# A look back at markets in April 2024.

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# The pause before the next leg

**Bank of England likely to cut rates in “coming quarters”**

**Turkey leads emerging markets**

**Commodities rally, benefiting some European markets**

The Balanced portfolio benchmark returned -0.68% in April as the index re-priced the changing timeline for interest rate cuts.

### Inflation and Interest rates

#### Bank of England

The central bank held interest rates at 5.25% at their latest meeting with Bank of England Governor, Andrew Bailey, saying that he was *"optimistic that things are moving in the right direction"*. He expects inflation to fall close to its 2.00% target in the next couple of months, paving the way for an interest rate cut in the coming months.

In a conference of mixed messages, Mr Bailey also said there had been *"encouraging news"* on inflation, currently at 3.20%, but the Bank needed *"more evidence"* it would stay low before cutting rates.

He also said it was *"likely that we will need to cut bank rates over the coming quarters"* and by more than financial markets are currently predicting. This can only be seen as good news for Fixed Income markets, with UK Bonds expected to rally in such circumstances.

#### US Federal Reserve

The US held interest rates at 5.25%-5.50% this month as Fed Chair, Jerome Powell, suggested that it will take longer than previously expected for policymakers to become comfortable that inflation will resume the decline towards 2% that had cheered them through much of last year.

The Fed's preferred inflation measure - the personal consumption expenditures price index - increased at a 2.7% annual rate in March, an acceleration from the prior month.

"*Inflation is still too high,"* Powell said in a press conference. *"Further progress in bringing it down is not assured and the path forward is uncertain"* giving reason for market caution around the timing of rates.

**European Central Bank**

ECB policymakers Philip Lane, Gediminas Simkus and Boris Vujcic said separately that the latest inflation and growth data cemented their belief that inflation will head back to the central bank's 2% target by the middle of next year.

Euro zone inflation stood at 2.4% in April and a crucial indicator of underlying price pressures slowed while the economy staged a small rebound.

This further supports the view of those who believe that the ECB will be the first of the major central banks to cut rates this year as inflation continues to slow. The ECB held rates at 4.50% in April and are next due to announce their interest rate decision on 6th June.

**Economic indicators**

| Country/ region | Manufacturing PMI | Services PMI |
|---|---|---|
| US | 50.0 | 50.9 |
| UK | 49.1 | 55.0 |
| Eurozone | 45.7 | 52.9 |

Note: Less than 50 PMI = contraction and more than 50 PMI = growth.

**Manufacturing**

The US Manufacturing PMI fell to 50 in April of 2024 from 51.9 in the previous month, below market expectations of 52. The data showed the first fall in factory activity this year following three firm expansions.

The UK Manufacturing PMI was 49.1 in April 2024, down from March's 20-month high of 50.3. Both output and new orders slipped back into contraction territory following upturns in March, amid client destocking, and supply-chain disruption. The outlook for the UK manufacturing sector remained positive in April. Over half of companies (52%) forecast that output would increase over the coming year, compared to only 8% anticipating a decline. Optimism was linked to hopes for a revival in demand, new product launches, efficiency gains and an improvement in market conditions.

The Eurozone Manufacturing PMI came in at 45.7 in April 2024, below March's final figure of 46.1. Supplier delivery times once again shortened, to the greatest extent in eight months. On the price front, both input costs and output charges extended their decrease. Finally, business sentiment strengthened for a second successive month and reached its highest level since February 2022.

**Services**

The US Services PMI dropped to 50.9 in April 2024, below market expectations of 52. The decrease in new business was attributed to higher interest rates and prices, which limited demand for services. Service providers mentioned increased staff and shipping costs, although overall cost increases were at their second lowest in three-and-a-half years.

