FINURA

YOUR MARKET REVIEW
APRIL 2024

Chartered Financial Planners

INFOGRAPHIC: THE GLOBAL ECONOMY

Will the Fed, ECB and BoE all cut interest rates in June?

The European Central Bank (ECB), US Federal Reserve (Fed) and Bank of England (BoE) held rates in March

However, following the latest round of their rate-setting meetings, financial markets now expect them all to cut in June

We've also adjusted our own forecasts, which now also assume all three central banks will cut at their mid-year meetings

Read more

How climate mitigation could be beneficial to the global economy

7% boost to global growth

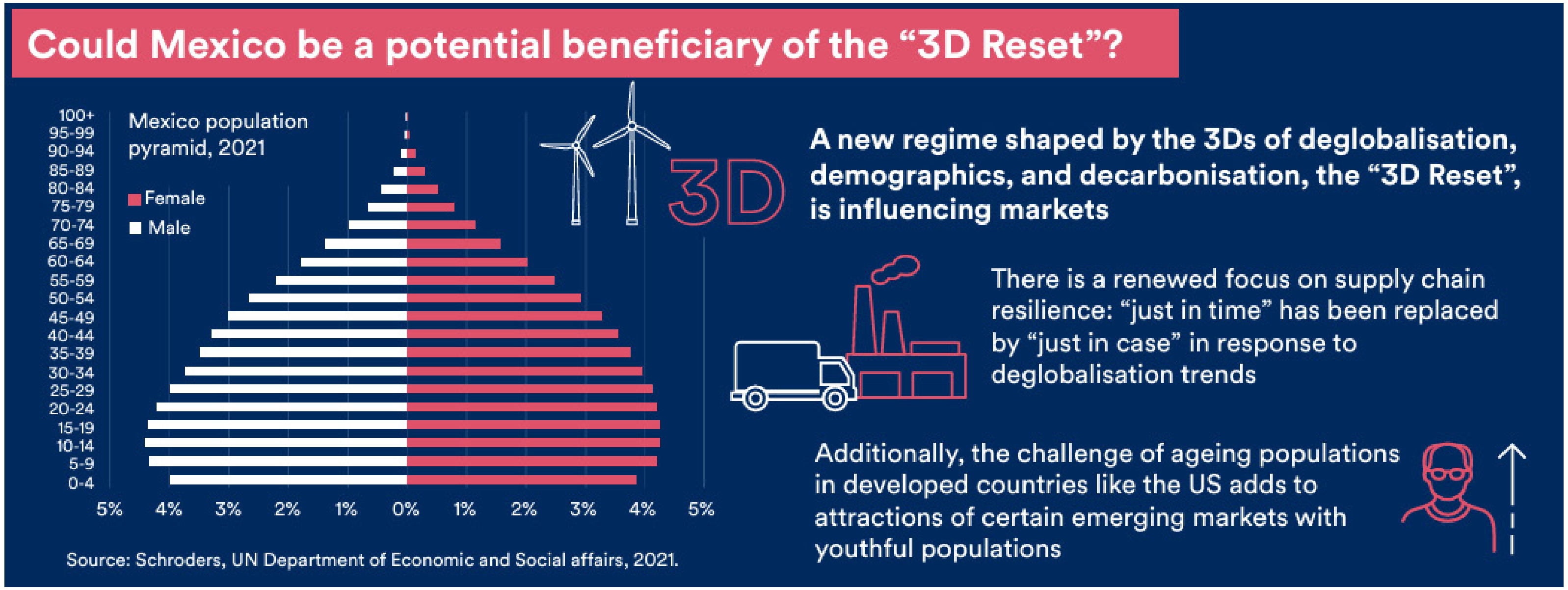
Projected GDP increase with orderly transition to net zero by 2050 vs. current climate action policies, according to the Network for Greening the Financial System

Benefits from tackling global warming would offset the climate mitigation costs...

