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# JANUARY 2024
# MONTHLY COMMENTARY

## MACRO

The positive performance of equity markets in November and December spilled into January as confidence the Fed would engineer a soft landing for the US economy, remained intact. Better than expected economic data pointed towards strong US growth and a buoyant employment market. The magnificent seven stocks that contributed to 70% of the returns for the S&P 500 in 2023 (or magnificent 6 if you remove Tesla's poor performance this year thus far) – traded up and confounded market participants that expected a pull back in the sector.

With the employment data holding up, investors and central bank governors debated whether rates could remain higher for longer. Geo-political risks also loom over markets with trade disruptions for shipping in the Red Sea potentially inflationary. Corporate earnings were also in spotlight.

Global equities, as measured by the MSCI World, finished positively up 1.68%, while global bonds, as measured by the Bloomberg Global aggregate index, fell -1.4% on a total return basis. December inflation and unemployment prints in the US and UK took centre stage. They remain key pillars of the key mandates for central banks which are inflation circa 2%, maximum employment and financial market stability.

In the US, Consumer Price Index (CPI) on an annualised basis was up 3.4% in December versus 3.1% in November and higher than expected. Most of the increase came from shelter costs which contribute a third to the inflation print and tend to lag the other components within the basket. Additionally, December non-farm payrolls came in at 216k (later revised up to 333k) while the unemployment rate was unchanged at 3.7%. Q4 US gross domestic product was up 3.3% following the 4.9% in prior quarter reflecting increases in consumer spending via services and goods. While US Consumer confidence remained optimistic on easing inflation expectations. In the UK, CPI on an annualised basis came in at 4.0% in December versus 3.9% in November and was higher than expected driven by increases in alcohol and tobacco. Vacancies in Q4 were up 934k while average pay was up 6.5% - both were down on the previous quarter. The unemployment rate ticked up higher to 4.3%.

Perhaps it isn't surprising that both US and UK central banks kept interest rates unchanged (5%-5.5% range) at their respective meetings.
In Europe rates were on hold at 4% with the European Central Bank (ECB) reaffirming its commitment to fighting inflation. Germany IFO pointed to worsening business sentiment and the risks of another year of recession have increased.
In China growth continues to remain subdued with the property sector downturn, shrinking population, zero covid policy and the reorganisation of supply chains - a continued drag. More recently the People's Bank of China have moved to inject liquidity into markets cutting the reserve requirement ratio by 0.5%



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## EQUITIES

Positive start for equity markets in January and corporate earnings also in spotlight. Communication services and technology were the strongest sectors rising above 4% while the laggards were real estate and utilities down 4.5% and 3.4% respectively. Real estate lagged on the higher interest rate environment and higher cost of mortgages while utilities lagged on increased demand for renewables & falling demand for gas.

Corporate earnings were a mixed bag. Alphabet and Microsoft provided cautious guidance on AI growth while the former disappointed on advertising revenue, and the later reported strong cloud computing growth. Tesla reported lower-than-expected earnings, while Facebook announced higher earnings and revealed their first-ever dividend. Morgan Stanley and Goldman Sachs reported lower earnings due to decreased investment banking revenue, but both expressed optimism about the future, particularly if the US can avoid a recession by achieving a soft landing."

## FIXED INCOME

While the Federal Reserve (Fed) is expecting 3 interest rate cuts this year, market participants began the year expecting six cuts. December inflation prints held up leading to investors slashing the probability of a rate cut at the March meeting. As already noted, US, UK and European central banks kept rates on hold, but the language has become more dovish recently. Therefore, the US treasury yield curve was broadly unchanged across the short end (1-2yr maturities) and the long end (5-10yr maturities), and the UK Gilt curve was more active with a shift up of 0.25% across the 2-10yr maturities.

## ALTERNATIVES/CURRENCIES

Within commodities, WTI crude and Brent crude oil rose circa 6.0% respectively on geopolitical tensions particularly in the middle east. Within precious metals, gold came off as higher interest rate expectations remained higher (gold price tends to be inversely proportional to rising interest rates.) Global food prices were slightly down for the month as decreases in prices for cereals and meats more than offset an increase in sugar.

Currency wise the GBP /USD sat around the 1.27 level for the period.

## OUTLOOK

While the consensus appears to be a soft landing (a period of low but positive, growth) in the US, a period of softer inflation prints will be required for investors to take the view that the US economy has avoided a hard landing. In Europe and UK data still points to recessions on the horizon. Therefore, we maintain an overweight to fixed income and underweight to equities on balanced portfolios.



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