RATHBONES Incorporating Investec Wealth & Investment (UK)

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Market reflection

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Overview

Global equity markets maintained their ascent during March. Enthusiasm for themes such as Generative Artificial Intelligence and appetite-suppressing drugs remains strong, but there were also more encouraging signs of performance broadening into other areas of the market.

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Fears of a US recession continue to diminish, while economic momentum in Europe and the UK appears to be at its lowest ebb.

China is still struggling to generate renewed forward momentum, although a drip feed of stimulus continues to be administered.

The quid pro quo for the slightly better growth outlook has been that inflation is not coming down at quite the pace central bankers might have wished, but, for now at least, the underlying trajectory is lower. This means that another big shift so far this year has been that the expected starting date for interest rate cuts has also been pushed back, from March to around June, in the US, UK and Europe. The extent of cuts over the rest of year has been reined in, but the underlying path should still be lower.

The main economic indicators to be watching are inflation and unemployment. Central banks will be trying to balance their policies to keep both of them down. The latest round of policy meetings suggested that they will lean towards the priority of keeping people in jobs at the expense of allowing inflation to decline a bit more slowly. Another feature of 2024 has been a pickup in Merger and Acquisition activity, although not yet to levels that might suggest corporate overconfidence. The value of deals involving UK-listed companies has already surpassed that of the whole of 2023, with several small and mid-cap companies being bid for. Attractive valuations make this area of the market look ripe for more activity.

- The Bloomberg consensus for World GDP growth in 2023 suggests a final outcome of 3%, helped by strong performances from the US and some regions of the Developing Markets, notably India. Economists still expect 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 3% in 2025.

- The Bloomberg Global Aggregate Bond Index has lost around 2% in dollar terms this year and is unchanged in sterling. The 10-year US Treasury yield has risen from 3.87% to 4.20%, while the 10-year UK Gilt yield has gone from 3.53% to 3.93%. These moves reflect stronger-than expected global growth and some higher-than-forecast Consumer Price Index prints.

- Former President Donald Trump is now effectively confirmed as the Republican Presidential candidate. We view the election as having the potential to increase market volatility as it approaches, owing to the hugely polarised nature of US politics. Biden and Trump are neck-and-neck.

- A prospective UK General Election is expected to be much less fractious, given that both leading parties tend towards the centre. The Spring Budget illustrated the fiscal constraints under which any future Chancellor will be working, with limited headroom available for either tax cuts or increased spending.

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