FOR PROFESSIONAL INVESTORS ONLY

A look back at markets in March 2024.

By Anthony Walters

Head of ESG - Clever

Clever.

www.cleveradviser.com

www.clevermps.com

The month where all sectors rallied

Federal Reserve cautious, Bank of England have rate cuts in sight

Egypt falls by over 30% as Pound crashes

Strong gains for Spain

The Balanced portfolio benchmark made a gain of which returned 2.40% in March, as the US and Commodities continued to rally on optimism of economic growth and declining inflation.

Inflation and Interest rates

Bank of England

Prospects for 2024 interest rate cuts improved as inflation declined to its lowest point in nearly two and a half years, primarily due to slower price increases in food and dining out. February's decrease from 4.00% to 3.40% indicates that the cost of living is rising at its most sluggish pace since September 2021. However, housing and fuel prices continue to surge.

Meanwhile, inflation in shop prices in the UK has eased to the lowest level for more than two years after retailers cut prices on Easter treats, clothing and electrical goods amid a slowdown in spending by consumers. Industry figures show prices rose at an annual rate of 1.30% in March, down from a rate of 2.50% in February, according to the latest monitor from the British Retail Consortium (BRC) trade body and the market research firm NielsenIQ.

Bank of England (BoE) Governor Andrew Bailey said expectations of interest rate cuts this year were not *"unreasonable"* and he struck an optimistic tone about the UK economy. The BoE kept its benchmark Bank Rate on hold in March, at a 16-year high of 5.25%. Two Monetary Policy Committee members dropped their calls for a rate hike in the face of easing inflation and Bailey said, *"things are moving in the right direction."*

Clever.

US Federal Reserve

The annual inflation rate in the US unexpectedly edged up to 3.20% in February 2024, compared to 3.10% in January and above forecasts of 3.10%.

U.S. Federal Reserve Chair Jerome Powell struck a cautious tone and continued to focus on the need for more debate and data before interest rates are cut, a move financial markets expect to occur in June.

"Recent readings on both job gains and inflation have come in higher than expected," Powell said in a speech to the Stanford Graduate School of Business. While policymakers generally agree that rates can fall later this year, he said this will happen only when they *"have greater confidence that inflation is moving sustainably down"* to the Fed's 2.00% target.

European Central Bank

Euro zone inflation fell unexpectedly last month, solidifying the case for the European Central Bank (ECB) to start lowering borrowing costs from record highs.

Consumer price growth slowed to 2.40% in March from 2.60% a month earlier, defying expectations for a steady rate as food, energy and industrial goods prices all pulled the headline figure lower. The only potential concern for the ECB will be that services inflation has been holding steady at 4.00% for months now, suggesting that relatively quick wage growth is keeping prices in the sector under constant pressure.

ECB president Christine Lagarde reiterated that *“when it comes to the data that is relevant for our policy decisions, we will know a bit more by April and a lot more by June.”* Beyond that, the monetary-policy path is unclear.

“Our decisions will have to remain data dependent and meeting-by-meeting, responding to new information as it comes in,” she told a conference in Frankfurt. *“This implies that, even after the first rate cut, we cannot pre-commit to a particular rate path.”*

Market expectations are for the first ECB interest rate cut to take place in June this year.

Economic indicators

Country/ region	Manufacturing PMI	Services PMI
US	51.9	51.7
UK	50.3	53.4
Eurozone	46.1	51.1

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

Manufacturing

In March 2024, the US Manufacturing PMI was revised lower to 51.9 from 52.2 in February. Despite the marginal slowing in rating, signs of improving wider economic conditions and market demand fed through to a further expansion of US manufacturing production, with the rate of expansion hitting a 22-month high.

The UK Manufacturing PMI moved higher to 50.3 in March from 47.5 in February. The reading pointed to the first expansion in manufacturing activity since July 2022, as output and new orders increased following year-long downturns. Factory production increased for the first time since February 2023, as output growth in the consumer goods sector more than offset downturns in the intermediate and investment goods categories.

The Eurozone Manufacturing PMI was 46.1 in March, slightly lower than the 46.5 posted for the prior month. The reading indicates a three-month low, mainly influenced by changes in suppliers' delivery times and stocks of purchases following the relief of disruptions due to the Suez Canal issue. Although manufacturing output declined for the twelfth consecutive month, the rate of contraction slowed, reaching its lowest point since April 2023. New orders also saw a less pronounced decrease for the fifth month in a row.

Services

The US Services PMI eased to 51.7 in March, from 52.3 for the prior month. Despite the slowdown, the result marked 13 consecutive months of growth for service providers, extending evidence of robust activity despite the prolonged period of high interest rates by the Federal Reserve.