...by reducing the physical risks of climate change, and their impact on the global economy

However, inflationary pressures resulting from higher carbon prices to implement these changes could pose political challenges

Read more



Source: [Schroders as at April 2024.]

MULTI-ASSET INVESTMENT VIEWS

KEY

▲ Up from last month ▼ Down from last month

🟢 Long / Positive 🟡 Neutral 🔴 Short / Negative

	Category	View	Comments
Main Asset Classes	Equities	🟢	We have maintained our positive view on equities as economic growth remains solid both inside and outside of the US, and the cyclical backdrop remains supportive.
	Government Bonds	🔴 ▼	We have downgraded bonds to negative as valuations are expensive and rate cuts may be pushed back to later in 2024 as inflation is no longer falling.
	Commodities	🟢 ▲	We have upgraded to positive, as manufacturing activity has improved in Europe and the US, leading to increased demand for industrial metals.
	Credit	🟡	We are neutral on credit because valuations are expensive, particularly in dollar denominated debt.
Equities	US	🟢	We remain positive on US equities, as economic growth remains healthy, the labour market continues to grow, and US consumer confidence is strong.
	UK	🟡	We remain neutral as concerns surrounding the stickiness of inflation offsets the attractive valuations.
	Europe	🟢	We continue to expect the European economy to recover, which should be a strong catalyst for European equities.
	Japan	🟢	We retain our positive view as the fundamental picture has remained strong and the macro environment is supportive.
	Global Emerging Markets[1]	🟡	The Chinese economy remains fragile which leads us to remain neutral given its considerable influence on emerging market equities.
	Asia ex-Japan & China	🟡	We remain neutral as the People's Bank of China hasn't provided any meaningful economic stimulus.
	EM Asia ex China	🟡 ▼	We have downgraded to neutral as any delays in cuts to US rates is likely to have a negative impact.

[1] Global Emerging Markets includes Central and Eastern Europe, Latin America and Asia.

	Category	View	Comments
Government Bonds	US	🔴 ▼	As inflationary risks have re-emerged, we have downgraded US government bonds because the first cut in rates, which was expected in June/July, is now likely to be pushed back to later in the year.
	UK	🟢	We maintain our positive stance as UK Gilts are currently attractively priced as prices have fallen in sympathy with US Treasuries.
	Germany	🟡	Market pricing has continued to reflect an expectation that rates will be cut soon, which the European Central Bank (ECB) has signalled is likely to begin in June.
	Japan	🟡	The Bank of Japan (BoJ) has hiked interest rates, which are now positive. However, this has not yet had a material impact on bond prices, leading us to remain neutral.
	US Inflation Linked	🟢	We remain positive as there have been signs that inflation may be ticking up.
	Emerging Markets Local	🟡	Although we still believe a soft-landing is the most likely scenario, which would benefit EM rates, fears over US inflation and the subsequent impact on Federal Reserve (Fed) policy lead us to remain neutral.

	Category	View	Comments
Investment Grade Credit	US	🟡	We remain neutral as we think valuations are expensive.
	Europe	🟡	Although we recognise that the value offered by European corporate debt is superior to many of its peers, we remain neutral because investors are not focusing on spreads.
	Emerging Markets USD	🟡 ▼	We have downgraded to neutral as valuations are expensive.
High Yield Bonds (Non-IG)	US	🟡	We remain neutral because valuations are expensive and current conditions mean downside risks still persist.
	Europe	🟢	We remain positive as Europe is earlier in its credit cycle than other regions, and the ECB may be the first central bank to cut interest rates.
Commodities	Energy	🟡	We remain neutral as we believe that the market has priced in current market dynamics and OPEC compliance is low.
	Gold	🟢	We maintain our positive view on gold as demand remains robust despite a slight weakening in real rates.
	Industrial Metals	🟢 ▲	We have upgraded to positive to reflect the recovery in manufacturing activity and tight supply dynamics.
	Agriculture	🟡	We remain neutral as the impact of El Nino is declining and the supply side remains stable.
Currencies	US $	🟢	We retain our positive view as US growth remains firm.
	UK £	🟡	Although a soft-landing may be favourable for sterling, lingering concerns about stagflation keep us neutral.
	EU €	🟡	The economic cycle is looking more favourable in Europe. However, widening interest rate differentials lead us to remain neutral.
	CNH ¥	🟡	We remain neutral, reflecting the balance between weak economic growth and the impact of the uptick in the global goods cycle.
	JAP ¥	🟢	We maintain our positive view as we believe that the currency should appreciate over the medium term as the BoJ slowly moves towards a policy of positive interest rates.
	Swiss F	🔴	As the Swiss Central Bank has been one of the first major central banks to cut rates, the increase in interest rate differentials keeps us negative on the currency.

