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YOUR MARKET REVIEW FEBRUARY 2024

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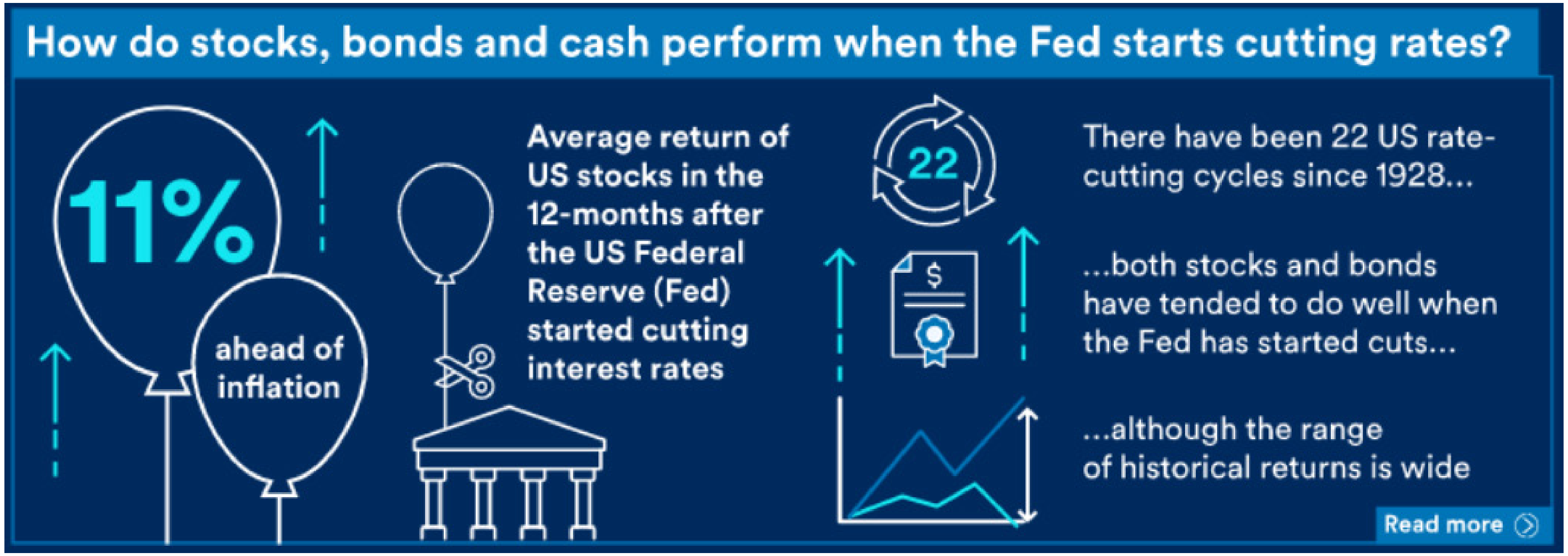
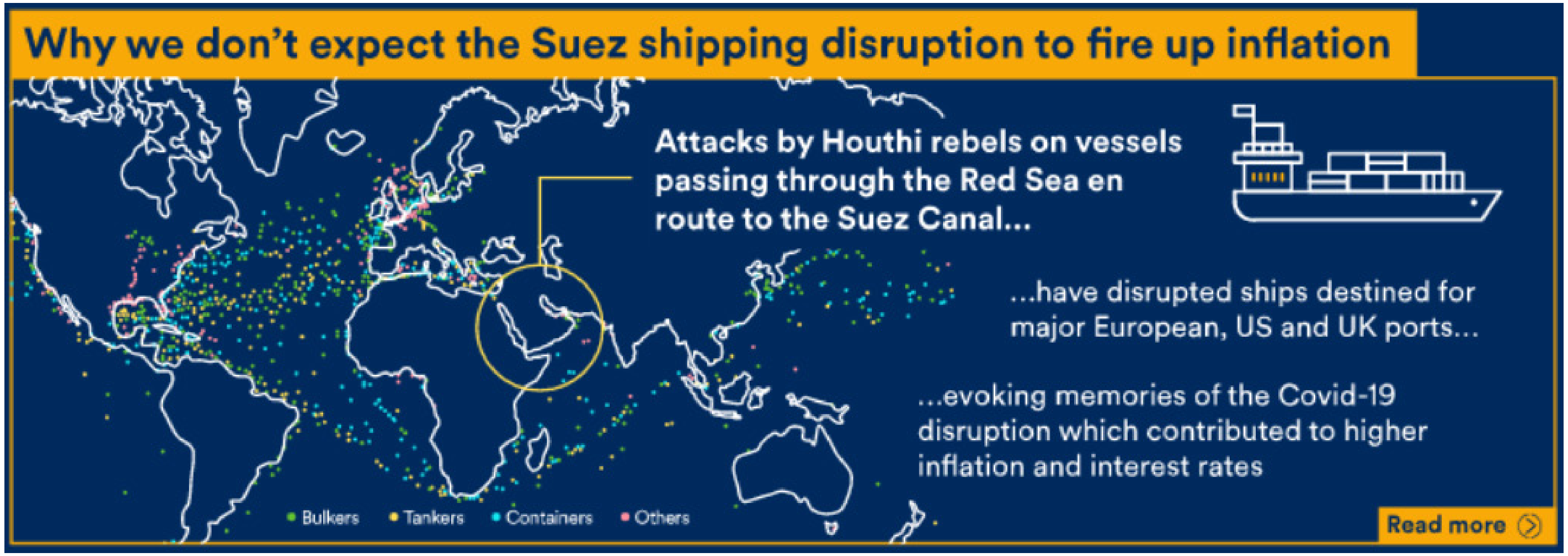
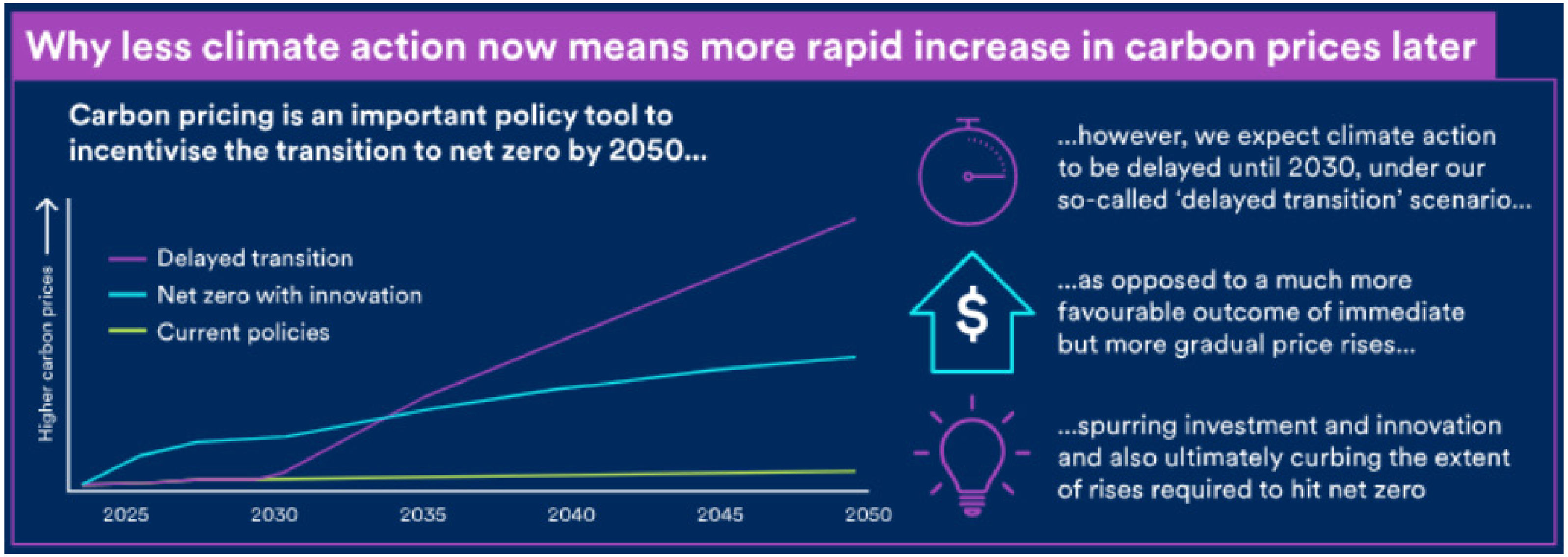
INFOGRAPHIC: THE GLOBAL ECONOMY







