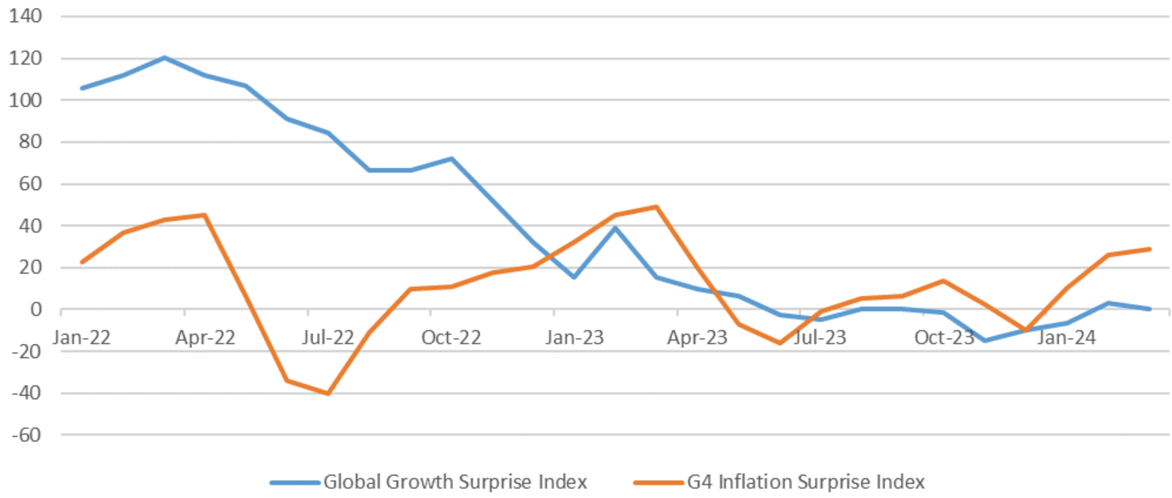
Q1 Market Review 2024

The global economy has seen little revisions to the growth outlook, but inflation has hung around. Indeed, over the quarter, inflation surprised somewhat to the upside (chart 1), holding central banks back from progressing their rate-cutting ambitions. Although global growth has been benign, there have also been a few signs of recession that some commentators had feared. The UK and Germany have struggled with mini-recessions, and Japanese growth has remained modest, but the aggregate picture is of benign global growth and sticky inflation.

Chart 1: Global economic surprise – inflation and growth



Source: Bloomberg

The first quarter saw the European and Japanese economies catching up with the US regarding growth surprises (Chart 2). Although European and Japanese economies still have to achieve the growth rates of the United States, their improvement is welcome. Both economies have the scope to improve via stronger consumer spending growth. Households in both economies have a store of savings that could be unleashed on spending with just a modicum of improvement in household confidence.

