1Q 2024 Commentary

The returns from financial markets in the first quarter of 2024 have been good, and many stock markets have now rallied for five consecutive months. This is despite the heightened geopolitical concerns in the Middle East, and demonstrates that investors continue to be encouraged by expectations of cuts in official interest rates.

Although the US economy remains robust, with the fourth quarter growth rate confirmed at 3.4% and unemployment at low levels, the Federal Reserve has recently confirmed that they still expect to make interest rate cuts in the second half of the year.

Somewhat surprisingly, the Swiss National Bank recently became the first major central bank to cut interest rates and dial back on its tighter monetary policy to tackle inflation. China has also taken measures to lower interest rates and assist its ailing property sector and economy. By contract, Japan's central bank ended eight years of negative interest rates, along with its policy which had sought to encourage bank lending and spur demand and thus fight deflation. In its first interest rate hike in 17 years, the Bank of Japan lifted its short-term policy rate from -0.1% to between zero and 0.1%.

In light of continued easing of inflation, the Bank of England and European Central Bank are also indicating that they expect to be cutting interest rates later this year.

In early March, the major oil producing countries decided to maintain production limits, and this, together with concerns that the escalating conflict in the Middle East may lead to supply disruptions, has led to higher oil prices. So far, inflation rates remain reasonably steady, but yields on most major government bonds have been rising over the past quarter and are at their highest levels since late November.

In the first quarter, the S&P500 rose 10%, the tech-heavy NASDAQ rose 9% and the Dow Jones rose 5.5%. Communication Services, Financial Services and Energy stocks have led the performance, and the breadth has been reasonably healthy with many sectors giving good returns, and all areas have been supported by improving earnings reports. European stock markets also gave good returns of around 6.8%, but the UK stock market lagged, with the leading index of one hundred shares returning around 3%. Following such a strong start to the year, we would expect to see some near-term consolidation of the good returns from risk assets.

Politics, and the US presidential election in November with Democrat and Republican candidates making promises to the electorate, will continue to exert influence over US monetary and fiscal policy. The usual result of this is that both consumer and investor confidence is boosted. Historically, presidential election years have been positive years for the stock market.

Although there are still many uncertainties, especially concerning resolution to the Russian invasion of Ukraine and heightened geo-political conflicts in the Middle East, risk assets continue to offer attractive opportunities for the longer-term investor, as do certain fixed income assets which provide useful diversification to investor portfolios.

We will remain vigilant to newsflow, especially the upcoming first quarter earnings results which will be key to supporting equity valuations.

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