Investment Outlook

A monthly round-up of global markets and trends

April 2024

In this issue

Please read the important information section

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Investment outlook

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Markets are breaking out

Global equities have decisively broken out on the upside of a trading range that goes back to early 2022. That was when central banks, including the US Federal Reserve (Fed) and Bank of England (BoE), warned that interest rates would have to be raised sharply to rein in higher inflation. The MSCI All Country World Index, an equity benchmark, is now more than 15% above the high end of this trading range.[1] Many major regional indices, including the US, UK, Europe ex-UK and Japan, are near all-time highs, implying the rally is becoming relatively broad-based. However, emerging markets, dragged down by China, are still well below their peaks.

Other assets have moved into uncharted territory too. Gold bullion is currently trading north of $2,200 a troy ounce, lifted by strong central bank demand.[1] Fund managers are also buying gold given its role as a portfolio diversifier against potential downside risk. A weaker US dollar has helped - gold is typically priced in dollars, so as the greenback depreciates, bullion becomes cheaper for a non-dollar investor to purchase.

Some of these rises in asset prices have been more surprising than others. For instance, even though mortgage rates steadily rose to a 23-year peak late last year, US residential property prices have continued to trend upwards.[1] That's possibly due to a limited amount of available housing/rental stock at a time when net immigration has soared to create strong demand for accommodation. Higher mortgage rates have resulted in fewer affordable properties coming onto the market, as only those on higher incomes may be able to move.

Not all assets have performed as strongly. US and UK 10-year government bonds are still both more than 15% below the level at the start of 2022.[1] This reflects the exit from the period of record low interest rates in the years following the Global Financial Crisis. However, there are other drivers at play too. Increased supply of government debt coming on to the market, as well as lingering concerns from investors over another inflation shock, are dampening government bond returns. Unsurprisingly, politicians are not willing to cut sizeable welfare spending ahead of elections, a key contributor to budget deficits. This has led to US government debt rising by a record $1 trillion roughly every three months, with total outstanding public debt now at an elevated 122% of GDP.[1]

Improving growth supports equities

To look forward at markets, it is important to look back. From its cyclical low point in October 2022, the value of global equity markets has risen by $25 trillion. Essentially, this wealth generates economic stimulus in three ways.[1]

First, increasing asset prices boosts consumers' wealth, which supports spending. To put that in context, annual US real household purchasing power (which includes property-related wealth, consumer credit and take-home pay), grew by a healthy 3.4% in the fourth quarter of 2023, a rate which can continue to drive consumer demand and economic growth.[1]

Second, financial conditions, which refer to the availability of credit in the financial system, are improving. According to JP Morgan, there is now a net loosening in financial conditions in the US and euro area, a sharp reversal from a net tightening in 2022.[2] More companies are also using this window of opportunity to borrow money in the corporate bond market, which can be invested in the real economy.

Third, business confidence is picking up, backed by solid demand. Moreover, Artificial Intelligence (AI) could become a powerful driver of future growth from a productivity boom and increasing adoption rates. Oliver Wyman, a management consultancy, recently surveyed 25,000 workers in 17 countries, ranging from the US to India, and found that half of all workers already use generative AI tools at work.[3]

Several risks remain to this constructive outlook. Market uncertainty largely relates to politics, stretched valuations and a potential return of inflation.

Politics: it is looking like the 2024 US Presidential election will be a rematch of the 2020 election. Former President Donald Trump is now the presumptive Republican nominee, after his last rival, Nikki Haley, dropped out of the race, while President Joe Biden has made clear his intention to run again. A tail risk for markets is if the November election result is disputed and it leads to social unrest.

Valuations: some Big Tech share prices have been significantly bid-up to record highs. As an example, Nvidia, a member of the so-called 'Magnificent Seven' group of stocks, is now worth as much as the entire German stock market! There is a risk of profit taking by investors from selling out of these high-flying tech stocks if earnings fail to keep up with lofty expectations.

