MONTHLY INVESTMENT REVIEW

March 2024

Markets continued the new year in a broadly positive way in February and showed the benefits of decent corporate profits as well as encouraging if mixed data on the global economy. There remain a number of pressures, particularly political, and share prices have reflected much of the positive news while maintaining a degree of momentum.

As before the central banks in the US, UK and Europe have been expected to cut interest rates soon given that the rate of reported inflation is closer to their target of 2%, if being variable. The US Federal Reserve is likely to keep markets guessing although its approach is also to look at the economic data in detail; the probability of a first cut in March has all but evaporated and the timing might slip further into the year, although the Fed may be wary of acting too close to the presidential election in November. The best indication is for three rate cuts in 2024 which might be similar for the eurozone, where the European Central Bank may still be the first to cut, and in the UK, where the Bank of England has also moved carefully. The Bank of Japan has to date not yet agreed on the much-anticipated adjustment to its negative current interest rate and the Yen has remained weak.

The reported rate of inflation in key economies has shown signs of a stickiness that is no great surprise, within a broader trend to a lower level. In the US the consumer price index (CPI) was back down to 3.1% in January after a rise to 3.4% in December although this was above the 2.9% level that was expected, as was the month-on-month rise of 0.3%. The personal consumption expenditures index, which the Fed regards as its key measure, rose by 0.4% between December and January, which was the highest such move in a year if mostly in line with expectations. In the UK the CPI data showed the annualised rate was unchanged at 4% in January while it should fall further to around 2% in March given the comparative data. The rate in the eurozone eased a little to 2.8% in January from 2.9% in December. In China consumer prices were 0.8% lower in January than a year earlier, the largest drop since 2009.

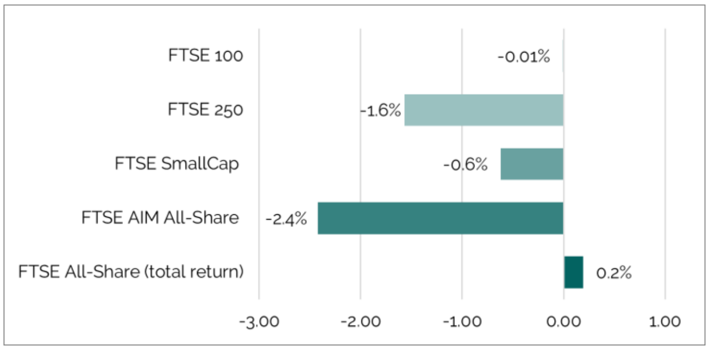
The world economy seemed to end 2023 in a mixed and modest way. The UK was in a recession (technical and marginal even if no-one really wants to admit it) with a decline in the fourth quarter of 2023 of 0.3% following one of 0.1% in the third; with a larger population the output per capita was down by 0.7% over the year, with a more worrying decline in each quarter. There are encouraging signs, though, of a recovery in consumer confidence, such as the highest level of approvals for new mortgages since 2022 while the most recent retail sales were up. In Japan as well the economy contracted for a second successive quarter at the end of 2023, against expectations; the data showed an annualised decline of 0.4% to follow one of 3.3% in the third quarter, which was subject to a revision down. The eurozone avoided such a recession as its economy was flat in the fourth quarter after dipping by 0.1% in the third quarter. There were encouraging signs of an improvement in the Chinese economy over the lunar new year holiday, with tourism spending up by 7.7% on the pre-Covid level in 2019, although the country's manufacturing output has been under pressure and the property sector is as beleaguered as before.

In the US by contrast the economy grew at a fast pace in the last quarter of 2023 and has shown limited signs of a widely-anticipated recession as of yet. The labour market has remained robust with the non-farm payrolls showing the creation of a further 353,000 new jobs in January, twice as many as envisaged if reflecting some seasonality. The resilience in the US was one factor leading the IMF to increase its forecast for growth in the world economy to 3.1% in 2024, alongside the disconcerting strength in the Russian economy as countries such as Brazil have been continuing to buy its oil. In a year dominated by elections many countries are likely to see governments continuing to spend freely, as in India, or looking to cut taxes, as in the UK.

