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Global Matters | Monthly

Market review & outlook

February 2024

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Global market review & outlook

Equity markets continued to surprise on the upside with a gain in February of 4.2% in developed markets (MSCI World index) and 4.8% in emerging markets (MSCI Emerging Markets index). MSCI World has returned 11% so far this year, 23% since the current surge in markets started in late October 2023, and 44% since the low point of this cycle in mid-October 2022. The US has led the way, with returns very similar to the World index, unsurprisingly given that the US market capitalisation now represents over 70% of the world developed markets total.

While the Magnificent 7 grabs all the headlines and outpaced the S&P 500 in February with a return of 8.2% versus 5.3% for the broader market, some of its 7 constituents are not direct beneficiaries of the AI boom which has driven most of the spectacular returns in markets over the past year. Tesla and Apple are struggling with the tough China market and in Tesla's case from the growing competitive threat of cheap Chinese Electric Vehicles flooding the global market. Their share prices have fallen this year, while two of the megacap tech stocks have driven returns, with big beats on earnings announced in February: Nvidia is up by 60% YTD to end February and Meta by 38%, adding a combined $1tn or about 2.5% to the capitalisation of the whole market.

Although the US dominates global markets, and its major indices reached all-time highs at the end of February, it is by no means the only market performing well. Japan has outpaced it this year with a return of 13.1% YTD, including 4.9% in February (in yen terms), and the Nikkei index finally broke through its previous high of December 1989, a 34-year long salutary reminder of the dangers of riding a speculative, liquidity driven market bubble leading to outrageous valuations. The broader Topix index in Japan remains 7% below its 1989 high, but with valuations still relatively attractive and Japan's corporate sector focussed increasingly on shareholder returns while reaping the benefits of sustained yen weakness (at its lowest level against the dollar since 1990), we expect further outperformance.

Japanese equities return to 1989 peak

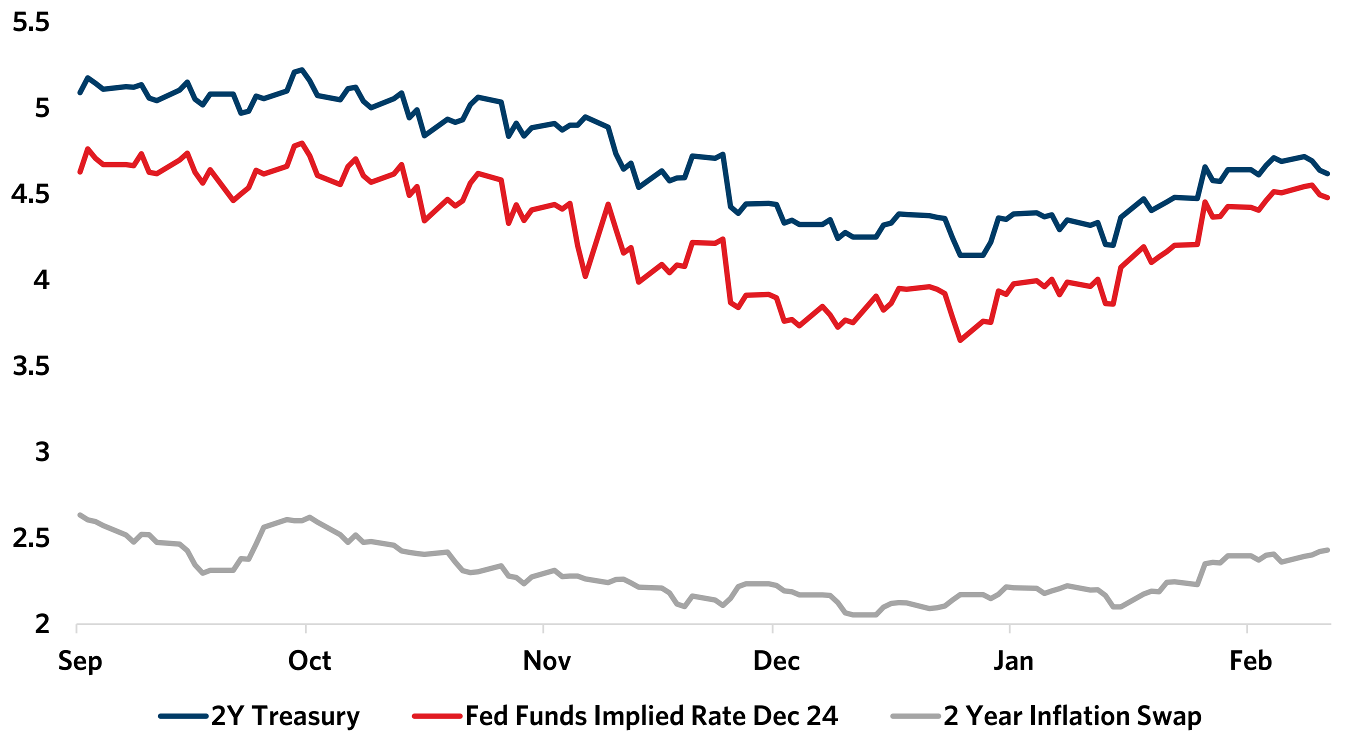
Source: Bloomberg Finance L.P. as at 29 February 2024

