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Market Pulse

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'HIGHER-FOR-LONGER' FEARS DAMPEN SENTIMENT

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Global stock markets gave back some of their 2024 gains in April as the potential for 'higher rates for longer' dampened sentiment. Sticky US inflation data meant that expectations of rate cuts from the US Federal Reserve (Fed) were pushed out and reduced. However, the European Central Bank (ECB) continued to suggest that monetary easing would likely start in June as inflation continued to move towards its 2% target. Global activity data was somewhat mixed in April, with signs of slower growth in the US and an acceleration in Europe. Bond prices declined amid the lower expectations for rate cuts.

Macro

Global activity data was somewhat mixed in April. The main noteworthy change was some slowing of growth in the US. Specifically, Q1 GDP was lower than Q4, although the underlying details were stronger than the headline number with domestic demand remaining firm despite some slowing. Price pressures, however, accelerated significantly. The slowdown was reflected in April's composite PMIs, with that of the US falling to a five-month low. By contrast, there were improvements in Europe as PMIs for the Eurozone and the UK rose to the highest levels in almost a year. A key driver was strength in expected hiring, suggesting improving labour market conditions.

Meanwhile, ongoing tensions in the Middle East exerted upward pressure on oil prices as Iran launched an attack against Israel and Israel retaliated with a strike. However, restraint has been shown by both sides in the aftermath of Israel's strikes and this pushed oil prices down from their highest levels since October.

US

US GDP rose by an annualised 1.6% quarter-on-quarter (q/q) in Q1, less than half the rate in Q4 (3.4%). The slowdown was driven by a deceleration in domestic sales (from 3.6% in Q4 to 2.8%) and negative contributions to GDP from net exports and inventories of -0.9% and -0.4% respectively. Of more concern to the potential for rate cuts was an acceleration in inflation during Q1. The quarterly measure of inflation accelerated from an annualised 2.0% q/q in Q4 to 3.7% in Q1, which was higher than consensus expectations. This suggested that inflationary pressures still remain.

Moreover, the employment cost index rose by 1.2% q/q in Q1, up from 0.9% in Q4, indicative of continued wage pressures that could keep upward pressure on consumer price inflation. The strength of the labour market was also shown in March non-farm payrolls, which rose by 303k, well above consensus expectations and up from 270k in February.

As a result of increasing signs of inflationary pressure, the Fed began to walk back its guidance around rate cuts. In April, Fed Chair Powell and Vice Chair Jefferson said that recent inflation data meant that the central bank was likely to delay its rate cuts, and opened the potential for interest rates remaining 'higher for longer'. Moreover, after it left the federal funds rate unchanged at 5.25-5.50% at its April/May policy meeting, the FOMC's statement cited "a lack of further progress" recently in getting inflation to the 2% target. Powell stated: "It is likely to take longer for us to gain confidence that we are on a sustainable path down to 2% inflation". At the same time, he played down the potential for further rate hikes, saying that it was "unlikely" that this would be the next policy rate move.

Europe

Economic activity indicators in the Eurozone improved. Q1 GDP expanded by 1.3% q/q annualised compared to a 0.2% contraction in Q4, aided by strong rises in Spain (2.9%) and Ireland (4.4%). In addition to better business sentiment that was reflected in PMI data, consumer sentiment in the region also improved, with confidence rising for a third consecutive month in April. This was driven by positive moves in both the financial situation over the past year and that expected for the coming year.

Meanwhile, price pressures eased further in April. Core consumer prices decelerated to 2.7% year-on-year (y/y) from 2.9% in March, while headline prices rose by 2.4%, the same rate as in March. As inflation has fallen closer to the ECB's 2% target, policymakers including President Lagarde have suggested that the first rate cut could come at the Bank's June meeting. Indeed, while the ECB kept its policy rates unchanged at its April meeting, there were some on the rate setting committee that wanted to cut the policy rate.