Inflation: faster economic growth could rekindle higher inflation down the road if it does not also come with productivity gains. That would make it difficult for central banks to cut interest rates. Nevertheless, this risk looks contained for now. In the UK, the Office of Budget Responsibility forecasts that CPI inflation is set to slow from 3.4% currently to 2.2% by the end of 2024 and 1.5% by the end of 2025.

In summary, rising equity and property prices increase the probability of sustained global recovery. Should this encourage more risk taking by consumers, firms, and investors then there is potential for the global equity to rally to go well past breakout levels.

Sources:
[1] LSEG Datastream, Evelyn Partners
[2] Financial conditions have shifted to a tailwind, Nikolaos Panigirtzoglou, JPMorgan. 7 February 2024
[3] What I learned This Week, 1 February 2024

Market highlights

Equities

Following the stock market correction driven by the Covid-19 pandemic in early 2020, global equities performed strongly over the next 18 months as central banks and governments moved to ultra-accommodative policies. But this loose policy was brought to an abrupt end by the emergence of above-target inflation. Central bankers moved towards significantly tighter monetary policy at the start of 2022. This paved the way for a two-year roller-coaster in global stock markets, as investors struggled to digest higher interest rates. However, towards the end of 2023 global equities rallied as investor confidence grew in the ability of central banks to bring inflation under control and avoid a hard economic landing. The MSCI All Country World Index is now more than 15% above the top of the roller-coaster range.

Global equity index (GBP, TR)

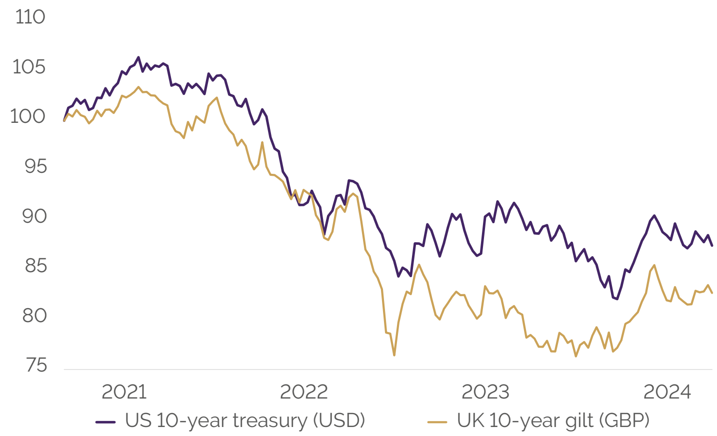
Source: LSEG Datastream/Evelyn Partners, data as at 04 April 2024

Past performance is not a guide to future performance

Fixed income

The value of government bonds fell during 2022 as the US and UK central banks began monetary tightening cycles. Towards the end of 2023, bonds rallied as confidence grew that the hiking cycle was over and inflation was falling towards target levels. So far this year that rally has petered out as good economic news has been accompanied by stickier inflation prints in the US and expectations for the speed of rate cuts has slowed. In the case of the US, this means the futures market is now in alignment with the Fed's own outlook of three cuts this year. In the UK, the latest Bank of England (BoE) meeting revealed that no members of the committee thought interest rates needed to increase any longer. Markets expect the first rate cut to come in June on both sides of the pond.

UK Gilt and US 10-year treasury bond total return indices



Source: LSEG Datastream/Evelyn Partners, data as at 04 April 2024

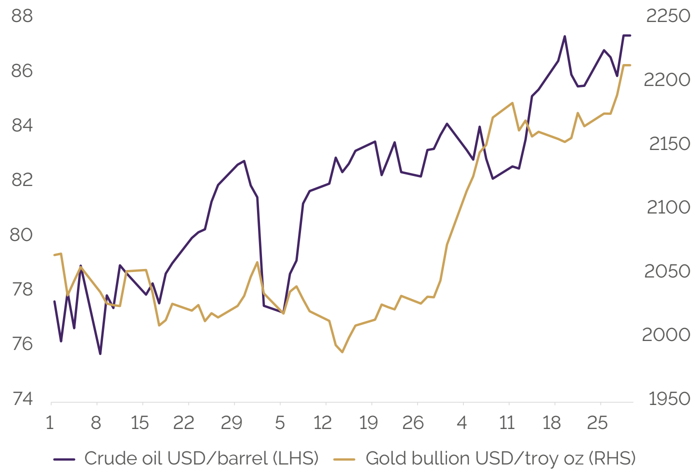
Current or past yield figures provided should not be considered a reliable indicator of future performance