Other markets also reached new highs, including Germany, perhaps surprisingly given that the German economy faces considerable challenges and has endured seven consecutive quarters of near-zero growth. The only notable underperformer was the UK, broadly flat in the month, YTD and over 12 months, in the face of a struggling economy and persistently high inflation. With improving prospects ahead, some of the valuations now available offer particularly attractive opportunities.

Emerging markets have suffered a three-year period of sustained underperformance against developed markets, primarily due to China's woes, but the 8% recovery in China's market in February, helped by additional stimulus measures by the authorities and State sponsored buying of equities, along with tentative signs of stabilisation and recovery in the economy, point to the potential for improved performance, if not an inflection point, supported by attractive valuations now on offer.

In contrast to equities, bond markets weakened as central banks pushed back on early rate cuts as core measures of inflation remain too high and economic activity is proving resilient. Market expectations of the Federal Funds rate at the end of 2024 moved from 3.75% at end December 2023 to 4.5% at the end of February, the additional 75bps bringing market implied rates in line with the Fed's latest median forecasts, with most of that move taking place in February. Bond yields reacted accordingly, 2-year Treasury yields rising by over 40bps in the month and 10 year yields by 34bps. Similar moves were seen in Europe and the UK. Over the month the JP Morgan Global Government Bond Index (GBI) returned -1.5%.