Source: [Schroders as at February 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	Long / Positive ▲	We have upgraded to positive on equities as growth continues to surprise to the upside. We have implemented this view via global equities to take advantage of cheaper valuations and growth opportunities outside of the US.
Main Asset Classes	Government Bonds	Neutral	We remain neutral. Although valuations have become more attractive as markets reprice rate expectations, we prefer to tread cautiously as a hard landing resulting from resilient growth and thus higher rates remains a risk factor.
Main Asset Classes	Commodities	Neutral	Supply continues to meet demand in commodity markets, despite geopolitical tensions in the Middle East. We therefore remain neutral but maintain our positive outlook on gold, which should benefit from lower real rates.
Main Asset Classes	Credit	Neutral	We remain neutral on credit. Valuations are extremely stretched, but supportive supply and demand dynamics allied with strong fundamentals keep us neutral.
Equities	US	Long / Positive ▲	We have upgraded our view to positive as the US labour market remains buoyant, consumer confidence continues to grow, and core inflation is in line with the Federal Reserve's (Fed) target.
Equities	UK	Neutral	We remain neutral on the UK as although inflation has eased it is still above the Bank of England's (BoE) target, and the growth outlook remains weak.
Equities	Europe	Long / Positive ▲	We have moved to positive on Europe, which has been moving through its own cycle and where manufacturing data is showing signs of recovering from its 2023 lows.
Equities	Japan	Long / Positive ▲	We have upgraded our view on Japan to positive given a solid fundamental picture, including strong upward earnings revisions. Despite valuations approaching the highs achieved in 1989, valuations today are far less stretched.
Equities	Global Emerging Markets[1]	Neutral	We remain neutral as, despite signs of a manufacturing recovery, we expect this recovery to be uneven. This is coupled with a weak outlook on China.
Equities	Asia ex-Japan & China	Neutral	In China, the growth outlook remains weak, due to a fragile property sector and a lack of meaningful stimulus from the People's Bank of China. We retain our neutral view given that valuations are relatively cheap and in case of an uptick in the global goods cycle.
Equities	EM Asia ex China	Long / Positive	We are positive on Taiwan and Korea as they should be the first to benefit from any manufacturing recovery and increase in AI and semi-conductor demand.
Government Bonds	US	Neutral	While investors have scaled back their expectations of when the Fed will start to cut rates, we prefer to remain neutral as the improvement in valuations is not yet sufficient to offset the negative carry.
Government Bonds	UK	Neutral	We remain neutral as although the UK labour market has loosened, and we recognise that valuations are more attractive given less aggressive rate expectations, elevated wages and expectations of tax cuts remain concerns.
Government Bonds	Germany	Neutral	Despite a fall in inflation, wage pressures remain elevated. Bunds could act as a hedge against a volatile 2024 in the eurozone, but for now we prefer to stay neutral.
Government Bonds	Japan	Neutral	We remain neutral. Inflation appears to be in line with the Bank of Japan's target and we await more clarity on any exit from their negative interest rate policy.
Government Bonds	US Inflation Linked	Long / Positive	We remain positive as these bonds offer a hedge against the risk of an uptick in inflation at the end of the year when favourable base effects subside.
Government Bonds	Emerging Markets Local	Neutral	A soft landing should be supportive of a weaker US dollar and thus EM rates. However, given resilient US data and the risk of a hard landing, we prefer to remain neutral for now.