In the UK, the Services PMI edged lower to 53.4 in March from 53.8 in February. This decrease reflects the slowest growth in business activity within the service sector for three months, with many firms attributing it to constraints on households' disposable income.

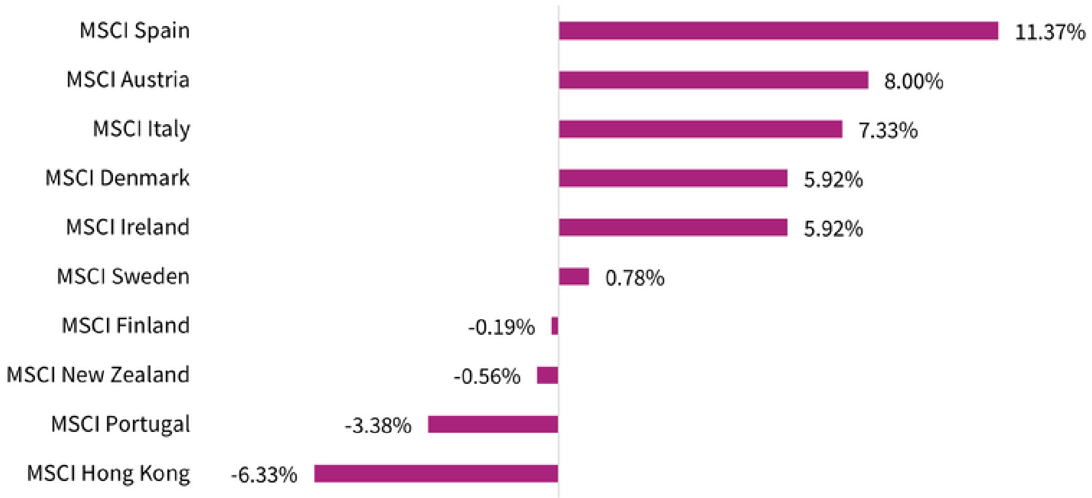
And the Eurozone Services PMI rose to 51.1 in March from 50.2 in the previous month, firmly above market expectations of 50.5 to mark the sharpest growth since June of 2023. It marked the second consecutive month of expansion in the Eurozone's services activity following six straight months of declines, furthering hopes that the bloc's services economy will gain some traction despite the prolonged period of restrictive interest rates.

Market performance

Spain led Developed Markets for the month with a gain of over 11%, supported by a rally in Inditex, Santander and Iberdrola to name a few. Santander said it was *"considering making more than €6 billion worth of dividend payments and share buybacks after an "excellent" start to 2024".*

Hong Kong was the laggard, as many Chinese real estate stocks including Evergrande Group and Country Garden, are listed on the Hong Kong Exchange, and continue to face a huge debt burden against a backdrop of a large reduction in property demand.

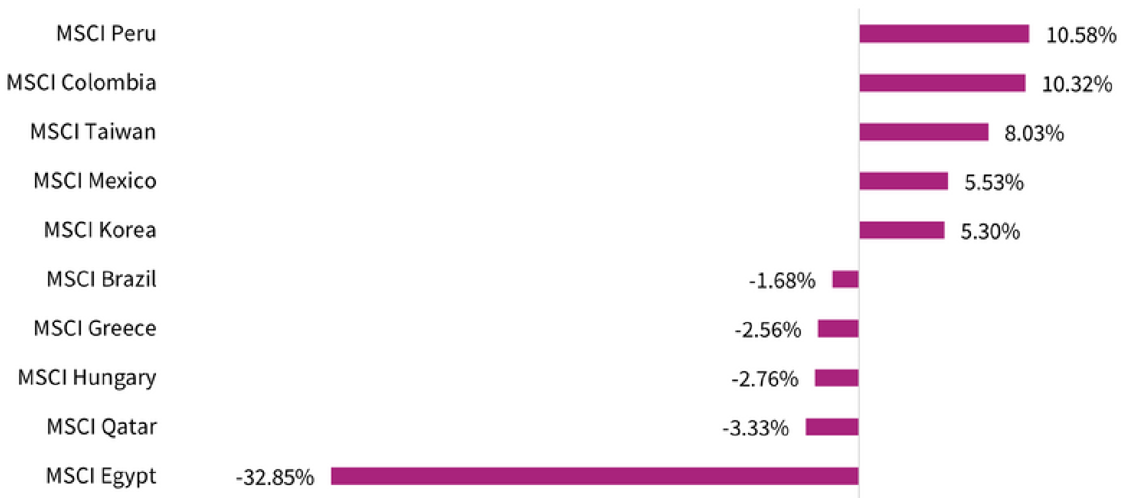
Top and Bottom 5
Developed Markets



In Emerging Markets, both Peru and Colombia gained over 10%, bolstered by a broader rally in financials and commodities.