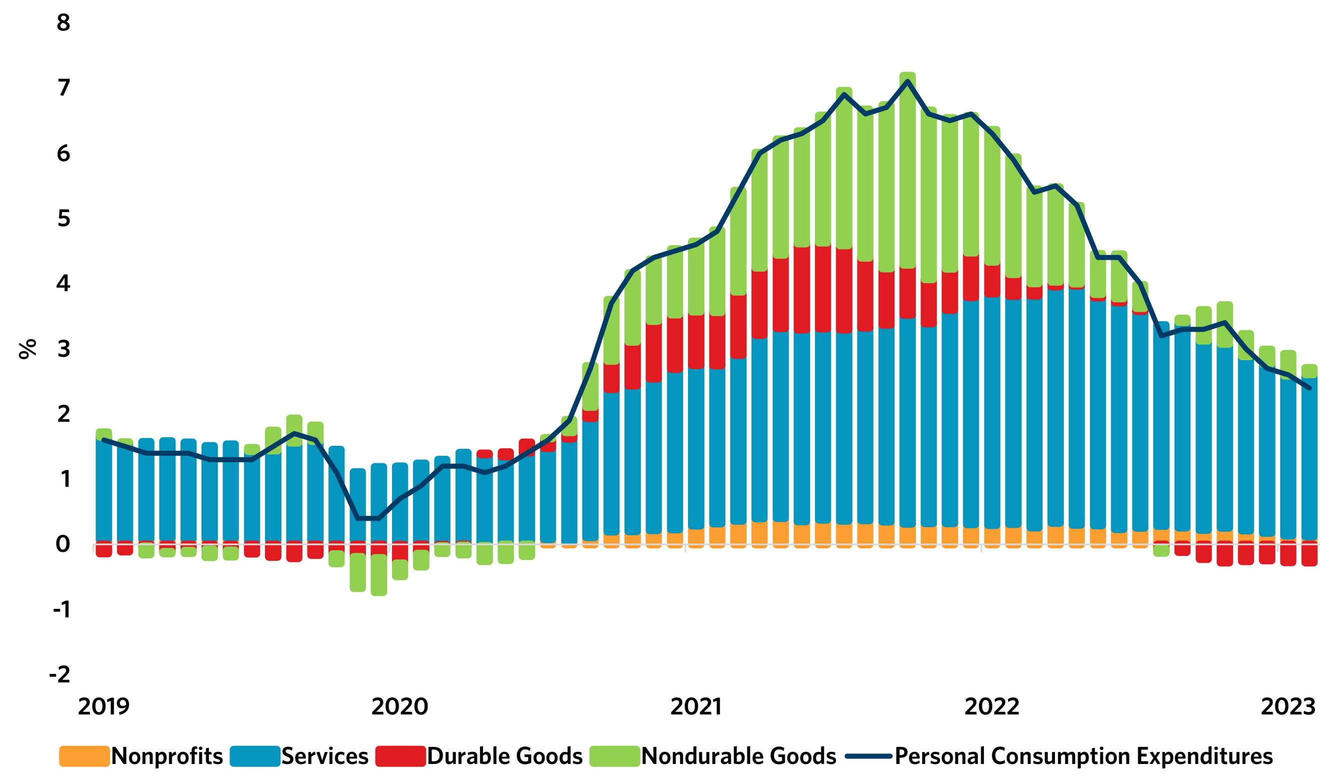
US yields rise YTD – market expectations for rate cuts reined in



Source: Bloomberg Finance L.P. as at 8 March 2024.

Underlying these moves, which retraced most of the falls in yields in late 2023, has been a significant rise in shorter term inflation expectations. Inflation over the next 2 years in the US as measured by the 2-year inflation swap has moved from 2.0% at the end of 2023 to over 2.4% by end February. The market has become more uncertain around the pace of decline in inflation and hence in the extent of rate cuts in 2024 following persistent strength in the jobs market and wages rising in real terms at a level which complicates the Fed's task of bringing inflation down to its 2% target. Latest data on average hourly earnings showed a rise of 0.6% month-on-month in January, the highest in two years, and there are signs this is feeding into services inflation, where labour is a significant component, with annualised 3-months core services inflation running at 6.5%.

US core PCE* inflation – goods prices deflating, services sticky



Source: Bloomberg Finance L.P., as at 31 January 2024. *US Personal Consumption Expenditures index.

"latest data on average hourly earnings showed a rise of 0.6% month-on-month in January, the highest in two years"

While bond markets have fallen in response to these worries, equities have been boosted by the strength of tech and growth stocks, especially those benefitting from the AI boom, and have seemingly been prepared to look through the short-term concerns to the prospect of falling interest rates later this year and an increasing probability of a soft landing for the economy. The disturbing geopolitical events around the world appear to be contained with limited risk of a wider conflict in either Ukraine or the Middle East, and evidence of continuing problems in the US commercial real estate market, with mid-sized US regional bank New York Community Bank posting a shock loan loss provision on real estate loans, were put down to idiosyncratic issues and caused only a minor ripple in the sector.