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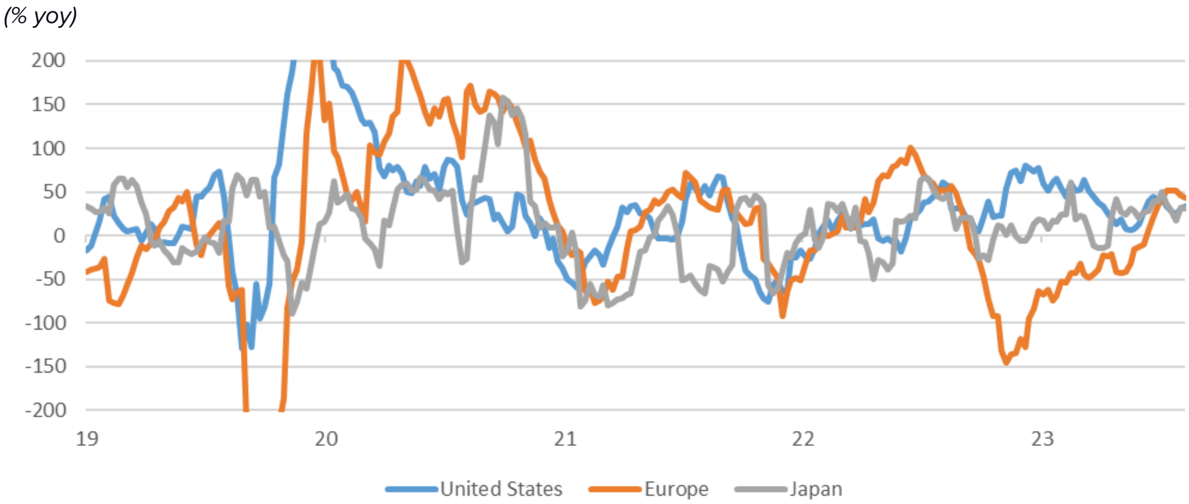
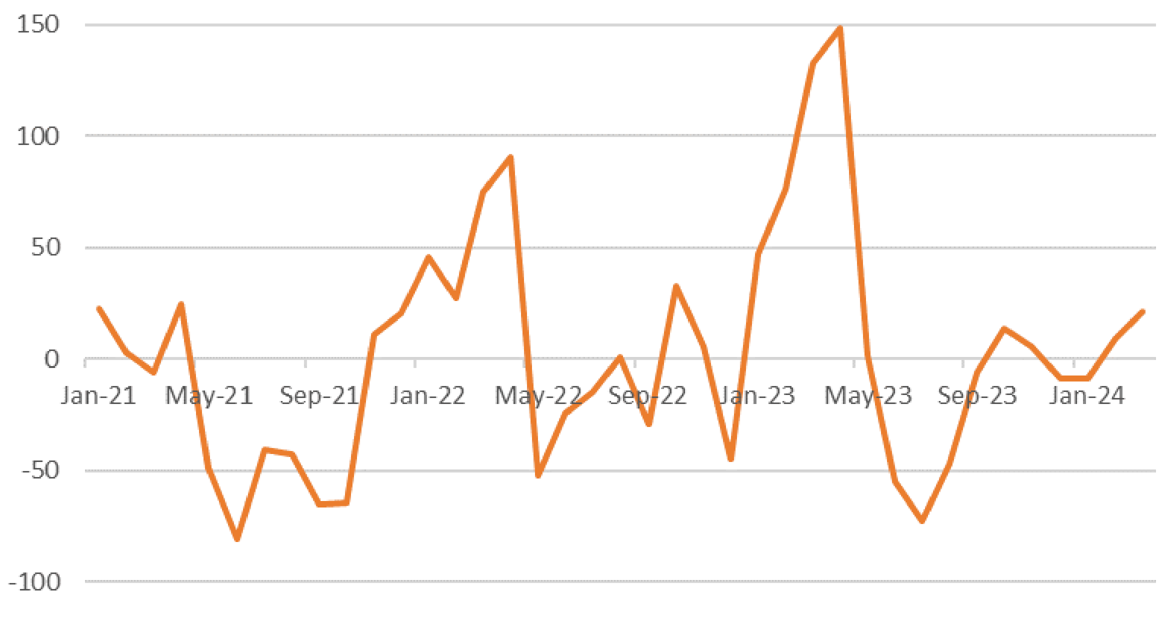
Chart 2: Europe and Japan catch up with the US on growth surprises



Source: Bloomberg

The Chinese economy finally turned the corner to providing some meaningful surprises on growth. The real estate problems are still a dark cloud over the economy however other sectors are showing marked improvement. Most recent data on industrial output, trade and some consumer spending indicators have been better than market expectations.

Chart 3: Economic growth surprise for China moves into positive territory



Source: Bloomberg

Economists and central bankers still worry about inflation. While we are way past the peaks seen in previous quarters, inflation is still hanging around, particularly in the service sector. Investors should monitor the oil price, which could cause inflation pressure in the second quarter.

The recent rise in oil prices remains a clear and present risk for inflation in the second quarter. Through Q2 2023, the Brent oil price was tracking around $75. Today, it's around $85. In 2023, oil prices contributed deflation to the inflation calculation as they were down around 30% year-on-year. In Q2, oil could be tracking up 10% year-on-year.

