FOR PROFESSIONAL INVESTORS ONLY

A look back at markets in January 2024.

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Waiting for bonds to make the next move

US markets make new ‘All Time Highs’

Financials power Sweden rally

No let up for China

The Balanced portfolio benchmark paused in January, returning -0.35% as Fixed Income markets consolidated, waiting for the next ‘interest rate’ move from Central Bankers. Markets remain convinced that central banks will cut rates but there is much speculation around when and, indeed, who will be the first to cut, with bets focused on the ECB (European Central Bank) to be the first mover.

Inflation and Interest rates

Bank of England

Despite UK inflation’s unexpected rise to 4.00%, Bank of England (BoE) Chief Economist Huw Pill said that the question now for most of the central bank's policymakers was when it would be appropriate to cut interest rates, not if. Inflation rose for the first time in ten months, with the biggest upward contribution coming from prices of alcohol and tobacco.

US Federal Reserve

Despite Energy Costs falling by 2.00%, US inflation rose to 3.40% from a five month low. This seemingly gave substance to the cautious tone set by the Federal Reserve, who took the opportunity to remind markets that inflation has still not fallen to its 2.00% target and that rates can remain at this level for longer. Fed Chair Jerome Powell said there would likely not be enough data by the next meeting in March, to feel sure that policymakers have made sufficient progress against inflation to reduce borrowing costs. His colleagues appear to agree. *“For the moment, policy remains well positioned, as we carefully assess the evolving data and outlook,”* said Boston Fed President Susan Collins. She added *"As we gain more confidence ... I believe it will likely become appropriate to begin easing policy restraint later this year."*

European Central Bank

EU inflation fell to 2.80% from 2.90% prior as the rate of disinflation slowed. This change was aligned with market expectations, whilst European Central Bankers also set a cautious tone, questioning the stability of the current inflation level. Using unusual language for a central banker, Pierre Wunsch of Belgium, said the ECB should take a bet on inflation, even if it does not have all the data it needs. *"Let's be honest, we won't get full comfort within a reasonable period,"* Wunsch said at an event organised by think tank Bruegel. *"So I think there is some value to waiting to get some more detail on wages, but at some point we are going to have to bet on where inflation is going."*

Economic Indicators

Country/ region	Manufacturing PMI	Services PMI
US	50.7	52.5
UK	47.0	54.3
Eurozone	46.6	48.4

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

Manufacturing

US manufacturing confidence moved back to growth whilst manufacturing in the UK and Europe remains in contraction. In the US, overall growth was supported by a return to expansion in new orders and a slower contraction in output. Greater new orders and stronger output expectations for the year ahead spurred firms to hire workers, as employment rose for the first time since last September.

UK Output and new orders continued to decline during this period, resulting in more job cuts and reduced purchasing and stock holdings. Manufacturers also faced challenges in their supply chains due to the Red Sea crisis, which forced input deliveries to be redirected from the Suez Canal.

Services

The US and UK continue to report growth in services, whilst the EU remains in a shallow services contraction.

European new business dropped for the seventh consecutive month, underscoring weak demand conditions as high borrowing costs continued to magnify muted consumer appetite. Consequently, output dropped despite firms reporting an acceleration in the completion of outstanding projects. Despite the softer demand for capacity, service providers continued to increase their hiring activity.

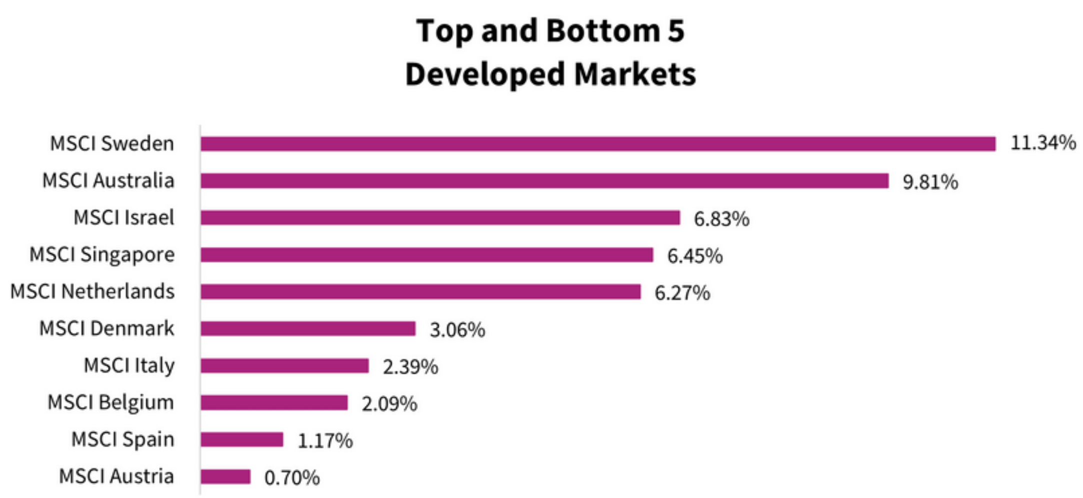
Market performance

All 23 Developed Markets were positive this month bringing much welcomed relief to investors who had feared a cooling start to 2024.

