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Global Economic & Market Review

First Quarter 2024

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Highlights

- For the most part, economic output amongst the world's developed economies remained stable in the first quarter, but concerns regarding a slowdown continue to persist. The International Monetary Fund updated its global growth forecast for 2024 from 3.1% to 3.2%.

- Developed market central banks maintained their cautious stance despite persistently stubborn inflation levels. While headline inflation continues to cool in many instances, overall inflation continued to surpass central bank targets.

- While economic growth recovered in China, concerns remain about the economy, particularly the property sector. Investors continue to shift capital to other regions of Asia including India, which remains one of the fastest growing emerging economies.

- Most developed equity indices posted positive returns in the first quarter as declining inflation expectations drove gains across most sectors. Bond yields were relatively stable during the quarter, leading to mixed results across the globe and muted performance in most sectors of the bond market.

- In the commodities market, precious metals including gold, silver and copper bounced while oil prices jumped amidst continued geopolitical uncertainty.

CFAL Global Economic & Market Review Q1-2024

United States

Major US markets posted strong positive results in the first quarter as corporate earnings remained resilient and anticipation for rate cuts boosted investor sentiment. We do note that the strong market performance was heavily driven by a few large technology stocks as hype surrounding Artificial Inteligence increased during the quarter. The NASDAQ, S&P 500 and Dow Jones Industrial Average jumped +9.11%, +10.16% and +5.62% respectively during the quarter. The US Federal Reserve opted to leave rates unchanged following its March policy meeting, while guiding the market that they intend on keeping rates at high levels for a prolonged period. However, investors continue to ignore these warnings, as it remains largely consensus amongst markets that rates have peaked, and investors expect that rate cuts will begin in the second half of the year. The Fed's benchmark interest rate remains in the range of 5.25 – 5.50% although inflation remains above the 2% target. The Consumer Price Index rose at an annual pace of +3.5% in March, justifying our expectations of rates remaining higher for a bit longer. Given this, bond yields were relatively stable during the quarter which is a welcoming sign for conservative fixed income investors whom were subject to increased volatility in bond prices. US high yield issues gained +1.49%, US corporates were relatively flat at -0.09% and US Treasuries 1 – 10 years fell -0.33%. The US economy grew by a stronger than expected 3.4% in Q4-2023 from the previous year, with projections for growth to slow to 2.9% in the first quarter of this year. The economy remains resilient despite the Fed's tightening of monetary policy as unemployment levels continue to defy expectations at 3.8%, slightly higher than in the fourth quarter.

Europe

Eurozone equities also posted a strong first quarter with the Stoxx Europe 600 Index gaining +7.03% in Q1-2024. This comes despite the euro area reporting no change in GDP during the fourth quarter, a positive given the previous expectation of a -0.1% contraction in GDP. Denmark (+2.0%) saw the largest expansion while Ireland (-3.4%) reported the biggest contraction. Amongst the largest economies, France saw flat performance while Germany experienced a contraction of -0.4%. Spain and Italy saw expansions of +0.6% and +0.2% respectively. Overall euro area growth was +0.1% year over year. Despite the slow growth, household consumption continued to rise, gaining +0.06% for its second consecutive quarterly gain after contracting for three consecutive quarters prior. In manufacturing the purchasing managers' index, which is regarded as the benchmark business activity survey for the region, came in at 49.9, ahead of February's reading 49.2 as the sector shows signs of stability. Readings below 50 indicate economic contraction and any continued improvement would point to an expansion in the manufacturing sector. While inflation levels remain elevated, the Eurozone saw its annual inflation rate come in at 2.4% in March, from 2.6% the previous month. Core inflation, which excludes energy and food, came in at 3.1% in the latest reading. The European Central Bank continues to maintain a more cautious tone to the FED and has signaled expectations for rate cuts, acknowledging downside risk for economic growth and already subsiding inflation. Its key policy rate remains at a 22-year high of 4%. Similarly to the US, the UK continued to grapple with stubbornly high inflation, albeit subsiding at +3.4%, a welcomed reduction from higher rates in 2023. The key policy rate was unchanged at 5.25% during the quarter and like the other central banks, the Bank of England is not expected to raise rates. The economy remains challenged like many euro area economies. During Q4-2023, the UK saw minor contraction of -0.3% quarter over quarter, which led to +0.1% growth year over year. UK stocks, as measured by the FTSE 100, posted a comparatively small gain of +2.84% in the first quarter.