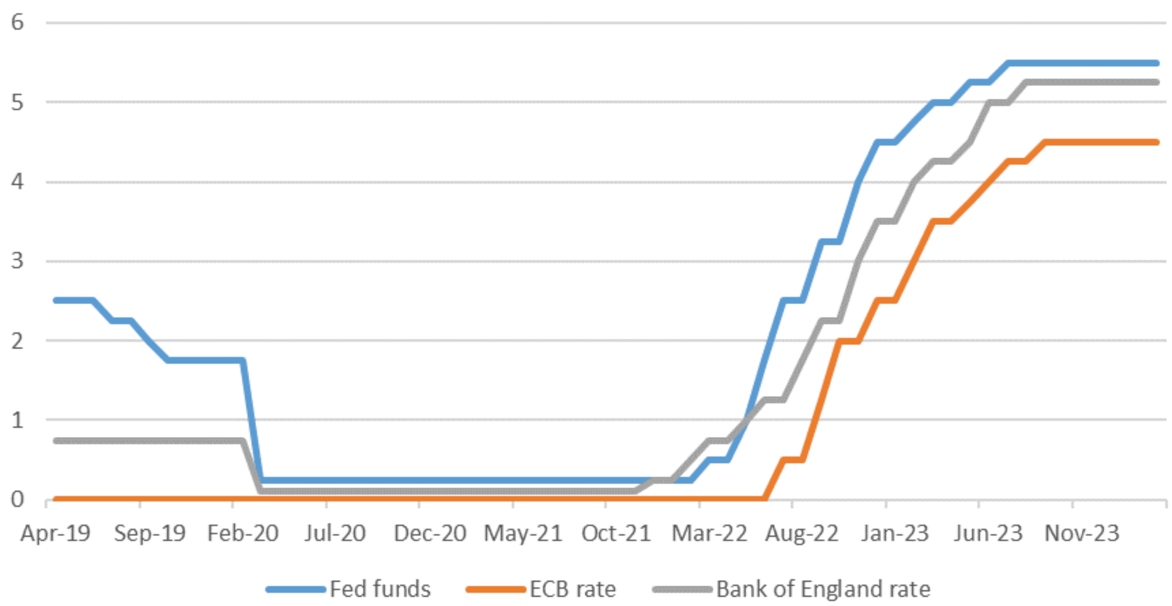
Chart 4: Brent Oil price up over 25% in the quarter

$/bbl

Source: Bloomberg

Central bankers by and large left interest rates unchanged through the first quarter with the notable exception of the Bank of Japan (BoJ) and the Swiss National Bank (SNB). After 17 long years, the BoJ finally increased interest rates moving away from negative interest rates. The SNB surprised the market by cutting policy rates by 25bps to 1.50%. Most Western central banks appear to be on a timetable to cut policy rates by the middle of the year. Europe may cut first as inflation has tumbled more emphatically and growth remains modest. The ECB looks the most likely to cut first, although ECB President Lagarde has cautioned that the first rate cut may not be followed by any great urgency to cut again too soon after. At the Fed's March meeting, there was an even split between the doves and the hawks on the view of the scale of any monetary loosening through the balance of the year.

Chart 5: Central Banks continued to hold rates in most cases



Source: Bloomberg

While expectations for rate cuts have oscillated around the timing of the first rate cut, long-term interest rates have risen. The US 10-year government bond yield had its recent low point in December since the 10-year yield has been trending higher. The trend higher is partly a reflection of the concerns about the sticky US inflation and the outside chance that inflation becomes much more problematic. **We have some sympathy with the Larry Summers view that a future increase in Fed can not be ruled out – to which he assigns a 15% probability.**

The slow pace of rate cuts from the Fed has pressured emerging market central banks to toe the line and keep rates higher for longer. Many EM central bankers fear precipitating a patch of weakness in their currencies against the dollar. The Philippines, Brazil, Indian and Eastern European central bankers are likely to keep their rates on hold for a good while yet.

Chart 6: US 10-year government bond yield trending higher

Source: Bloomberg

Markets

Equities

Equity markets put in a strong quarter, led by Japan and the US. Whereas at the back end of 2023, some investors had fretted about the prospects of a US recession in 2024, the economic data flow showed a very different story. US growth has held up well, and growth in Europe, while not so convincing, we judge it as having good potential for acceleration through the middle of the year. The markets took heart from central bankers who generally signalled that the next move in interest rates would be down.

Table 1: Equity Market returns

	-1mth	-3mths	-12mths
US	3.1%	10.3%	26.5%
NASDAQ	1.8%	9.1%	43.4%
Europe ex UK	3.5%	5.9%	21.7%
Japan	3.0%	11.0%	20.3%
UK	4.6%	4.0%	7.7%
Switzerland	2.5%	5.3%	3.8%
Asia ex Japan	2.5%	2.4%	6.0%
India	0.8%	6.1%	20.8%
China	0.9%	2.2%	-3.7%
Brazil	-1.8%	-7.4%	32.7%
Emerging markets	**2.5%**	**2.4%**	**9.8%**
Global	**3.2%**	**8.9%**	**23.8%**

Source: Bloomberg

By sector, the tech sector continued to dominate the headlines. Nvidia's share price increased by 82% reflecting much-increased optimism about the outlook for the AI theme and its impact on the semiconductor companies and the broad tech sector in time. The old economy banks also played their role in pushing equities higher as they enjoyed a steepening of the yield curve and increased optimism about global growth.