The resilience in the US economy has been accompanied by signs of stabilisation in the UK and Europe, which have stagnated through the past 18 months. Leading indicators have begun to improve in recent months, in the relatively resilient services sector as well as in manufacturing which has been especially depressed in Europe. While encouraging for the corporate sector, it adds to the conundrum faced by central banks in balancing the risk of loosening policy too soon before inflation has reached target levels sustainably, against the risk of leaving it too late, pushing interest rates increasingly higher in real terms as inflation falls, unduly tightening financial conditions and risking full-blown recession.

For investors, this makes it increasingly difficult to predict the path of interest rates, but we remain confident that the monetary policy cycle is close to a turning point and rates in the US, UK and Europe will be cut significantly during the second half of the year. That provides a strong foundation for rising bond and equity markets. The challenge to that prospect is the sharp rise in most equity markets in the past four months, discounting at least some of the more positive environment ahead and driving valuations higher, especially in growth stocks, along with possible complacency around inflationary risks of tight labour markets, high fiscal spending in the US, and geopolitical risks. We remain constructive for risk assets over the course of the year, but expect a period of consolidation in equity markets, while taking opportunities to add to positions in government bonds and selective parts of the credit markets, where yields have again become more attractive following the moves higher this year.

"equities have been boosted by the strength of tech and growth stocks, especially those benefitting from the AI boom"

Market performance - Global (local returns) as at 29 February 2024

Asset Class / Region	Index	Ccy	1 month	3 months	YTD	12 months
Developed Markets Equities						
United States	S&P 500 NR	USD	5.3%	11.9%	7.0%	29.8%
United Kingdom	MSCI UK NR	GBP	0.8%	3.2%	-0.2%	1.1%
Continental Europe	MSCI Europe ex UK NR	EUR	2.4%	8.4%	4.4%	12.5%
Japan	Topix TR	JPY	4.9%	12.9%	13.1%	37.6%
Asia Pacific (ex Japan)	MSCI AC Asia Pacific ex Japan NR	USD	4.5%	4.1%	-0.5%	5.5%
Global	MSCI World NR	USD	4.2%	10.7%	5.5%	25.0%
Emerging Markets Equities						
Emerging Europe	MSCI EM Europe NR	USD	3.7%	8.3%	6.1%	30.0%
Emerging Asia	MSCI EM Asia NR	USD	5.9%	3.6%	0.3%	6.9%
Emerging Latin America	MSCI EM Latin America NR	USD	-0.2%	2.9%	-5.0%	22.4%
China	MSCI EM China NR	USD	5.3%	1.5%	-0.6%	3.7%
BRICs	MSCI BRIC NR	USD	8.4%	-5.4%	-3.1%	-14.1%
Global emerging markets	MSCI Emerging Markets NR	USD	4.8%	3.8%	-0.1%	8.7%
Bonds						
US Treasuries	JP Morgan United States Government Bond TR	USD	-1.3%	1.8%	-1.5%	2.4%
US Treasuries (inflation protected)	BBgBarc US Government Inflation Linked TR	USD	-1.1%	1.8%	-0.9%	2.4%
US Corporate (investment grade)	BBgBarc US Corporate Investment Grade TR	USD	-1.5%	2.6%	-1.7%	6.0%
US High Yield	BBgBarc US High Yield 2% Issuer Cap TR	USD	0.3%	4.0%	0.3%	11.0%
UK Gilts	JP Morgan UK Government Bond TR	GBP	-1.1%	2.0%	-3.4%	0.9%
UK Corporate (investment grade)	ICE BofAML Sterling Non-Gilt TR	GBP	-0.6%	2.7%	-1.5%	5.6%
Euro Government Bonds	ICE BofAML Euro Government TR	EUR	-1.2%	1.9%	-1.7%	5.2%
Euro Corporate (investment grade)	BBgBarc Euro Aggregate Corporate TR	EUR	-0.9%	2.0%	-0.7%	6.6%
Euro High Yield	BBgBarc European HY 3% Constrained TR	EUR	0.4%	4.1%	1.1%	10.0%
Japanese Government	JP Morgan Japan Government Bond TR	JPY	0.4%	0.0%	-0.4%	-0.9%
Australian Government	JP Morgan Australia GBI TR	AUD	-0.4%	2.7%	-0.2%	2.9%
Global Government Bonds	JP Morgan Global GBI	USD	-1.5%	1.0%	-3.1%	1.3%
Global Bonds	ICE BofAML Global Broad Market	USD	-1.5%	1.4%	-2.8%	2.9%
Global Convertible Bonds	ICE BofAML Global Convertibles	USD	1.4%	4.9%	0.0%	7.0%
Emerging Market Bonds	JP Morgan EMBI+ (Hard currency)	USD	1.4%	5.3%	0.1%	10.3%

