

# FEBRUARY 2024

## MONTHLY COMMENTARY

### MACRO

The performance across the major asset classes was varied for the month of February as markets continued to digest mixed economic data and uncertainty around growth. Geopolitically, the ongoing war in Ukraine and disputes in the Middle East threaten to stifle global growth and worsen existing challenges faced by global supply chains.

From the United States standpoint, February payrolls saw the addition of 275,000 new jobs. This further emphasized the continued resilience of the US labour force despite high interest rates and elevated inflation levels. Conversely, there were signs of weakness in the data with unemployment increasing to 3.9% from 3.7% and a reduction in the average hourly earnings from 4.5% to 4.3% year on year. Notwithstanding, the Federal Reserve (Fed) may interpret the unemployment rate and hourly earnings data positively because of their inflation reducing effects. If this trend persists, the Fed is more likely to initiate a rate cutting cycle with the first cut expected in June.

The UK economy received confirmation of being in a technical recession in the fourth quarter of the previous year, with prospects for improvement in 2024 a concern. However, there are some optimistic signs, as Consumer Price Index (CPI) inflation was unchanged at 4% year on year in January (last year January year on year inflation was at 10.1%) which was better than expected. Similarly, core inflation for the Eurozone dipped by 0.1 percentage points to 3.3%, largely due to a reduction in the inflation of non-energy industrial goods, while services remained relatively unchanged. In addition, manufacturing output in the Eurozone as indicated by the Purchasing Manager's Index (PMI), remained in contractionary territory at 46.6. The region's Gross Domestic Product (GDP) data verified that its output was stagnant with notable variations among member states.

In Asia, Japan entered a technical recession, whilst China, after decades of heavy real estate investment is now estimated to have an excess supply of 50 million units. The resulting slowdown in the construction industry has far reaching implications from a global perspective as it will mean a reduction in the demand for key commodities putting a downward pressure on prices.

### EQUITIES

Global equity markets posted strong returns in February despite rising bond yields. The return profile was more diversified across regions and sectors for the month. Major indices, including the S&P 500 (+5.3%), Germany's DAX (+4.58%), France's CAC (+3.45%) and Japan's Nikkei 225 (+7.99%) were all up. Consumer Discretionary (+8.6%) led all sectors, followed by Industrials (+7%), Materials (+6.3%), and Info Tech (+6.2%).

With regards to the “Magnificent 7” stocks, performance was varied with Nvidia posting strong growth (+28.6%) and accounting for 20% of the S&P500’s return for the month. Meta increased +25.6%, Amazon by +13.9% while Apple and Google experienced declines, down -2% and -1.4% respectively.

## FIXED INCOME

In the Fixed Income market, participants readjusted their expectations of 6 rate cuts with that of the Fed’s guidance of 3 to 4. The persistent weakness in inflation trends and robust job numbers helped to shift the Treasury yield curve upwards. The 2-year and 5-year yields rose 0.40% to 4.62% and 4.25% respectively, while the 10-year yield rose 0.31% to 4.25%.

## ALTERNATIVES & CURRENCIES

Gold was flat for the month, up 0.23% following an increase in risk appetite and Treasury yields. Currency wise, the GBP/USD sat around the 1.26 over the period.

## OUTLOOK

Despite substantial improvements in the macroeconomic landscape, particularly in the US, significant risks to the global economy persists. Whilst we no longer see compelling reasons to be significantly underweight in our strategic equity allocations, we maintain a preference for fixed income assets overall. In the face of evolving market dynamics and the spectre of inflation, the roadmap for 2024 mandates a strategic and cautious approach, anchoring investment decisions on the bedrock of resilience and quality in the ever-shifting financial terrain.

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