The MSCI Egypt Index fell by almost 33% after Egypt's central bank devalued the Egyptian Pound by 40 per cent and massively raised interest rates to relieve a foreign currency shortage. The movement in currency came as Egypt signed an $8bn loan agreement with the International Monetary Fund, which was conditional on Egypt letting *"market conditions determine the price of its currency"* and *"making foreign exchange available to businesses and private individuals",* the IMF said.

Top and Bottom 5
Emerging Markets



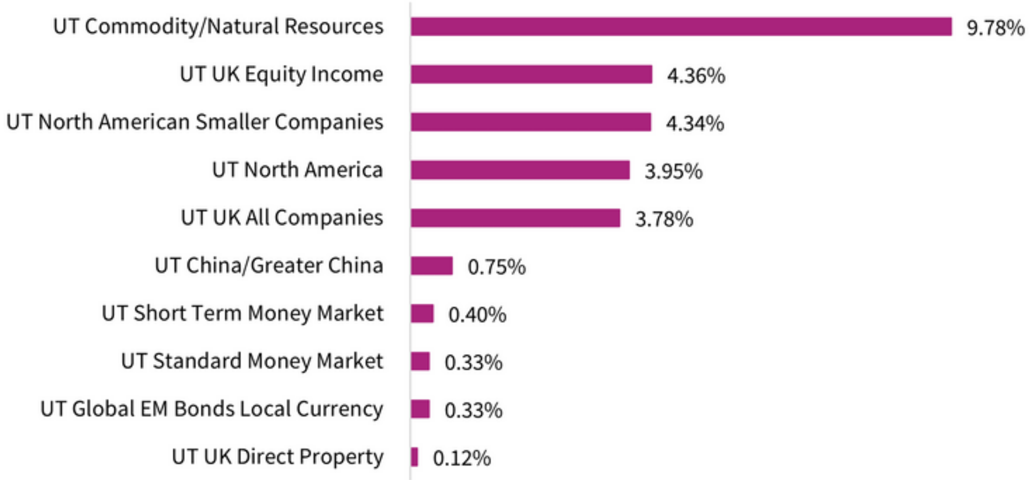
Sector performance

Commodities and Natural Resources gained almost 10%, driven by higher oil prices as OPEC+ members decided to prolong voluntary output cuts of 2.2 million barrels per day, until June 2024, to stabilise the market.

Naturally, the Oil and Commodity heavy UK Equity Income sector followed suit, up by over 4%.

At the other end of the spectrum, UK Direct Property made a modest gain of 0.12%, a brief bounce against the Year-To-Date decline of almost 1.00%. Despite this, all 44 sectors were positive for the month.

Top and Bottom 5 Sectors



Source: FE FundInfo, 03/04/24

Summary

There is the possibility that the latest recession in the UK could be one of the shortest ever. GDP returned to growth in January, albeit a very modest 0.20%. Whilst we await the publication of data, if the growth in January continued into February and March, the latest recession will prove to be a mild blip on the economic radar.

Although economic data in Europe generally remains in contraction, there are green shoots of growth in the European services sector, having enjoyed its second consecutive month of growth, reversing the prior trend. Spain stood out this month with a solid double-digit gain backed by the tailwind of positive performance in the financial sector. Despite the challenges faced by the Eurozone, the UT Europe Excluding UK sector has grown by 11% over the last year, proving that markets are a forward-looking discounting mechanism, having priced in most of the poor economic data already.

The recent economic events in Egypt make a compelling case for the importance of diversification. Whilst the European sector has enjoyed double-digit growth over the last year, the MSCI Egypt sector is now down by 1.50% over the same period, despite having peaked at a +72.30% return at the end of January 2024.

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, 04/03/2024
S&P 500 and Nasdaq 100 data is sourced from ETF versions via FE Fundinfo as at 07/03/24
IMF ties Egypt loan disbursements to currency flexibility, by Reuters, 02/04/2024
BoE's Bailey says rate cuts in play, FT reports, by Reuters, 22/03/24
UK inflation falls as food and eating out costs ease, by BBC News, 20/03/24
Inflation in UK shops drops to lowest level in two years, by The Guardian, 02/04/24
Powell sticks with Fed's cautious rate-cut strategy, by Howard Schneider and Abhirup Roy, 03/04/24
Euro zone inflation unexpectedly eases, boosting rate cut case, by Balazs Koranyi, 03/04/24
Lagarde Says ECB Can’t Commit to Cuts After Likely June Move, by Alexander Weber and Mark Schroers, Yahoo Finance, 20/03/24
UK economy returns to growth, 13/03/24, by Sky News