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Market reflection

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Overview

Following a blistering five-month rally, global equities paused for breath during April. The main barrier to progress was a shift in interest rate expectations, driven by signs that inflation is proving to be stickier than expected or desired. Consumer Price Index (CPI) readings in the United States have come in above expectations for three consecutive months, even if the underlying trend is still judged to be downwards. Consumption remains buoyant, with household wealth at record highs thanks to a soaring stock market and resilient house prices. Government spending remains a strong contributor to GDP growth.

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While at the beginning of the year the market was confidently predicting that the Federal Reserve would start to cut interest rates in March, that expectation has been pushed out as far as November, with some forecasters suggesting no cuts this year, or even, in extremis, further increases. This has led to bond yields rising sharply and the dollar strengthening once again, both of which factors tend to tighten financial conditions.

The positive side of higher growth and inflation is that corporate revenues and profits are on the up. Although the end of the month marks only the half-way point in the current reporting season, the results have so far, in aggregate, beaten expectations.

Sticky inflation is also a bit of a problem in the UK at the core level, with a very tight labour market a key influence. Thus, the expectations for a first base rate cut of the cycle from the Bank of England have also been pushed out, if only to August or September. Economic growth has been much weaker on this side of the Atlantic, but there is sufficient evidence to suggest that the UK has already exited the shallow recession that it entered in the second half of 2023. We should also celebrate the fact the FTSE 100 has made new all-time highs for the first time since February 2023.

- The Bloomberg consensus for World GDP growth in 2024 has ticked up again to 2.9%, up from 2.6% in January. Worst fears of a hard landing have not been met. Even so, neither is there much expectation of an acceleration in 2025, with the median forecast stuck at 2.9% again. Both these numbers are slightly below the 3% outcome for 2023.

- The Bloomberg Global Aggregate Bond Index has lost around 4.1% in dollar terms this year and is -1.5% in the sterling hedged version. The 10-year US Treasury yield has risen from 3.87% to 4.62%, while the 10-year UK Gilt yield has gone from 3.53% to 4.29%. These moves reflect stronger-than expected global growth and some higher-than-forecast Consumer Price Index prints.

- It's gone very quiet on the US election front, possibly because former President Trump is spending his days in a Manhattan court room rather than on the campaign trail. The fact that Congress approved the latest support package for Ukraine revealed some cracks in the Republican support for Mr Trump, but he and President Biden can hardly be separated in opinion polls or betting markets. This promises to be a fractious election campaign and the result will once again hang on the outcomes of as few as five marginal states.

- A prospective UK General Election is expected to be much less fractious, given that both leading parties tend towards the centre. There is far greater division within the Conservative Party, it appears, and a poor result in May's local elections could lead to more disruption.

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