Asia

China's Q1 GDP growth exceeded expectations, rising by 5.3% y/y against a government growth target of 'around 5%' for 2024. However, March data showed disappointing industrial production and household consumption, suggesting that economic activity slowed towards the end of the quarter. National PMI data for April, while still in expansionary territory (above 50), also slowed for companies in both the manufacturing (50.4) and services (51.2) sectors. However, an alternative measure of PMI by Caixin which focuses more on smaller companies showed an improvement in manufacturing PMI to 51.4.

MARKET ROUND-UP

Equities

Global stock markets gave back some of their 2024 gains in April as the potential for 'higher rates for longer' amid sticky inflation dampened sentiment. The MSCI All Country World index fell by 2.7% (-2.3% in euros) over the month.

The MSCI USA declined by 4.1% (-3.2% in euros), while European ex-UK equities were down by 1.5% (-1.8% in euros).

Small cap equities declined by 4.4% (-4.2% in euros), hampered by rising interest rates and expectations of less monetary easing.

Emerging market (EM) equities rallied by 1.4% (1.5% in euros) in April, supported by a rally in Chinese equities (+6.5%) after Q1 GDP data showed signs of improvement and the authorities continued to provide support measures.

Bonds

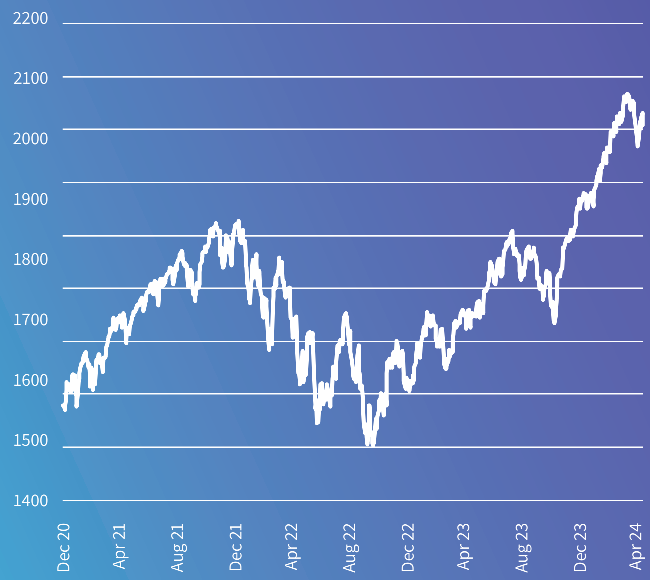
Global bonds were hampered by broadly rising yields in April. Bond prices were lower as expectations for rate cuts in 2024 were pared back amid sticky inflation, particularly in the US. The ICE BofA 5+ Year Euro Government bond index returned -2.0% over the month.

European investment grade (IG) corporate bonds returned -0.8% as yields rose by 23 basis points (bps) to 3.98%, with the spread narrowing marginally (by 1bp to 111bps). Global high yield bonds returned –0.7% as yields increased by 27bps to 7.17%, and spreads narrowed by 8bps to 253bps over the month.

EM local debt returned –1.2% in April as yields rose by 37bps to 6.67%. EM hard debt returned -2.4% as yields rose by 42bps to 7.75%. The asset class was also hampered by strength in the US dollar, which makes debt repayments for EM countries more costly in local currency terms.

CHARTS OF THE MONTH

Global Equities



Source: ILIM, Bloomberg. Data is accurate as at 30 April 2024.

Bonds – German 10-year yield

Source: ILIM, Bloomberg. Data is accurate as at 30 April 2024.