Asset Class / Region	Index	Ccy	1 month	3 months	YTD	12 months
Property						
US Property Securities	MSCI US REIT NR	USD	1.9%	7.1%	-2.3%	4.2%
Australian Property Securities	S&P/ASX 200 A-REIT Index TR	AUD	4.5%	16.6%	5.9%	11.2%
Asia Property Securities	S&P Asia Property 40 Index NR	USD	-0.2%	-0.3%	-5.9%	-7.2%
Global Property Securities	S&P Global Property USD TR	USD	0.2%	5.0%	-3.7%	3.0%
Currencies						
Euro		USD	-0.1%	-0.8%	-2.1%	2.2%
UK Pound Sterling		USD	-0.5%	0.0%	-0.8%	5.0%
Japanese Yen		USD	-2.0%	-1.2%	-6.0%	-9.2%
Australian Dollar		USD	-1.1%	-1.6%	-4.6%	-3.4%
South African Rand		USD	-2.7%	-1.8%	-4.4%	-4.4%
Commodities & Alternatives						
Commodities	RICI TR	USD	-0.3%	-0.7%	1.3%	0.5%
Agricultural Commodities	RICI Agriculture TR	USD	-0.2%	-0.1%	1.3%	3.0%
Oil	Brent Crude Oil	USD	2.3%	1.0%	8.5%	-0.3%
Gold	Gold Spot	USD	0.2%	0.4%	-0.9%	11.9%

Interest Rates	Current Rate
United States	5.50%
United Kingdom	5.25%
Eurozone	4.50%
Japan	-0.10%
Australia	4.35%
South Africa	8.25%

Source: Bloomberg Finance L.P. , Momentum Global Investment Management. Past performance is not indicative of future returns.

