HYMANS ROBERTSON

Flash stats

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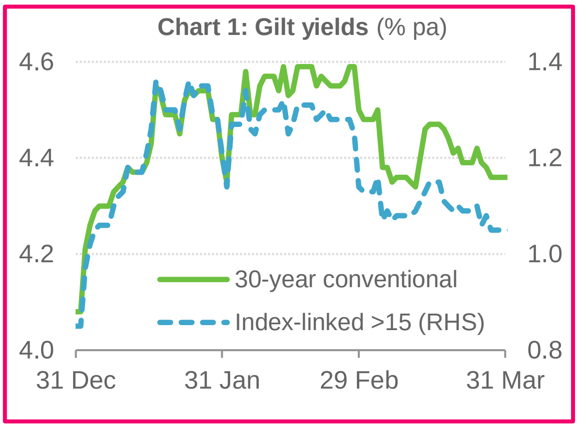
The first quarter saw a meaningful scaling back of market expectations for the number of interest-rate cuts in 2024 in light of stronger-than-expected US growth, improving growth momentum and signs of a slowing downtrend in inflation. Nonetheless, economic optimism and AI enthusiasm led to strong global equity returns and a fall in credit spreads.

Sterling returns (%) to 31st March 2024							
		3 mths	**12 mths**			**3 mths**	**12 mths**
EQUITY INDICES				**STERLING BOND INDICES**			
Global	*FTSE All-World*	9.1	21.0	Gilts (All)	*FTSE*	-1.6	0.0
UK	*FTSE 100*	4.0	8.4	Index-linked (All)	*FTSE*	-1.8	-5.0
	FTSE All-Share	3.6	8.4	Corporates (All)	*iBoxx*	0.2	7.5
US	*S&P 500*	11.6	27.1	**MODEL PORTFOLIOS**			
Japan	*TOPIX*	11.1	21.7	70% equity		4.5	12.2
Europe ex UK	*FTSE Dev Europe*	6.8	13.7	50% equity		3.1	10.0
Emerging	*FTSE Emerging*	3.4	6.2	30% equity		1.7	7.8

Source: DataStream

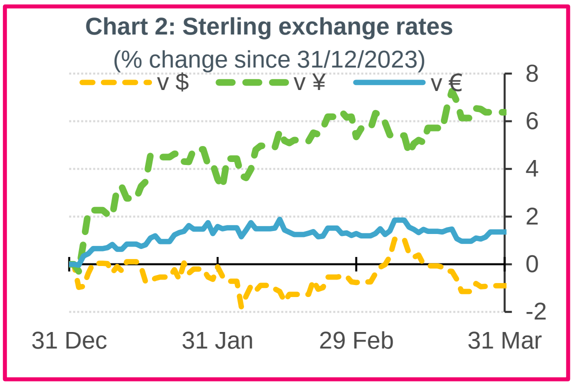
- Data released in the first quarter revealed that the US economy grew more quicker than previously envisaged. It grew at an annualised quarterly pace of 3.4% in the final quarter of 2023, amid ongoing resilience in consumer spending. Meanwhile, European data showed the UK entered a technical recession, as GDP fell 0.3% in Q4 following a 0.1% contraction in Q3. The eurozone economy flirted with one, after stagnating in Q4.
- Backward-looking GDP data and coincident survey data that point to an economy with much stronger momentum than previously anticipated, saw consensus forecasts for year-on-year US GDP growth in 2024 jump from 1.4% in January to 2.2% in March. At the same time, global growth forecasts for 2024 have been revised up to 2.4%. While European and UK forecasts are much weaker, most economists expect a modest recovery for the majority of economies in the region this year. Much better-than-expected survey data suggests the UK recession is already over and points to decent growth in Q1.

- US headline Consumer Price Index (CPI) inflation rose unexpectedly to 3.2% year-on-year in February, fuelling fears that the downtrend in inflation is slowing. Equivalent UK and eurozone measures, however, eased to 3.4% and 2.6%, respectively. Equivalent core measures, which exclude volatile energy and food prices, came in at 3.8%, 4.5%, and 3.1% in the US, UK and eurozone, respectively.
- With economic data surpassing expectations and signs of persistence in underlying inflation, markets now anticipate two to three interest rate cuts from central banks in 2024. This is a decrease from expectations of six to seven at the start of the year. In March, the Bank of Japan raised rates for the first time in 17 years and exiting negative interest rates.