Indonesia held the largest election on a single day and the former general Prabowo Subianto won enough votes to secure election in the first round to be able to take over from his mentor Jokowo Widodo in August. The war in Ukraine passed its second anniversary and the threat from Russia has looked worse, especially with wrangling in the US Congress over its $60bn aid package and the dismissive approach to NATO from Donald Trump, although Sweden did join the alliance. Trump moved further to securing his nomination as the candidate for Republican party; his remaining rival Nikki Haley is likely to retire after the Super Tuesday caucuses. Protests by farmers have been widespread in Europe.

Business profits have been resilient. In the US, where quarterly reporting makes for a short-term approach, the average growth in earnings was in the order of 3% in the last quarter of 2023, based on the 80% of companies in the S&P 500 that had reported results by mid-February. Some three-quarters of those had exceeded expectations, in line with the ten-year data, while individual firms such as Nvidia have seen exceptional growth. The impact of Artificial Intelligence has remained a persistent theme for the largest technology shares, whose dominance of markets has persisted.

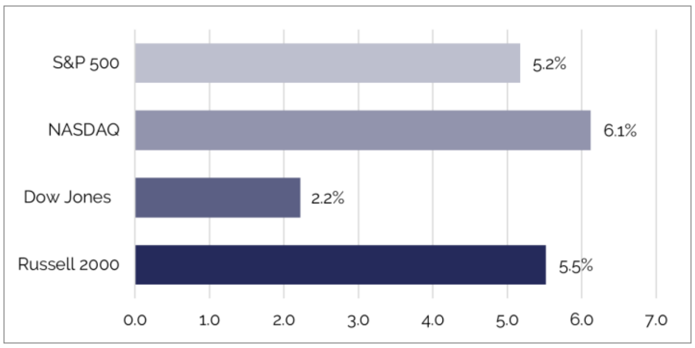
United Kingdom



In the UK markets struggled. The FTSE 100 index was down by one point in the month from 7631 to 7630 while the FTSE 250 index of mid-sized companies and the FTSE SmallCap index saw declines respectively of 1.6% and of 0.6%. The FTSE AIM All-Share was off 2.4%.

The total return for the FTSE All-Share index including income was 0.2% in the month.

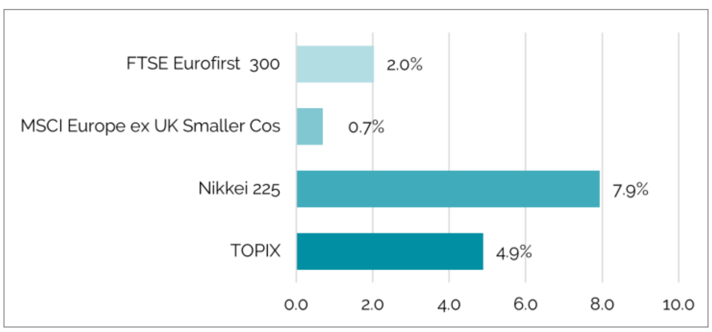
United States



In the US the S&P 500 index gained 5.2% in the month, helped by the strength in technology shares that saw the NASDAQ index rise 6.1%, while the Dow Jones Industrials index was up by 2.2%.

The Russell 2000 index of smaller companies saw a gain of 5.5% in the period.

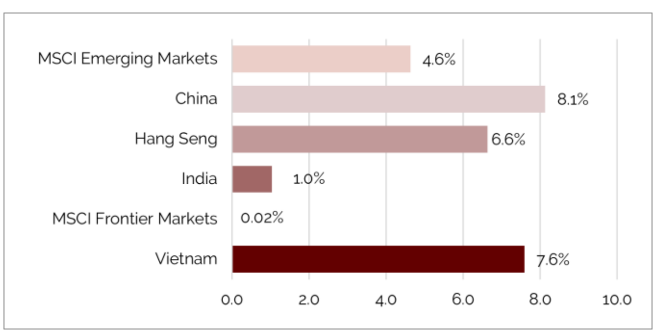
Europe & Japan



In Europe the FTSE Eurofirst 300 index was up by 2%, when Italy and Germany were stronger than France and Spain amongst major markets in the month. The MSCI Europe ex UK Smaller Companies Index was up 0.7%.