Market performance - UK (all returns GBP) as at 29 February 2024

Asset Class / Region	Index	Local Ccy	1 month	3 months	YTD	12 months
Equities						
UK - All Cap	MSCI UK NR	GBP	0.8%	3.2%	-0.2%	1.1%
UK - Large Cap	MSCI UK Large Cap NR	GBP	0.6%	2.6%	-0.5%	-0.5%
UK - Mid Cap	MSCI UK Mid Cap NR	GBP	1.1%	6.0%	-0.9%	4.8%
UK - Small Cap	MSCI Small Cap NR	GBP	-1.2%	5.2%	-3.1%	-0.9%
United States	S&P 500 NR	USD	6.1%	11.9%	8.3%	24.5%
Continental Europe	MSCI Europe ex UK NR	EUR	2.7%	7.5%	3.1%	9.9%
Japan	Topix TR	JPY	3.2%	11.5%	7.4%	19.5%
Asia Pacific (ex Japan)	MSCI AC Asia Pacific ex Japan NR	USD	5.3%	4.1%	0.6%	1.1%
Global developed markets	MSCI World NR	USD	5.1%	10.7%	6.7%	19.8%
Global emerging markets	MSCI Emerging Markets NR	USD	5.6%	3.8%	1.0%	4.3%
Bonds						
Gilts - All	ICE BofAML UK Gilt TR	GBP	-1.2%	2.0%	-3.6%	0.7%
Gilts - Under 5 years	ICE BofAML UK Gilt TR 0-5 years	GBP	-0.5%	1.0%	-0.8%	3.2%
Gilts - 5 to 15 years	ICE BofAML UK Gilt TR 5-15 years	GBP	-1.7%	1.6%	-3.5%	2.0%
Gilts - Over 15 years	ICE BofAML UK Gilt TR 15+ years	GBP	-1.4%	2.9%	-6.2%	-2.5%
Index Linked Gilts - All	ICE BofAML UK Gilt Inflation-Linked TR	GBP	0.3%	2.0%	-4.7%	-2.3%
Index Linked Gilts - 5 to 15 years	ICE BofAML UK Gilt Inflation-Linked TR 5-15 years	GBP	-0.8%	1.5%	-3.0%	3.0%
Index Linked Gilts - Over 15 years	ICE BofAML UK Gilt Inflation-Linked TR 15+ years	GBP	1.4%	2.8%	-6.6%	-7.1%
UK Corporate (investment grade)	ICE BofAML Sterling Non-Gilt TR	GBP	-0.6%	2.7%	-1.5%	5.6%
US Treasuries	JP Morgan US Government Bond TR	USD	-0.6%	1.8%	-0.8%	-2.0%
US Corporate (investment grade)	BBgBarc US Corporate Investment Grade TR	USD	-0.8%	2.7%	-0.9%	1.4%
US High Yield	BBgBarc US High Yield 2% Issuer Cap TR	USD	0.3%	4.0%	0.3%	11.0%
Euro Government Bonds	ICE BofAML Euro Government TR	EUR	-1.2%	1.9%	-1.7%	5.2%
Euro Corporate (investment grade)	BBgBarc Euro Aggregate Corporate TR	EUR	-0.9%	2.0%	-0.7%	6.6%
Euro High Yield	BBgBarc European High Yield 3% Constrained TR	EUR	0.4%	4.1%	1.1%	10.0%
Global Government Bonds	JP Morgan Global GBI	GBP	-0.7%	1.1%	-2.0%	-2.9%
Global Bonds	ICE BofAML Global Broad Market	GBP	-1.5%	1.4%	-2.8%	2.9%
Global Convertible Bonds	ICE BofAML Global Convertibles	GBP	1.4%	4.9%	0.0%	7.0%
Emerging Market Bonds	JP Morgan EMBI+ (Hard currency)	GBP	2.2%	5.3%	1.3%	5.8%

Asset Class / Region	Index	Local Ccy	1 month	3 months	YTD	12 months
Property						
Global Property Securities	S&P Global Property TR	GBP	1.0%	5.0%	-2.5%	-1.2%
Currencies						
Euro		GBP	0.4%	-0.8%	-1.3%	-2.7%
US Dollar		GBP	0.5%	0.0%	0.8%	-4.8%
Japanese Yen		GBP	-1.5%	-1.2%	-5.2%	-13.5%
Commodities & Alternatives						
Commodities	Rogers International Commodity (RICI) TR	GBP	0.5%	-0.7%	2.5%	-3.6%
Agricultural Commodities	Rogers International Commodity (RICI) Agriculture TR	GBP	0.6%	-0.1%	2.4%	-1.2%
Oil	Brent Crude Oil	GBP	3.1%	1.0%	9.8%	-4.4%
Gold	Gold Spot	GBP	1.0%	0.4%	0.2%	7.3%
Interest Rates				**Current Rate**		
United Kingdom				5.25%		

Source: Bloomberg Finance L.P. , Momentum Global Investment Management. Past performance is not indicative of future returns.