Past performance is not a guide to future performance and may not be repeated. The value of investments and the income from them may go down as well as up and investors may not get back the amounts originally invested. Source: Schroders, April 2024. The views for equities, government bonds and commodities are based on return relative to cash in local currency. The views for corporate bonds and high yield are based on credit spreads (i.e. duration-hedged). The views for currencies are relative to US dollar, apart from US dollar which is relative to a trade-weighted basket.

MARKETS REVIEW

A look back at markets in April when higher US inflation caused investors to reassess the timeframe for interest rate cuts.

THE MONTH IN SUMMARY

Developed market equities fell in April as interest rate cuts in the US appeared a more distant prospect. Bonds also came under pressure in the month. Emerging market equities outperformed developed markets, while commodities saw positive returns.

THE US

US equities fell in April as higher-than-expected inflation dampened hopes of interest rate cuts in the near term. The weakest sectors were those most sensitive to changes in interest rates, including real estate and information technology. Utilities was the top performer in the S&P 500 index.

The consumer price index (CPI) for March ticked up by 0.4% month-on-month, taking annual inflation to 3.5% compared to 3.2% in February. The Federal Reserve's (Fed) preferred measure of inflation – personal consumption expenditure – also ticked higher to 2.7% in March. Separate data showed an acceleration in labour costs. Meanwhile, GDP growth was weaker than expected in Q1 with the US economy expanding by an annualised 1.6%, down from 3.4% in Q4 2023.

Nevertheless, the rise in inflation and strong jobs market meant investors pushed back their expected timeline for an interest rate cut from the Fed. A June cut appears unlikely and the number of rate cuts expected in 2024 has fallen from around six at the turn of the year to just one or two.

EUROZONE

Eurozone shares ended April weaker as the prospect of US rate cuts receded. The weakest performing sectors included information technology and consumer discretionary. Top performing sectors were energy and real estate.

While US rate cuts appear more distant, economic data released locally suggested that a June interest rate cut from the European Central Bank (ECB) is still on the cards. A flash estimate by Eurostat showed that eurozone inflation was expected to be 2.4% in April, stable when compared to March.

Meanwhile, the eurozone economy grew in Q1 with GDP expanding by 0.3% quarter-on-quarter, following the -0.1% decline in Q4 2023. The German economy rebounded with 0.2% growth after a -0.5% decline in Q4.

In terms of forward-looking data, the HCOB flash composite purchasing managers' index (PMI) reached an 11-month high of 51.4 for April. PMI data is based on surveys of companies in the manufacturing and service sectors. A reading above 50 indicates growth while below 50 indicates contraction.

UK

UK equities outperformed over the period as performance trends broadened out and away from technology-heavy stock markets such as the US. The UK's high weighting in unfashionable sectors such as financials and resources was a positive as they benefited from this broadening to more lowly valued areas. Meanwhile, a step-up in bid interest further underlined the UK's lowly valuation relative to other markets, even as the flagship FTSE 100 index hit a new all-time price high.