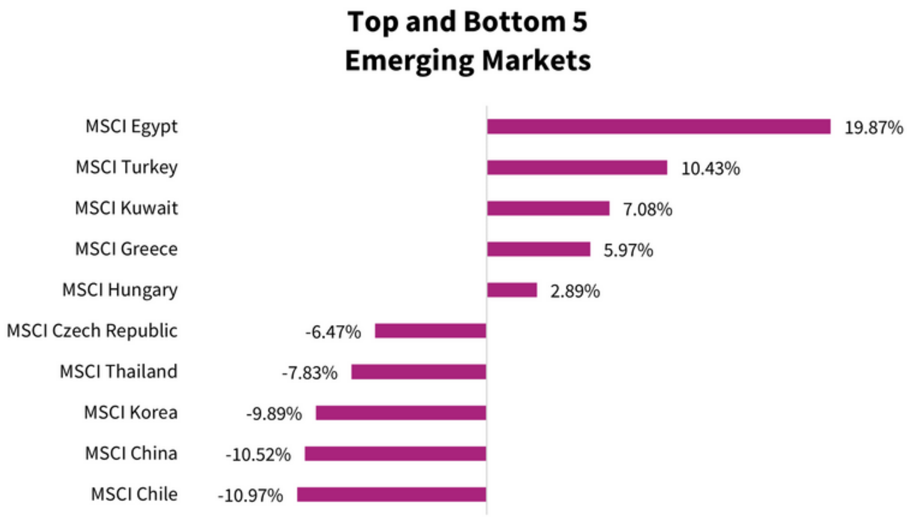
Sweden took the mantle of leadership this month, gaining over 11%, powered by financials including Skandinaviska Enskilda Banken and Investor AB, the investment arm of the prominent Swedish Wallenberg family.

Interestingly, the rally in the Australian index was also powered by financials, including Westpac Banking Corp and National Australia Bank Ltd.

Despite the alphabetical similarities, Austria fared less well, although managed to produce a positive return of 0.70% for the month.

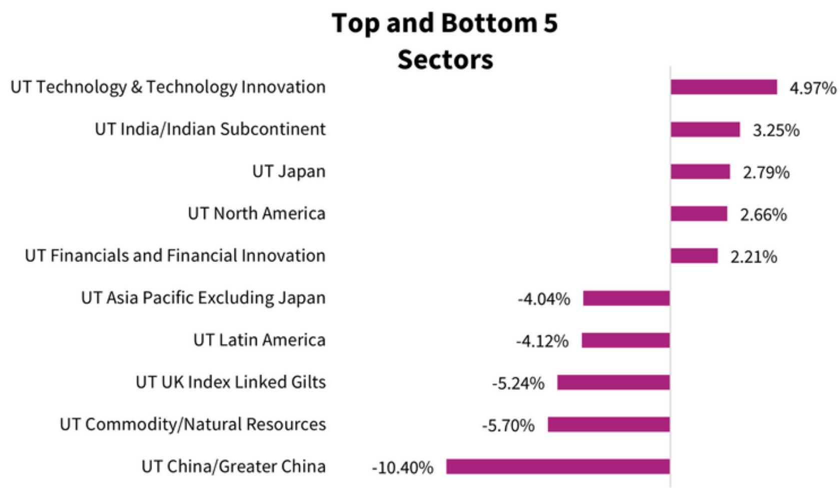


Emerging Markets was a 'tale of two halves' with those in the Northern Hemisphere outperforming their Southern counterparts. Egypt and Turkey both enjoyed double-digit monthly gains as Commercial International Bank benefitted from the Financials sector tailwind and Turkish retailer BİM Birleşik Mağazalar enjoyed strong gains in January.



Sector performance

Unsurprisingly, the Tech sector led for January as the Nasdaq 100 ETF continued to make new highs. In Asia, India and Japan continued to make solid gains whilst China continues to be challenged. Chinese authorities also moved to curb short-selling and directed state funds to step up ETF purchases to support the stock market. In addition, latest data pointed to persistent deflationary pressures in China, supporting bets on further monetary easing. Data showed that consumer prices for January dropped the most in more than 14 years, while producer prices declined for the 16th consecutive month.



Source: FE FundInfo, 09/02/24

Summary

It is all a waiting game now, as markets strongly believe that interest rate cuts are coming, despite cautious rhetoric from Central Bankers around the world.

In investment terms, the biggest beneficiaries of interest rate cuts are typically those at the long end of the yield curve e.g. those holding long duration bonds. A lot depends on bond manager positioning as to their duration calls and their timing, as does the ability to pick the right funds at the right time. The prospect for stronger bond performance in 2024 highlights the importance of their inclusion within a balanced portfolio.

Investors will watch for news from the next US Federal Reserve interest rate decision meeting, set to take place on 20th March. Based on 30-Day Fed Fund futures prices, 16% of participants think that the US will cut rates in March whereas 61% say that the US will make their first interest rate cut in May.

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, 09/02/2024
UK rate cut is a question of when, not if, BoE's Pill says, By David Milliken, Reuters, 06/02/2024
Fed policymakers signal no rush to cut US interest rates, By Lindsay Dunsmuir and Michael S. Derby, 08/02/2024
ECB should wait to cut rates, then take a bet – Wunsch, By Reuters, 08/02/2024