March 2024

Asset allocation views

Score	---	--	-	/	+	++	+++

Score	Change	---	--	-	/	+	++	+++
MAIN ASSET CLASSES	▲/▼/—							
Equities	—			■				
Fixed Income	—				■			
Alternatives	—					■		
Cash	—				■			

Overall View

The continued move higher for risk assets year to date, on the back an improving 'soft landing' growth outlook, is welcome, but leaves less room for upside surprise. Our fixed income view is largely constructive, more so in sovereigns today which offer attractive nominal and real yields, but we recognize risk premia on corporate credit are thin today. Alternative assets remain a good diversifier of returns, especially favourable should market volatility increase. Cash provides optionality on any pullback as well as a decent yield, but increasingly we prefer to lock in rates further out by extending duration.

Score	Change	---	--	-	/	+	++	+++
EQUITIES	▲/▼/—							
Developed Equities	—			■				
UK Equities	—						■	
European Equities	—				■			
US Equities	—			■				
Japanese Equities	—					■		
Emerging Market Equities	—					■		

UK equities remain the conviction valuation call with the UK remaining the cheapest developed market. There is little obvious catalyst to rerate, but the attractive earnings yields continue to draw in private and overseas buyers. Japan remains attractive both in valuation terms and on improving fundamentals. US equities continue to show a worrying lack of breadth in the continuing rally, but the opportunity set for active managers grows. European equities look reasonably attractive, but the most compelling markets remain the UK and Japan which trade at a discount to global peers and offer healthy dividends.

Score	Change	---	--	-	/	+	++	+++
FIXED INCOME	▲/▼/—							
Government	—					■		
Index-Linked	—				■			
Investment Grade Corporate	—				■			
High Yield Corporate	—			■				
Emerging Market Debt	—				■			
Convertible Bonds	—			■				

After a late year end rally and subsequent modest reset, global treasury yields offer reasonable value today, and we maintain our overweight government view. Inflation linked bonds offer attractive real yields but are not cheap today. Despite offering alluring all in yields, we think the spreads offered today on investment grade and riskier high yield corporate bonds do not compensate investors adequately for the underlying fundamental credit risk. Although defaults remain low and the growth outlook has moderated, financial conditions remain somewhat tight today. We prefer shorter duration bonds in both developed and emerging markets, particularly high-grade credit.

Score	Change	---	--	-	/	+	++	+++
SPECIALIST ASSETS/ALTERNATIVES	▲/▼/—							
Commodities	—				■			
Property	—				■			
Infrastructure	—					■		
Liquid Alternatives	—			■				
Private Equity	▲							■
Specialist Financial	—						■	

Commodity prices are likely to remain idiosyncratic supply and demand driven stories with price moves exacerbated by geopolitical risk which has taken gold to new highs. Alternatives continue to offer diversification benefits but compete today with higher yielding cash and bonds. Increasing discounts in NAVs in private equity appear overly pessimistic, and we upgrade our view. Infrastructure and specialist financials remain attractive. Our liquid alternatives continue to offer attractive diversification benefits during periods of market uncertainty, but the bar has been raised for the performance after the great rate reset.

Score	Change	---	--	-	/	+	++	+++
CURRENCIES vs. USD	▲/▼/—							
GBP	—					■		
EUR	—				■			
JPY	—					■		
Gold	—			■				

Against long term valuation metrics, Sterling and Yen remain cheap relative to the Dollar. The Bank of Japan's continuing policy of yield curve control, in the face of other central bank policy hikes, has crushed the Yen in recent years. The higher for longer narrative in the US has buoyed the dollar which looks somewhat expensive as rates look set to fall later this year, but its safe haven status at a time of heightened geopolitical risk assures a diversification premium. Gold's status as a haven asset means it remains a useful diversifier, but its recent run higher makes it look somewhat expensive versus real rates today.

The asset allocation views are updated at the end of each quarter unless otherwise stated.

"the most compelling markets remain the UK and Japan which trade at a discount to global peers and offer healthy dividends"

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