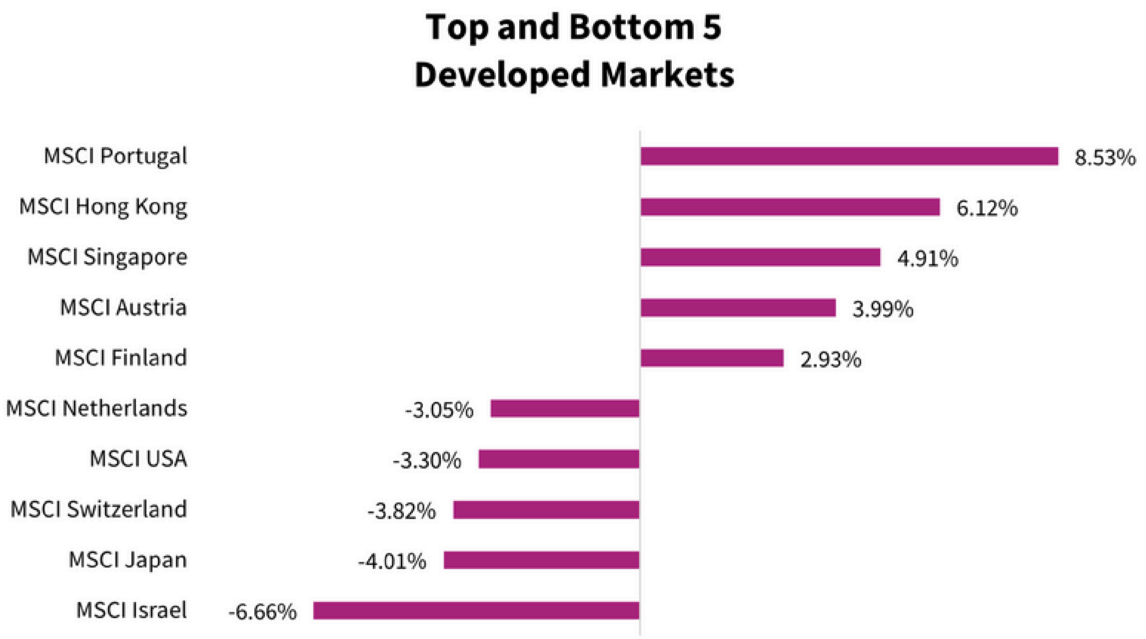
The UK Services PMI jumped to 55 in April, pointing to the sixth consecutive period of expansion, at the sharpest pace in one year. Service providers remained upbeat about business activity prospects for the year ahead, with around 54% anticipating a rise and only 10% predicting a decline. Positive sentiment was attributed to signs of a turnaround in client demand and forthcoming marketing initiatives, alongside rising business investment and long-term expansion plans.

Eurozone Services PMI reached 52.9 in April 2024, marking an eleven-month high compared to March's 51.5. New orders saw their fastest growth since May last year, increasing for the second consecutive month, while the rate of employment growth hit a ten-month high.

## Market performance

Portugal led developed markets this month with a gain of 8.53%. Almost half of the index is comprised of Utility and Basic Material companies, which have benefited from the recent rally in commodities. In particular, Galp Energia, the Portuguese energy conglomerate, climbed by more than 30% after discovering that a Namibian oil field may contain at least 10 billion barrels of oil.

In contrast to last month's 'last place', Hong Kong added over 6%, benefitting from the Chinese tailwind as many mainland equities are listed in Hong Kong.




In Emerging Markets, Turkey gained over 15% as savers turn to the local market to preserve their savings as high inflation continues to erode real value. In addition, foreign capital is flowing into Turkish markets, continuing to chase double-digit returns. As for Turkish inflation, it rose to 68.50%, the highest level since November 2022.

China also fared well this month, adding 7.54% as GDP growth surprised to the upside with China growing by 5.30% (year on year) in Q1 ahead of 4.80% forecast. Returns are still volatile however, with the MSCI China index returns being 6.39% YTD, the majority of which have come within the last month. The index has also been down by 12% over the same period.