Source: DataStream

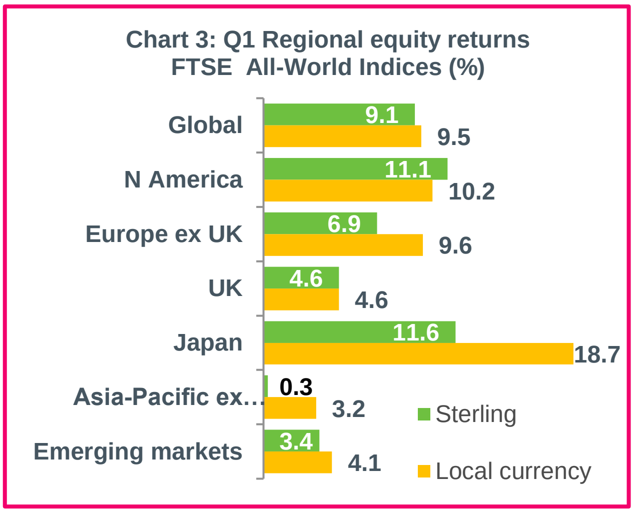
- UK 10-year implied inflation, as measured by the difference between conventional and inflation-linked bonds of the same maturity, rose 0.2% pa, to 3.6% pa, as nominal yields rose more than real yields.
- Sovereign bond yields rose sharply in March amid expectations that rates might be cut less than previously anticipated. UK and US 10-year bond yields rose 0.4% pa and 0.3% pa to 3.9% pa and 4.2% pa, respectively, while equivalent German yields rose 0.3% pa, to 2.3% pa. Despite the Bank of Japan raising rates and ending yield curve control, Japanese yields rose by a modest 0.1% pa to 0.7% pa.



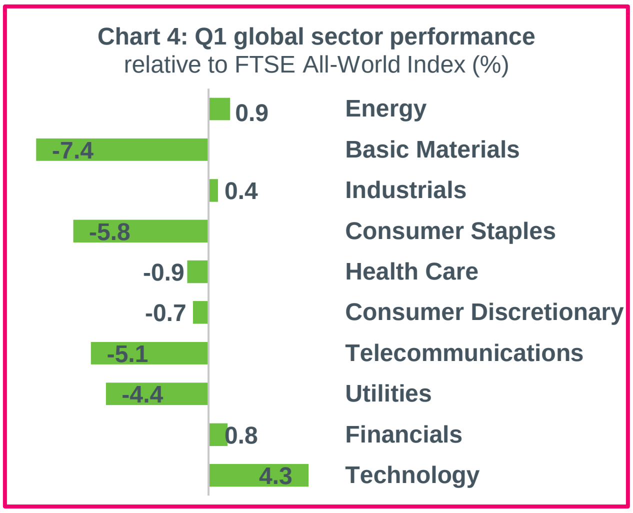
Source: DataStream

- Credit spreads fell across regions and credit ratings over Q1; reflecting improved outlook and strong yield-driven demand from institutional investors. Sterling and European investment-grade credit spreads fell 0.2% pa to 1.1% pa, while equivalent US spreads fell 0.1% to 0.9% pa. Despite spread tightening, sterling investment-grade total returns were broadly flat, given the rise in underlying sovereign bond yields. Speculative grade spreads fell more, with European spreads narrowing 0.4% pa to 3.5% pa and equivalent US spreads coming down 0.2% pa to 3.1% pa.
- The FTSE All World Total Return Index rose 9.5% in local-currency terms, as optimism about the US economy and AI-enthusiasm offset expectations of slower rate cuts. Technology stocks notably outperformed as massive earnings-beats by some high-profile US technology companies benefitted the sector more broadly. Also outperforming, but to a much lesser extent, were cyclical sectors, such as financials, energy and industrials, in that order. Basic materials, as well as defensive sectors, such as consumer staples, utilities, telecoms and healthcare (in that order), were the worst-performers.
- Japan strongly outperformed over the quarter as growing enthusiasm around corporate governance reforms and further yen weakness lent support to the export-heavy index. Given its large, above-average, exposure to the technology sector, US equities outperformed, but to a lesser extent. The UK and emerging markets were the worst performing regions over the quarter, with the former impacted by lower weighting to the

- outperforming technology sector and the latter weighed by investor concerns around China's growth prospects and troubled property market.
- Gold prices rose 7.2% amid lingering inflation concerns, heightened geopolitical tensions, and strong demand among central banks and Chinese consumers. Oil prices rose 12.5% amid ongoing supply cuts and conflict in the Middle East. The trade-weighted US dollar rose around 2%, as the prospect of a sharp fall in interest rates faded.
- The MSCI UK Monthly Property Total Return Index has risen 0.3% in the first two months of 2024, bringing the 12-month total return to end-February to 0.7%. Over 12 months, capital values fell more steeply in the office sector, relative to the retail and industrial sectors. While values continue to fall in the office sector month-on-month, the pace of decline in the MSCI UK Monthly Property Capital Value Index, which is now almost 26% below its June 2022 peak, has slowed in recent months.



Source: DataStream



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Additional Notes

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