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Market highlights in Q1 2024

April 2024

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Global markets enjoyed a buoyant start to 2024 but with more muted gains than the strong rally seen in late 2023. Various equity markets, including US, Japanese and European bourses, hit record highs during the quarter, spurred on by various economic data points and strong earnings, especially in the US technology sector, which suggested the global economy may see a soft landing instead of a deep recession.

In December, markets had been pricing in a strong chance that various central banks would begin their rate cutting cycle as early as March, but gradually had their expectations tempered by consistently hawkish comments from the US Federal Reserve (Fed), the European Central Bank (ECB) and the Bank of England (BoE). Much of the commentary provided by central banks continually noted they were in no rush to cut rates, with many remarking that the battle against price rises was not won quite yet.

Due to such persistent inflation and hawkish central bank commentary, government bond yields made their way higher during the period, as investors' hopes of imminent rate cuts looked overly optimistic.

Adding to worries about inflation were rising tensions in the Red Sea as Houthi rebels continually attacked cargo vessels in the area, either bringing about delays for goods coming from Asia to Europe through the corridor or forcing them to be rerouted completely, driving up transportation costs and ultimately inflation.

In commodity markets, oil prices generally traded higher throughout the quarter, driven by tensions in the Middle East and rumours that the OPEC group of oil-producing nations were considering a production cut in the second quarter of 2024. Gas prices fell, however, as a warmer February led to weaker demand.

Performance Highlights

Global equity markets were led higher by US stocks, especially those exposed to the recent boom in artificial intelligence, with the global index returning 9.17%[1] during the quarter. Japan was another area of strength for equity markets, hitting record highs throughout the period, pushed higher by cheap valuations, corporate governance reforms and a shift towards moderate inflation.

Although emerging market equities were broadly flat, dollar-denominated emerging market debt was a standout performer, rising nearly 3%[2] as emerging market credit spreads tightened. The strength of the greenback further enhanced returns for UK investors.

With inflation refusing to completely abate and persistently strong labour data in most western economies, investors were forced to temper their rate cut expectations. That forced bond yields higher (and bond prices lower), with 10-year UK gilts rising 0.4%[2] and US Treasuries jumping 0.32%[2]. Despite weakness in government bonds, stronger-than-expected economic and corporate performance underpinned a positive quarter for high yield bonds, which delivered 1.46%[2].

With various markets racing to all-time highs, the UK market was somewhat left behind. The blue-chip index slightly outperformed its more domestically orientated small cap peer with a rise of 3.99%[1] compared to 1.59%[1].

Global infrastructure saw a mixed quarter, finishing the period roughly flat, having enjoyed a very strong close to 2023.

Important Information

The value of investments, and the income from them, can go down as well as up and an investor may get back less than the amount invested.

[1] FE Analytics

[2] Bloomberg

[3] abrdn

Outlook for Q2 2024

01

The balance of probabilities has shifted to the point where we now believe the US economy is likely to avoid a recession. Activity has been remarkably resilient in the face of higher interest rates, helped by strong consumer and corporate balance sheets, positive supply shocks and looser fiscal policy. These tailwinds are likely to fade in 2024, so we think growth will moderate to below trend. Easing financial conditions should prevent a more disruptive slowdown and sets the scene for a reacceleration in growth towards trend in 2025.

02

Meanwhile, the UK and Eurozone should slowly emerge from recession-like conditions in 2024, helped by positive real wage growth. But Germany will continue to struggle from cyclical and structural headwinds to its growth model.

03

We expect the Fed, ECB and BoE to each make an initial move to cut rates in June. We expect a cumulative 1 percentage point of rate cuts from the Fed this year and 1.25 points in 2025.[3]

04

Bumpy disinflation is broadly continuing across emerging markets, helped by restrictive monetary policy. But there are also clear last-mile risks here too, including from El Niño and geopolitical volatility pushing up food prices.

05

The Bank of Japan (BoJ) will be a notable outlier. Admittedly, incoming data is painting a mixed picture about the sustainability of Japan's emergence from low inflation and growth remains weak. However, a strong round of collective bargaining for wage increases (known as 'shunto') should be enough for the BoJ to exit negative interest rates and yield curve control by the summer.

Past performance does not predict future returns. The value of investments, and the income from them, can go down as well as up and clients may get back less than the amount invested.

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