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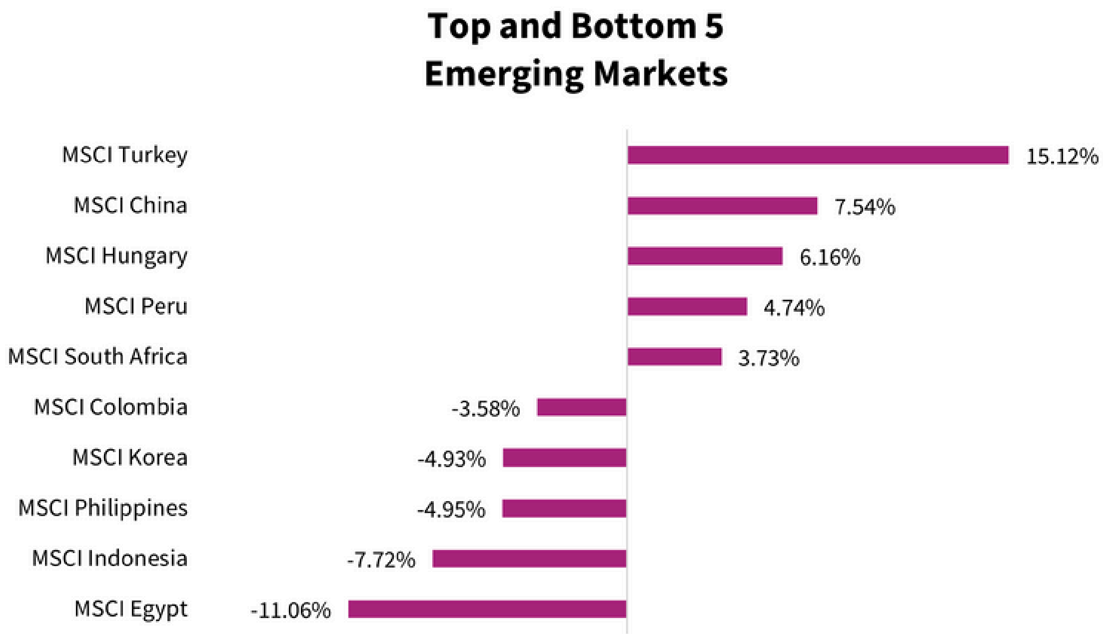
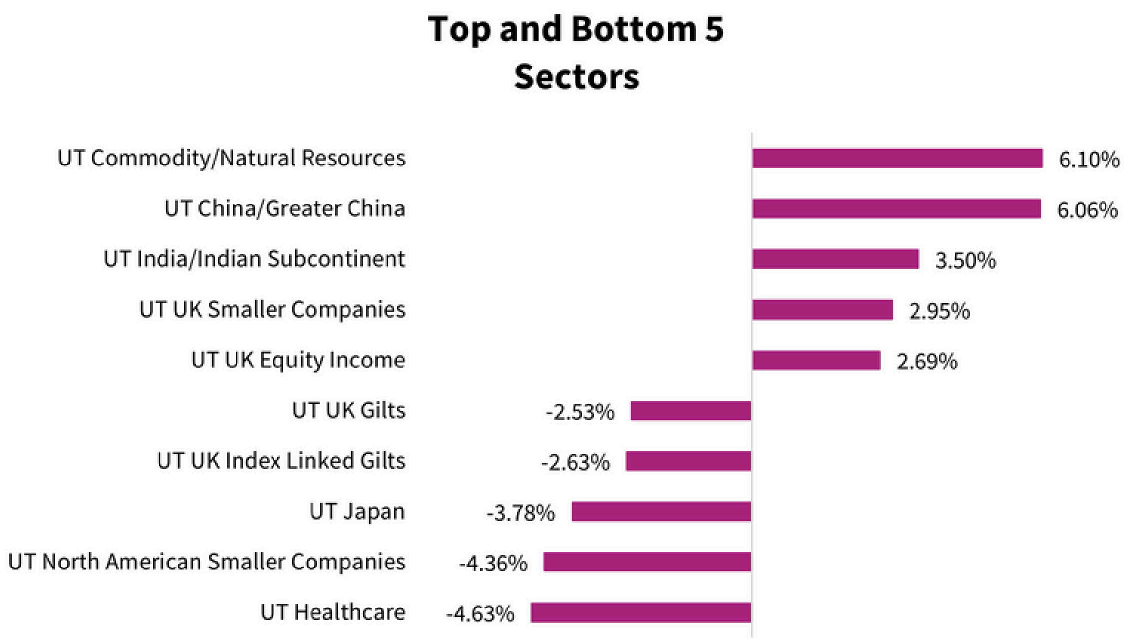



## Sector performance

Commodities and Natural Resources continued to rally, driven by Agricultural softs, Energy and metals. As mentioned previously, China made gains this month as a result of stronger economic growth than forecast.

Both the Healthcare sector and US Smaller companies were challenged this month by the suggestion that interest rates could remain higher for longer.




Source: FE FundInfo, 02/05/24

## Summary

As suggested last month, the latest recession in the UK did prove to be one of the shortest ever. GDP is now estimated to have grown by 0.60% in the first three months of 2024. UK rate cuts are expected to materialise later this year, but not before Europe where the ECB are poised to cut rates first.

As a reminder, interest rate cuts are the friend of bondholders looking for capital appreciation in their portfolio. For example, interest rates falling by 1% means a 1% gain for each year of duration  (two year bond duration = 2% gain, 5 year bond duration = 5% gain).

Falling interest rates are also the friend of businesses and the broader economy as the cost of capital lowers borrowing costs. Ultimately, the economic growth of the 2010's was fuelled by uber-low borrowing costs and central bankers know that the same tool is available to use as soon as they'd like to stimulate growth in the economy. That hinges on continued disinflation which most major nations are now seeing.

Though the timing remains uncertain, multi-asset investors remain invested to ensure that they capture the potential upside in the bond market.

**Sources:**

Economic indicators information from The Institute for Supply Management - Report on business, IHS Markit and Trading Economics
The 'Balanced Portfolio Benchmark' is the UT Mixed Investment 20-60% Shares Sector.
Market and Sector performance data sourced from FE FundInfo, 02/05/2024
S&P 500 and Nasdaq 100 data is sourced from ETF versions via FE Fundinfo as at 02/05/24
Bank of England 'optimistic' as it edges closer to summer rate cut, BBC News, 09/05/2024
ECB grows more confident about cutting rates, policymakers say, by Reuters, 06/05/24
Fed leaves rates unchanged, flags 'lack of further progress' on inflation, by Reuters, 02/05/24
UK growth 'outpaces' US and eurozone for first time in three years as economy grows 0.6% in Q1, 10/05/24, Investment Week

**Important Information:**