Table 2: Equity market returns by sector

Global Sectors	-1mth	-3mths	-12mths
Energy	9.1%	9.8%	2.5%
IT	1.7%	12.3%	53.3%
Consumer Staples	2.4%	3.4%	2.3%
Consumer Discret	0.8%	6.8%	35.1%
Healthcare	2.4%	7.5%	3.8%
Banks	7.3%	11.1%	15.8%

Source: Bloomberg

Bonds

Bonds struggled through the quarter as inflation persisted. Government bonds gave little to no return. Generally, government bond yields ended the quarter slightly higher than where they started. Credit markets managed to eke out some solid returns as the higher yields and low duration mitigated the impact of higher government bond yields. High yield also benefitted from a strong quarter of refinancing. The asset class faces high refinancing levels over the next two years; however, it remains an asset class of choice for retail investors. By the end of February, net inflows into high-yield mutual funds had surged to $1.9bn despite the spreads on high-yield securities being at the lower end of the range. We suspect that the still high nominal yields of 7-8% are attracting investor interest.

Table 3: Bond market returns

	-1mth	-3mths	-12mths
Global Aggregate	0.9%	0.0%	7.1%
Global investment Grade	1.0%	-0.1%	8.3%
Emerging markets debt $	1.7%	1.5%	9.1%
US Corporate High yield	1.2%	1.5%	13.4%

Source: Bloomberg

Legacy Wealth Advisors

FX and Precious metals

Ironically even with the dollar relatively strong against the major currencies both Gold and Bitcoin performed strongly. Bitcoin has continued its strong performance, substantially supported by the SEC's announcement in January that it was approving a raft of US spot bitcoin ETFs. Since launch, the ETFs have garnered over $50 billion of inflows.

The simultaneous expansion in the numbers and level of engagement in all three groups during the first quarter of the year, underscores the growing mainstream acceptance and enthusiasm for Bitcoin as we move further into 2024.

Table 4: Performance of precious metals and currencies

	-1mth	-3mths	-12mths
US Dollar Trade weighted	0.3%	3.1%	-2.1%
Euro Trade weighted	0.5%	0.3%	1.1%
GBP trade weighted	0.3%	1.4%	3.2%
Yen/$	-0.9%	7.3%	7.6%
Gold	9.1%	8.1%	13.1%
Bitcoin	15.3%	66.7%	157.0%

Source: Bloomberg

Bitcoin

Last month's achievements for Bitcoin are particularly noteworthy, given the backdrop of persistent inflation and the fluctuating narrative from the Federal Reserve (Fed). These achievements stand out even more when considering the geopolitical tensions affecting trade, such as the disturbances in the Red Sea and the Yamani Straits. Here are the key points to note:

General Adoption and SEC's Role: The Securities and Exchange Commission's (SEC) approval of Bitcoin Exchange-Traded Funds (ETFs) marks a significant milestone. Although Bitcoin ETFs currently represent only 1% of global Bitcoin holdings, the potential increase to 5% or 10% could significantly bolster Bitcoin's price. This rise would not only provide a solid support level but could also spur the next wave of demand and price increases.

Federal Reserve's Evolving Stance: There's a noticeable shift in sentiment towards Bitcoin among the Fed's staff and some of its prominent leaders. This positive dialogue around Bitcoin integration reflects a broader acceptance and understanding of its potential role in the financial landscape.

Additionally, it's important to highlight the growth in the three primary categories of Bitcoin users during the first quarter of 2024:

Bitcoin Speculators: These are individuals who trade Bitcoin to capitalize on its price volatility, without necessarily believing in its long-term promise.

Bitcoin Investors: Long-term holders who are swayed by the asset's fundamentals and believe in its value proposition.

Bitcoin Advocates: Those who not only invest in Bitcoin for the long term but also actively promote it to others, including family members, bankers, and barbers.

Some forward-looking statements and assumptions are based on analysis of data prepared by third party reports, which should be analysed on their own merits.

End of Report

Sources: Legacy Wealth Advisors, Global CIO, Bloomberg
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