A positive contribution from the healthcare sector, and a resilient performance by consumer staples also helped explain the UK's strong relative performance. In common with financials and resources sectors, these two areas of the market are significant dollar earners so sterling's weakness versus the US currency in part explained the market's overall outperformance, while a recovery in commodity prices was another important performance kicker.

Expectations for more persistent inflation globally benefited commodity exposed sectors and markets like the UK given commodities are a clear inflation beneficiary of higher inflation. That said, a higher-than-expected UK inflation release for March, both at the headline and core level, weighed on domestically focussed parts of the market given the implication that interest rate cuts may be delayed locally. This effect was reflected in the underperformance of mid cap equities over the period, although UK small caps did perform very well in April.

JAPAN

The Japanese equity market entered a correction phase in early April but recovered towards the end of the month, mainly thanks to solid earnings figures. The TOPIX index declined by only -0.9% in Japanese yen terms. However, the Nikkei 225, a large-cap oriented index, fell by -4.9% for the month of April. The market correction primarily affected large-cap and semiconductor-related stocks, as selling pressures from profit taking were observed. Additionally, heightened tension in the Middle East also had a negative impact on market sentiment.

Read more: Middle East conflict and market responses: what does it mean for investors?

The Japanese yen further weakened, mainly due to the strength of the US economy and receding market expectations for a rate cut by the Fed. On the other hand, the Bank of Japan (BoJ) did not take further action for policy tightening at the April policy meeting, which triggered more speculative moves in the currency market. The Japanese yen reached a level of 160 yen against the US dollar, and the Japanese government expressed concern about its impact on inflationary pressures, as it could lead to a delay in real-term wage growth. This, in turn, could weaken consumption and delay domestic demand-oriented economic growth in Japan.

As a result, the Ministry of Finance has taken actions for market interventions, although the effectiveness of these interventions remains uncertain. Despite these challenges, the spring wage negotiation known as "Shunto" concluded with historically high figures, with wage growth exceeding 5%. Additionally, Japan continues to experience a higher number of visitors, which supports consumption.

ASIA (EX JAPAN)

Asia ex Japan equities achieved modest growth in April, with share price gains in China, Hong Kong and Singapore offsetting prices falls in Indonesia, South Korea, and the Philippines. China was the strongest market in the MSCI AC Asia ex Japan Index amid improved sentiment towards the country's stock market. However, lingering concerns about the strength of the recovery in the world's second-largest economy capped market gains. There continue to be worries about the country's real estate crisis and unemployment rate, particularly amongst younger people.

Share prices in Hong Kong also moved higher in April, driven by foreign investors seeking lower-valued Hong Kong-listed shares

that pay higher dividends as optimism towards companies with exposure to mainland China improves. Investors are also shifting funds away from other Asia-Pacific markets such as Japan or India where currencies are under pressure from a stronger US dollar. Stocks in Singapore also moved higher, with positive economic data helping to boost investor sentiment.

Indonesia was the worst-performing index market after the country's central bank delivered a surprise rate hike to support the currency and tame the country's inflation rate. Stocks in South Korea were also weaker in April amid ongoing investor worries about the global economic outlook and inflation.

EMERGING MARKETS

Emerging market equities posted a small positive return in the month, outperforming developed market peers by some margin, as a rebound from China drove relative gains. In the developed world, a higher-than-expected US inflation print reinforced expectations that interest rates may remain "higher-for-longer".

Turkey was the top-performing index market in April amid strong foreign inflows into the equity market and president Erdogan's post-election indication that economic policy will remain orthodox. China was the second-best performer, helped by a strong Q1 24 GDP result of 5.3% year-on-year and evidence that policy support is starting to bear fruit as manufacturing and infrastructure investment rose year-on-year in March. Hungary outperformed, followed by Peru, South Africa and Czech Republic. India, where voting for national elections began, continued to perform strongly.