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

	Category	View	Comments
Investment Grade Credit	US	🟡	We maintain our neutral stance as valuations are extremely rich and US IG is struggling to compete with cash. However, we acknowledge that issuance is still being met with strong demand as investors seek long-term quality yield.
	Europe	🟡	Valuations for European IG are relatively fair. Although we recognise solid fundamentals such as a consistent level of quality in the index and reasonable interest coverage of companies, we prefer to remain neutral.
	Emerging Markets USD	🟡	There is large variation in spreads across EM sovereigns but attractive valuations. Corporates show less variation in spreads but unattractive valuations. We remain neutral.
High Yield Bonds (Non-IG)	US	🟡 ▼	We remain neutral as US high yield valuations remain extremely stretched.
	Europe	🟡	The ECB's dovish comments triggered a strong rally in EU HY. Remaining value is concentrated in distressed issuers meaning we stay neutral.
Commodities	Energy	🟡	We remain neutral as despite geopolitical events in the Middle East, OPEC+ cuts to supply have yet to materialise. We expect solid supply growth from non-OPEC countries in 2024.
	Gold	🟢	We remain positive on gold as we expect some normalisation in real rates later this year. It also provides an attractive hedge versus an uptick in inflation. Prices are also supported by buoyant Chinese domestic demand.
	Industrial Metals	🟡	Supply continues to remain tight with further downgrades to copper production this year. However, resilient Chinese demand driven by property completion and renewables is likely to subside, while an increase in LME stocks illustrates weak ex-China demand.
	Agriculture	🟡	Grains have trended lower following increases in yield expectations, while softs and livestock have rallied as adverse weather conditions constrain supply. Therefore, we are staying on the sidelines.
Currencies	US $	🟢	We remain positive on the US dollar as a positive carry hedge against the risk that the Fed is not able to cut rates as quickly or by as much as the market is expecting.
	UK £	🟢	We remain positive on sterling. Despite recent falls, inflation is still above the BoE's 2% target, a global soft landing should be supportive of more cyclical currencies such as the pound.
	EU €	🟡	In Europe, manufacturing data has bounced off its summer lows, and it appears the worst stages of the economic cycle may be behind us. However, for now, we remain neutral.
	CNH ¥	🟡	We remain neutral given the weak economic growth outlook. However, we recognise the risk of potential CNY outperformance in the event of a larger pick-up in the global goods cycle.
	JAP ¥	🟡	We remain neutral as the Bank of Japan is yet to confirm the exit of their policy of yield curve control and there is currently no other domestic catalyst to support appreciation of the yen.
	Swiss F	🔴	Inflation continues to be below the Swiss National Bank's (SNB) 2% target, suggesting a rate cut is still a possibility.

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, February 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 review of markets in February when Chinese shares advanced.

THE MONTH IN SUMMARY

Global stock markets gained in February with emerging markets performing strongly as Chinese shares experienced a rebound. By contrast, in fixed income yields were generally higher, meaning prices fell, as investors pushed out the timeframe for central banks to cut interest rates.

THE US

US shares gained strongly in February, supported by some well-received corporate earnings. These included good results from some of the so-called "Magnificent Seven" companies. Gains were led by the consumer discretionary and industrials sectors, while defensive sectors underperformed.

The Federal Reserve (Fed) had held a policy-setting meeting at the very end of January. This resulted in interest rates remaining on hold at 5.25-5.5%, and Fed chair Jerome Powell indicated that a March rate cut was unlikely.

Data released in February did little to change that picture. Releases generally demonstrated ongoing economic resilience. which complicated the case for near-term interest rate cuts.