Currencies and commodities

Crude oil has rallied this year with demand stronger than expected on the back of a resilient global growth outlook. Supply has been constrained as some OPEC+ members extended voluntary output cuts. Geopolitical instability in the Middle East has also exerted some upward pressure on oil prices.

Meanwhile gold had a slow start to the year, but rallied during March, reaching fresh highs to just over $2,200/troy oz. Central banks continue to purchase the precious metal in large volumes, while looming interest rate cuts may also have contributed to this price appreciation. As gold doesn't produce an income, when interest rates fall the opportunity cost of purchasing income generating securities such as bonds also falls, increasing the relative attractiveness of the yellow metal.

Crude oil and gas prices



Source: LSEG Datastream/Evelyn Partners, data as at 04 April 2024

Past performance is not a guide to future performance

Market returns (Total return (%), sterling)	1 month	3 months	1 year	5 year
Equities				
MSCI All-Country World	3.3	9.3	21.2	77.4
MSCI UK	4.6	4.1	8.5	32.7
MSCI UK Broad	4.7	3.8	8.8	28.8
MSCI USA	3.3	11.4	27.5	107.6
MSCI Europe ex UK	3.8	7.0	13.6	64.3
MSCI Japan	3.3	12.2	23.5	52.7
MSCI Pacific ex Japan	1.4	-0.8	0.3	19.9
MSCI Emerging Markets	2.7	3.4	6.3	17.3
Bonds				
iBoxx GBP Gilts	1.8	-1.8	-0.6	-18.5
iBoxx USD Treasuries	0.7	-0.1	-2.4	2.4
iBoxx GBP Corporate	1.7	0.2	7.5	0.0
Commodities and trade-weighted currencies				
Oil Brent Crude ($/barrel)	4.3	12.5	9.6	27.5
Gold ($/ounce)	8.3	7.2	12.0	70.9
GBPUSD	-0.1	-0.9	2.2	-3.1
GBPEUR	0.1	1.4	2.8	0.8
EURUSD	-0.2	-2.2	-0.6	-3.8
USDJPY	1.1	7.4	13.7	36.7

Past performance is not a guide to future performance.

Market commentary

Global stock markets rallied 3.3% over March as US economic growth remained resilient. The UK was the best performing equity region, with its large weighting to the energy sector proving helpful following the recent rally in crude oil prices. The US performed strongly with the S&P 500 making new all-time highs of over 5,200 during March. In the Far East, a weak Yen boosted Japanese equities, which rallied by 3.3% over last month and 12.2% for the last three months. This propelled the Nikkei 225 index to a new all-time high for the first-time since 1989. Despite delivering positive returns, bonds underperformed equities in March, as interest rate cuts are now expected to occur later than previously expected.

Key macro data	Latest	2024 Consensus forecast	Spot rates	31 Mar	Yields (%)	31 Mar
UK GDP (YoY%)	-0.25	0.30	GBP/USD	1.26	MSCI UK	3.91
UK CPI Inflation (YoY%)	3.40	2.50	GBP/Euro	1.17	MSCI UK broad	3.82
Bank of England Base	5.25	4.30	Euro/USD	1.08	10 Year Gilt	4.06

The market commentary, values and charts as at 31 March 2024. Total returns in sterling. Returns are shown on a total return (TR) basis ie including dividends reinvested (unless otherwise stated). Net return (NR) is total return including dividends reinvested after the deduction of withholding tax. Source: LSEG Datastream/Bloomberg

Important information

Please remember the value of investments and the income from them can fall as well as rise and investors may not receive back the original amount invested.

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