Chile posted a negative return, as did Thailand where economic indicators point to a slowing of activity. Taiwan lagged the broader index amid foreign selling of equities while the Middle Eastern markets, Saudi Arabia, Qatar, UAE and Kuwait, posted losses on an escalation in regional geopolitical tension. The Latin American markets of Mexico, Brazil and Colombia also delivered negative returns as all three currencies depreciated against the dollar. Brazil was negatively affected by the delay in expectations about the timing of US interest rate cuts, as was Korea where weakness in the tech sector weighed on returns. Egypt was once again the worst performing market.

GLOBAL BONDS

The US led the sell-off in global government bonds in April, with the 10-year Treasury yield hitting the highest level (4.70%) since late 2023 as the market embraced a higher-for-longer narrative regarding interest rates. Despite a downturn in global equities, credit markets performed relatively well. Investment grade spreads tightened further in both US and European credit markets. Technicals (factors that influence supply and demand dynamics, pricing, and trading activity) remained supportive, as slowing investor demand was accompanied by lower primary issuance.

In the high yield (HY) market, credit spreads tightened slightly in the European market and outperformed the US in terms of both spread and total return. High yield bonds are more speculative compared to their investment grade (IG) counterparts that are the highest quality bonds as determined by a credit rating agency. HY bonds carry a credit rating below IG.

Inflation remained in the spotlight during April, as the market questioned the timing of rate cuts. The US inflation report for March showed a third consecutive above-consensus core CPI inflation print, leading the market to discount a later start to rate cuts. Expectations for rate cuts in June now seems to be off the table. This news coincided with another strong US labour market report.

As expected, ECB left interest rates unchanged. President Christine Lagarde continued to signal June as an appropriate time to ease monetary policy conditions. While European government bond yields rose over the month (the German 10-year Bund yield rose to 2.58%), non-core markets outperformed. The market reacted positively to news that rating agencies Moody's and Fitch had kept France's sovereign ratings unchanged contrary to speculation of a potential downgrade.

The BoE didn't meet in April, but governor Andrew Bailey appeared relatively optimistic on the progress of inflation, noting evidence of easing price pressures. However, other committee members sounded more cautious. While still indicating a disinflationary trend, the latest inflation release for March was higher than expected in both headline and core measures. The UK 10-year gilt yield rose to 4.35%.

In foreign exchange markets, the strength of the US dollar was driven by the higher-for-longer rates narrative. The Japanese yen was the clear underperformer, reaching over a thirty-year low against the dollar due to rising US yields.

Convertible bonds offered some protection to investors amid falling equity markets. The FTSE Global Focus convertible index finished the month with a loss of -2.4% in US dollar hedged terms. The primary market in convertibles remains active, even though April saw a slightly below average issuance volume of US$4 billion. Just over half of the new issuance came from Japan.

COMMODITIES

The S&P GSCI Index achieved gains in April, with higher prices in industrial metals and precious metals offsetting modest price falls in all other components of the index. Within industrial metals, the price of zinc, nickel, and copper were significantly higher in the month, while price gains for aluminium and lead were smaller. In precious metals, gold and silver both rose.

In agriculture, coffee, and wheat prices advanced, while the price of cotton and sugar experienced sharp falls in the month. In the energy component, natural gas achieved slightly higher prices in the month, while the price of crude oil was almost unchanged in April, despite worries over the situation in the Middle East.

DIGITAL ASSETS

After a strong first quarter, April saw some profit taking in digital assets markets, and risk assets in general, where Bitcoin and Ethereum gave up a portion of their 2024 gains. During the month Bitcoin returned -15.4% and Ethereum -17.8%, bringing their year-to-date performances to 42.7% and 31.5% respectively. Altcoins were particularly hit with Solana dropping by 38.3% during the month.