Read more: Scared of investing when the stock market is at an all-time high? You shouldn't be

US nonfarm payroll data showed 353,000 jobs were added in January, which was ahead of market expectations. Annual inflation (as measured by the consumer price index) slowed to 3.1% in January from 3.4% in December. However, the core CPI component (which strips out food and energy prices as these can be volatile) was up 3.9% year-on-year, in line with December's reading.

Presidential primaries were held in a few states during the month. Donald Trump won several Republican primaries, including in South Carolina and Michigan. "Super Tuesday" on 5 March will see more than a dozen states hold their primary contests.

EUROZONE

Eurozone stocks also advanced but lagged the gains made by US markets. Top performing sectors included consumer discretionary, industrials and information technology. Real estate and utilities lagged; these are sectors that had rallied in late 2023 on hopes of imminent rate cuts.

In consumer discretionary there were gains from both luxury goods and automotive companies, following some strong results from key firms in those industries. Within information technology, enthusiasm around the potential of AI is continuing to drive demand. The sector was also buoyed by some strong earnings from both local and global technology companies.

Data for February showed that eurozone inflation (as measured by the consumer price index) eased to 2.6% from 2.8% in January. There were also some signs of improving business activity. The flash eurozone purchasing managers' index (PMI) rose to 48.9 from 47.9 in January (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).

European Central Bank President Christine Lagarde continued to downplay the chances of an imminent interest rate cut, telling the European Parliament that the central bank does not want to run the risk of reversing any cuts.

UK

UK equities were broadly unchanged over the month. Industrials, financials and consumer discretionary were the top contributors, while consumer staples, real estate and basic materials were the largest detractors.

Official data showed that the UK economy had entered a technical recession in the second half of 2023. This occurred as the tailwind of elevated post-pandemic consumer spending came to an end and the headwinds of higher inflation and interest rates weighed on activity.

Looking ahead, purchasing managers' indices indicate that economic activity is rising at its fastest rate since the middle of 2023. Meanwhile, in a sign of labour market resilience, total pay rose 5.8% year-on-year (y/y) in the three months to December, above market expectations of 5.6%.

UK inflation data positively surprised as headline inflation remained steady at 4% y/y, defying expectations for a slight increase. Similarly, core inflation held steady for the second straight month at 5.1% y/y, marginally below an expected increase to 5.2%.

Despite the improving inflation data, Bank of England (BoE) Governor Andrew Bailey struck a cautious tone around the prospect of interest rate cuts. Speaking at a Treasury select committee he reiterated the bank's concern that inflation will pick up again later in 2024 after briefly dipping below the 2% target.

Read more: Six charts that show just how cheap UK equities are

JAPAN

The rally of the Japanese equity market accelerated during February and produced another strong total return of +4.9% for the TOPIX index. The Nikkei 225 finally exceeded the all-time high of 38,915 yen which was recorded during bubble era of December 1989. The Nikkei finished the month at 39,166 yen with a 7.9% return.

The stronger return from the Nikkei over the TOPIX reflects the fact that the rally was led by large cap stocks while small cap stocks continue to lag.

Strong appetite toward Japan from global investors continued and has driven this much faster than expected market rally in Japan. The long-term story of Japan - including return of inflation and corporate governance reforms - has been well received and accepted by global investors.

Market participants have become more relaxed about policy action by the Bank of Japan (BOJ) to lift the negative interest rate policy, which could come in March or April. Nonetheless, the BOJ policy will remain highly accommodative and modest inflation associated with wage growth is becoming a main scenario for the Japanese macro economy.

Macroeconomic figures released during the month were somewhat subdued, including Q4 GDP, consumption, and economic sentiment; however, the market was not particularly concerned.

The market rally was supported by earnings strength. Quarterly results announced late January to February finished with stronger than expected outturns. These included certain car manufacturers while many other large cap stocks such as financials and trading companies also beat the market consensus and raised investor sentiments. Although the quarterly earnings of technology stocks were somewhat weaker, the anticipation of AI demand growth drove the stock prices of semiconductor related stocks higher.