Asia Pacific

The Shanghai SE Composite gained +2.23% in the first quarter as China's economic output reached target levels. While growth remains below historical levels, the economy grew by a better than expected +5.2% year over year in the fourth quarter of last year. Growth reflected a +4.5% increase in fixed asset investments but the property sector and its accompanying debt crisis remains a significant drag. While unemployment levels improved to 5.2% overall, youth unemployment (ages 16 – 24) remained stubbornly high, down to 14.9% in December from a record 21.3% in June 2023. Unlike most western economies, the People's Bank of China remains stimulative, keeping its key policy rate at 2.65% since June. We expect officials to remain accommodative to offset any resulting weakness from the property sector and retail sales. It is also noteworthy that China reported its second consecutive decline in population in 2023 as demographic challenges persist. Japanese equities continued to outperform, with the Nikkei 225 index gaining +20.63% during the quarter and up 43.96% over the past 12 months. The index continues to hit record highs as investors applaud the Bank of Japan's ultralow interest rate policy. Japan's Central Bank has shifted to a positive rather than zero policy rate as economic growth increased 0.4% in Q4-2023. The Japanese economy continues to fluctuate between expansion and contraction. Both China and Japan have bucked inflation trends, with inflation levels below targets.

Emerging Markets

The MSCI Emerging Markets Index gained +1.90% in the first quarter, underperforming the MSCI World Index which gained +8.47% due to its heavy tilt to Chinese companies. Many EM countries continue to rebound in the post COVID recovery, even as global growth moderated, and interest rates remain elevated. Brazil saw growth pickup in the fourth quarter of 2023, rising 2.1% but the economy remains sensitive to high interest rates. Notably, the policy rate declined to 10.75% in March with expectations of another 0.50% reduction to occur in May. Brazil's Ibovespa declined -7.42% during the quarter as elevated interest rates pressured stocks. Meanwhile, Turkey's stock market saw strong returns as it continues to return to orthodox monetary policy, increasing rates from 45% to 50% at its March 2024 meeting. South Africa experienced marginal growth of 0.1% in the fourth quarter 2023, driven by weakness across the majority of its core sectors and political uncertainty ahead of its May elections. The economy remained stagnant in 2023 with expectations of a modest pickup in growth in 2024. In India, growth accelerated by 8.4% year over year in Q4-2023, exceeding expectations as the Indian economy remains extremely strong ahead of upcoming general elections.

Commodities

In the commodities market, ongoing geopolitical tensions including the conflict between Gaza and Israel continues to sustain high prices on precious metals as investors seek safe haven assets. Escalation also continues in the Russia-Ukraine war as battle for territory continues with hopes that these wars do not spread throughout other regions. During the quarter, Gold futures soared +7.03%, to end the quarter at a peak of $2,251. Silver and Copper also saw gains of +3.45% and +2.85% respectively in Q1-2024. Despite weak data out of China, copper prices remained resilient, gaining +3.33%. After some weakness to end 2023, oil prices skyrocketed higher as geopolitical concerns combined with demand due to continued economic resilience provided a boost. It is noteworthy that cocoa was the best performing comodity during the quarter on strong demand and supply shortages in West Africa.

Market Returns Q1-2024

	As at March 31, 2024			
	MTD	QTD	YTD	1 year
Equity Indices *(% local currency)*				
S & P 500	3.10	10.16	10.16	27.86
Dow Jones Industrial Average	2.08	5.62	5.62	19.63
NASDAQ	1.79	9.11	9.11	34.02
FTSE 100	4.23	2.84	2.84	4.20
Stoxx Europe 600	3.65	7.03	7.03	11.98
Shanghai SE Composite	0.86	2.23	2.23	-7.08
Nikkei 225	3.07	20.63	20.63	43.96
MSCI Emerging Markets	2.18	1.90	1.90	5.34
MSCI World	3.01	8.47	8.47	23.15
ICE BofA Bond Indices *(% local currency)*				
US Treasuries 1-10 years	0.42	-0.33	-0.33	1.57
US Corporates	1.16	-0.09	-0.09	4.68
US High Yield	1.16	1.49	1.49	11.00
UK Gilts 1-10 years	1.14	-0.74	-0.74	2.19
Euro Government	1.02	-0.68	-0.68	3.90
Global High Yield & Emerging Markets	1.31	1.99	1.99	12.44
Global Broad Market Index	0.63	-2.14	-2.14	0.30
Currencies vs. USD				
British Pound	-0.01	-0.84	-0.84	2.33
Euro	-0.15	-2.26	-2.26	-0.46
Japanese Yen	0.93	7.33	7.33	13.94
Swiss Franc	1.94	7.17	7.17	-1.49
Commodities *(% USD)*				
Gold	7.92	7.03	7.03	12.62
Silver	9.93	3.45	3.45	3.15
Copper	4.45	2.85	2.85	-1.48
WTI Crude Oil	7.39	15.31	15.31	16.22