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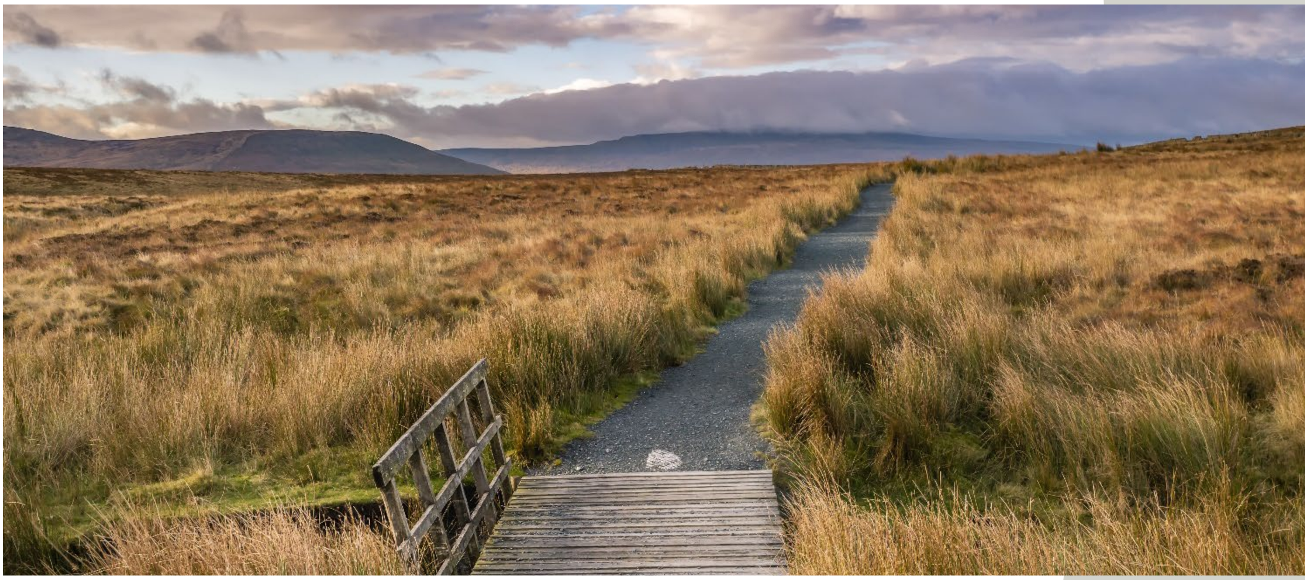
Market reflection



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Head of Investment Strategy

Overview
Global equity markets continued their upward push during February, while bond markets faced tougher conditions. The main macro development recently has been the growing belief that the US economy will avoid falling into a recession.

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The jobs market and household consumption are resilient, as is the housing market (in terms of pricing, if not turnover); capital expenditure remains strong, driven by "reshoring" and the green energy transition; and government spending is showing no signs of letting up ahead of this year's Presidential election. Annual GDP growth of 2.5% in 2023 helped US companies to beat analysts' estimates once again during the latest reporting season. Aggregate earnings for the year remained relatively unchanged from 2022, but there were significant differences between individual sectors. Technology led the way, with important companies such as Meta and Amazon providing positive surprises. The Palme d'Or went once again to semiconductor chip designer Nvidia, the primary beneficiary of the race to adopt Generative Artificial Intelligence. Its market capitalisation flirted with the $2 trillion mark, leaving it behind only Microsoft and Apple in the American rankings. Indeed, it recorded the largest ever one-day increase of $277 billion, which is greater than the value of Shell, the largest constituent of the FTSE 100 Index. The UK's lack of world-leading technology companies combined with a tough background for the large Energy and Mining sectors, leaves the UK flagship index flat so far in 2024, with the situation being exacerbated by the UK economy falling into a (very mild) technical recession at the end of 2023. Europe's economy is barely registering a pulse either, but its indices have been led to new highs by companies including Novo Nordisk (appetite supressing drugs), ASML and SAP (tech) and LVMH (Luxury Goods).

- The Bloomberg consensus for World GDP growth in 2023 suggests an outcome of 3%, helped by strong performances from the US and some regions of the Developing Markets, notably India. Economists are still expecting some of the lagged effect of higher interest rates to flow through to 2024, with the consensus forecast for growth pegged at 2.8%, followed by 2.9% in 2025.

- The Bloomberg Global Aggregate Bond Index has lost around 3% in dollar terms this year, and 1% in sterling. The 10-year US Treasury yield has risen from 3.87% to 4.27%, while the 10-year UK Gilt yield has gone from 3.53% to 4.17%. These moves reflect stronger-than expected global growth and some higher-than-forecast Consumer Price Index prints - although the inflation trend is still lower.

- The expected starting date for interest rate cuts has also been pushed back, from March to at least June, in the US, UK and Europe. Even so, the market continues to price in cuts of up to 1% over the course of the rest of the year.

- Former President Donald Trump continues to cruise through the Republican primaries. We view the election as having the potential to increase market volatility as it approaches, owing to the hugely polarised nature of US politics.

- A prospective UK General Election is expected to be much less fractious, given that both leading parties tend towards the centre. Budget constraints (and the admonishing nature of bond investors) suggest little room for game-changing policy shifts for whoever ends up in 10 Downing Street.

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