MARKET SNAPSHOT

Market returns (EUR)

Equity Markets (EUR)	MTD Return (%)	YTD Return (%)	2023 Return (%)
MSCI Ireland	2.0	20.7	20.6
MSCI United Kingdom	2.9	8.5	10.3
MSCI Europe ex UK	-1.8	6.5	18.5
MSCI North America	-3.1	9.1	22.3
MSCI Japan	-3.9	9.3	16.7
MSCI EM (Emerging Markets)	1.5	6.3	6.5
MSCI AC World	-2.3	8.3	18.6
10-Year Yields	**Yield last month (%)**	**2023 Yield (%)**	**2022 Yield (%)**
US	4.68	3.88	3.87
Germany	2.58	2.02	2.57
UK	4.35	3.54	3.67
Japan	0.88	0.61	0.42
Ireland	2.96	2.38	3.13
Italy	3.91	3.69	4.70
Greece	3.58	3.06	4.62
Portugal	3.21	2.66	3.59
Spain	3.35	2.99	3.66
FX Rates	**End last month**	**2023 Rates**	**2022 Rates**
U.S. Dollar per Euro	1.07	1.10	1.07
British Pounds per Euro	0.85	0.87	0.89
U.S. Dollar per British Pounds	1.25	1.27	1.21
Commodities (USD)	**MTD Return (%)**	**YTD Return (%)**	**2023 Return (%)**
Oil (Brent)	0.4	14.0	-10.3
Gold (Oz)	2.9	11.2	13.1
S&P Goldman Sachs Commodity Index	1.2	11.6	4.3

Source: ILIM, Bloomberg. Data is accurate as at 1 May 2024.

THE ILIM VIEW – LOOKING AHEAD

Sovereign bond yields rose through most of 2023 on the back of a slower-than-expected moderation in inflation. However, yields have fallen since the peak in October 2023 as concerns around inflation abated. Although yields have risen in recent months, both German and US 10-year yields remain below their October highs. With inflation having fallen significantly and central banks now suggesting rates will be cut in 2024, bond yields are expected to decline over the next 12 months.

On a 12-month view, our base case is that German and US 10-year government bond yields fall from current levels of 2.58% and 4.68% to 1.75% and 3.75% respectively. We believe fixed income offers a strong risk-reward profile at this stage in the cycle, with the potential to offer protection if the economy slows, and is attractive from an income perspective while also providing potential for capital gains via falling yields. We believe that the risks of materially higher bond yields have reduced and, if the economy falters, major central banks will be able to cut rates to support growth. In that scenario we would expect bonds to outperform to a greater extent.

Global equities were resilient in 2023 as recession fears receded and a peak in central bank policy rates was likely reached. While global earnings fell by 0.6% in 2023, they are expected to grow by 10.9% in 2024 as growth remains firm and margins improve. Global equities valuations are above long-term averages, trading on a 12-month forward P/E multiple of 17.1x against a long-term average of 16.0x. Equities remain expensive against both bonds and cash, given the high yields currently available on these assets.

Despite this, the outlook on a 12-month view is positive. Central banks are likely to pivot towards looser policy in 2024 as inflation falls. An increasing probability of growth remaining firm and a rebound in earnings in 2024 is supportive. Over the medium term, the rollout of AI should boost efficiencies and earnings across the whole market and allow equities trade at higher valuation levels. The ongoing green-related capex cycle could also boost earnings over the medium term. Any short-term volatility in markets is likely to be offset by the above factors, resulting in positive returns on a 12-month time frame.

THE MONTH AHEAD

MAY

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
			9 GB BoE Interest Rate Decision	10 GB GDP Growth Rate YoY Prel US Michigan Consumer Sentiment Prel
	14 GB Unemployment Rate US PPI MoM	15 US Inflation Rate YoY US Retail Sales MoM	16 JP GDP Growth Rate QoQ Prel	17 CN Industrial Production YoYCN Retail Sales YoY
		22 US FOMC Minutes GB Inflation Rate YoY JP Balance of Trade	23 DE HCOB Manufacturing PMI Flash	24 JP Inflation Rate YoY GB Retail Sales MoM US Durable Goods Orders
27 DE Ifo Business Climate		29 JP Consumer Confidence DE GfK Consumer Confidence DE Inflation Rate YoY Prel	30 US GDP Growth Rate QoQ 2nd Est	31 EA Inflation Rate YoY Prel (May)

Source: tradingeconomics.com

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Figures referenced herein have been sourced from ILIM and Bloomberg. Forecast figures have been prepared by ILIM based on reasonable assumptions, internal data and data sourced from Bloomberg.

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