In Japan markets were again strong with the Nikkei 225 index up by 7.9% and the TOPIX by 4.9%.

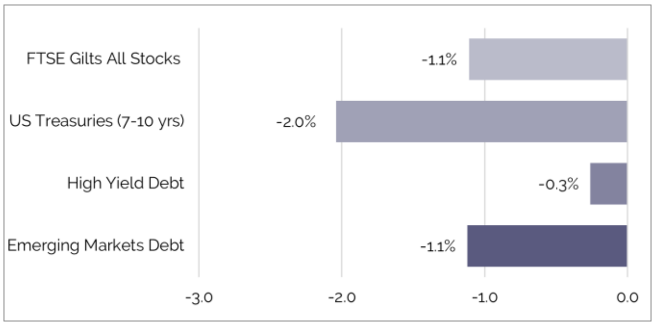
Emerging Markets



The MSCI Emerging Markets in US$ rose by 4.6% in the month, helped by a rally in China where the Shanghai index gained 8.1%, while the Hang Seng index in Hong Kong was up 6.6%. The Korean market gained 5.8% while the Indian and Brazilian markets were both up by around 1%.

The MSCI Frontier Markets index was barely changed, up 0.02%, while the Vietnamese market gained 7.6%.

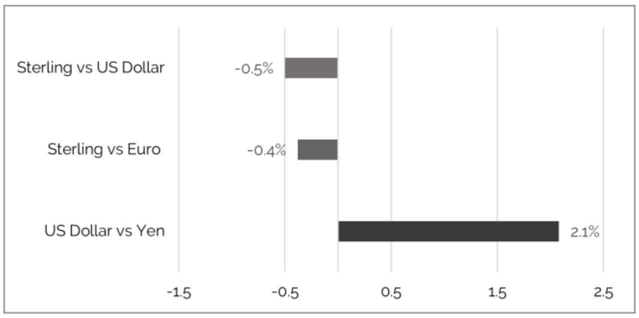
Bond markets



In bond markets the UK 10-year gilt yield rose further from 3.79% to 4.12% and the total return for the FTSE Gilts All Stocks index in the month was -1.1%. In Germany the 10-year bund yield went from 2.17% to 2.41% while the US ten-year yield rose from 3.91% to 4.25%.

The major bond markets saw declines in the month although there was a gain in emerging market debt in US$.

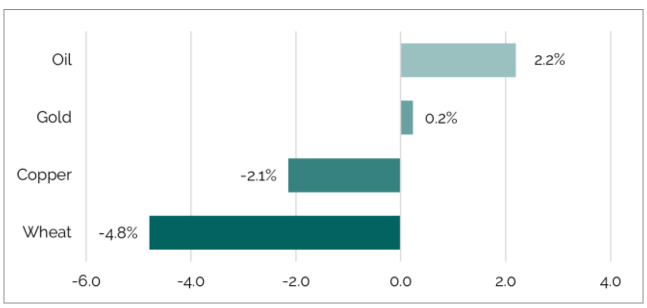
Currencies



Sterling declined by 0.5% against the US$ and closed at a rate of $1.26:£ while against the euro Sterling was off 0.4% in the month, when it ended at a rate of €1.17:£.

The Japanese yen weakened further against the US$, by 2.1% in the month.

Commodities



The price of Brent crude oil ended the month up by 2.2% at $85 per barrel. The price of gold was up by 0.2% at $2044 per troy ounce.

The prices of major metals were all lower in the month, with the bellwether copper off 2.1%, The main agricultural commodities were also down, aside from cotton, with wheat falling by 4.8%.

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