Risk assets suffered as geopolitical uncertainty resurfaced in the Middle East leading to a sharp sell-off of all digital assets - some Altcoin plunged 15% or more on the Saturday of Iran's drone attack on Israel. This acted as a reminder of how investors are increasingly using the 24/7 nature of crypto to react to events and adjust risk exposures over weekends. Macro-economic forces also came into play as unfavourable inflation prints focused the market on the higher-for-longer interest rates narrative. This played negatively into all long-duration assets. In

this environment spot volumes reached $7 billion a day, a high not seen since the previous cycle. These levels of activity are very supportive of market neutral trading strategies.

The highly anticipated fourth Bitcoin “halving” (whereby the reward for mining Bitcoin transactions is cut in half) occurred during the month. This halved the annualised inflation rate of the Bitcoin supply resulting in the digital currency’s issuance scarcity decisively surpassing that of gold. After a six-year hiatus from crypto, Stripe, one of the largest US payment firms, announced that it will be integrating stable coins into its network. Sometime very soon you will be able to pay for goods and services in crypto.

TOTAL RETURNS (NET) % – TO END APRIL 2024

	1 MONTH			12 MONTHS		
Equities	**USD**	**EUR**	**GBP**	**USD**	**EUR**	**GBP**
MSCI World	-3.7	-2.7	-2.9	18.4	22.2	18.8
MSCI World Value	-3.4	-2.4	-2.5	12.6	16.3	13.0
MSCI World Growth	-4.0	-3.0	-3.2	24.0	28.0	24.4
MSCI World Smaller Companies	-5.2	-4.2	-4.3	10.0	13.6	10.4
MSCI Emerging Markets	0.4	1.5	1.3	9.9	13.5	10.3
MSCI AC Asia ex Japan	1.2	2.3	2.1	7.5	11.0	7.9
S&P500	-4.1	-3.1	-3.2	2.7	26.7	23.1
MSCI EMU	-2.9	-1.9	-2.0	9.2	12.8	9.7
FTSE Europe ex UK	-2.6	-1.6	-1.7	9.0	12.5	9.4
FTSE All-Share	1.6	2.6	2.5	7.1	10.6	7.5
TOPIX*	-4.7	-3.7	-3.9	18.0	21.8	18.5
	1 MONTH			12 MONTHS		
Government Bonds	**USD**	**EUR**	**GBP**	**USD**	**EUR**	**GBP**
JPM GBI US All Mats	-2.3	-1.3	-1.4	-2.6	0.6	-2.2
JPM GBI UK All Mats	-3.9	-2.9	-3.1	-1.9	1.3	-1.5
JPM GBI Japan All Mats**	-5.2	-4.3	-4.4	-16.9	-14.2	-16.6
JPM GBI Germany All Traded	-2.7	-1.7	-1.8	-2.8	0.3	-2.5
Corporate Bonds	**USD**	**EUR**	**GBP**	**USD**	**EUR**	**GBP**
BofA ML Global Broad Market Corporate	-2.2	-1.2	-1.3	1.6	4.9	2.0
BofA ML US Corporate Master	-2.3	-1.3	-1.4	1.4	4.7	1.8
BofA ML EMU Corporate ex T1 (5-10Y)	-2.3	-1.3	-1.4	2.5	5.8	2.9
BofA ML £ Non-Gilts	-2.7	-1.7	-1.8	3.8	7.2	4.2
Non-investment Grade Bonds	**USD**	**EUR**	**GBP**	**USD**	**EUR**	**GBP**
BofA ML Global High Yield	-0.9	0.1	0.0	9.0	12.5	9.4
BofA ML Euro High Yield	-1.0	0.0	-0.1	7.6	11.1	8.0

Source: LSEG DataStream. Local currency returns in April 2024: *-0.9%, **-1.4%.
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Source: Schroders, April 2024: The value of investments and the income from them may go down as well as up and investors may not get back the amounts originally invested. Past performance mentioned is not a guide to future performance and may not be repeated. The sectors, securities, regions and countries shown are for illustrative purposes only and are not to be considered a recommendation to buy or sell.

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