance is not a reliable indicator of future results. Changes in exchange rates may have an adverse effect on the value of an investment. Changes in interest rates may also impact the value of fixed income investments. The value of your investment may be impacted if the issuers of underlying fixed income holdings default, or market perceptions of their credit risk change. There are additional risks associated with investments in emerging or developing markets. The information in this document does not constitute advice, nor a recommendation, and investment decisions should not be made on the basis of it. The material provided should not be released or otherwise disclosed to any third party without prior consent from HRIS.*