ASIA (EX JAPAN)

Asia ex Japan equities gained in February, with share prices bouncing back from recent lows and investors cautiously optimistic that the gloom surrounding China may be starting to lift. All markets in the MSCI AC Asia ex Japan index ended the month in positive territory, with China, South Korea, and Taiwan among the strongest markets. Share price growth in Thailand and Singapore, however, was more modest in February.

In China, official figures showed that tourism revenues over the Lunar New Year holidays in February were higher than in the period before the Covid-19 crisis. While this may offer some relief to the Chinese government as it continues to battle weak consumer demand, falling factory output and a real estate crisis, the sustainability of the tourism boost remains uncertain.

South Korea also achieved strong growth in the month, with official data showing that exports in February rose by 4.8% compared with a year earlier, driven by strong demand for semiconductors. Taiwan also achieved a robust performance in February, driven by ongoing investor enthusiasm for AI-related stocks and technology companies.

EMERGING MARKETS

Emerging market (EM) equities gained in US dollar terms in February and outperformed developed equity markets. There was ongoing optimism about the Federal Reserve (Fed) potentially cutting interest rates in the middle of the year. Returns in EM Asia were particularly strong given a rebound in China, which was underpinned by better-than-expected activity data and a cut to one of its key mortgage policy rates.

Strong performance from both Korea and Taiwan was also supportive of the region's outperformance. Korea benefited from the announcement of tax reform proposals aimed at incentivising corporates to improve shareholder returns, which boosted the return of value stocks, in particular. In Taiwan, continued investor enthusiasm for artificial intelligence (AI) boosted the tech sector once again.

Peru performed well, boosted by local currency strength. Saudia Arabia was another top performer, helped by energy price strength and some better-than-expected corporate earnings results. Poland also generated notable returns which outpaced those of broader EMs, as did Chile.

Greece and Turkey were behind the MSCI EM index, with local currency weakness dragging on returns. Turkey's underperformance came despite an improvement in GDP growth in Q4 2023. India was another laggard, as the financial sector continues to battle the effect of higher interest rates on net interest margins. Colombia's returns were behind those delivered by the index, as were Thailand's where the economy is in deflationary territory. In Hungary, monetary policy was eased once again but this wasn't enough for the market to outperform wider EM. Brazil underperformed too.

Most of the remaining markets ended February down in US dollar terms. These included Czech Republic, South Africa and Egypt. In South Africa, rand weakness had a negative effect on returns as the market continues to struggle with US dollar strength and political uncertainty in the run-up to 29 May's general election. Egypt posted the biggest losses in US dollar terms.

GLOBAL BONDS

Government bond yields rose in February, meaning prices fell. The market continued to anticipate interest rate cuts, although not immediately as labour markets remained strong and inflation data surprised to the upside.

Credit markets outperformed, with the economic outlook remaining relatively positive and the rate environment providing longer-term support. European investment grade (IG) outperformed its US counterpart, and within both markets, the financial sector excelled. High yield (HY) was once again the standout performer, generating positive returns both relatively and on a total return basis. Investment grade bonds are the highest quality bonds as determined by a credit rating agency; high yield bonds are more speculative, with a credit rating below investment grade.

Uncertainty surrounding the US inflation outlook led the market to dial back some of its enthusiasm for immediate rate cuts. January's consumer price index (CPI - a measure of the average change overtime in the prices of consumer goods and services purchased by households) rose more than expected, driven mainly by the shelter component.

The core measure registered the largest increase since April 2023. This data, in addition to January's robust labour market report and concerns over wage pressure reacceleration, were sufficient catalysts for yield increases.

In the eurozone, inflation news was comparatively encouraging, with regional reports indicating easing price pressures in Germany, France, and Spain. The growth outlook for the region also improved, with the services PMI moving into expansionary territory and the overall composite index reaching an eight-month high. Although the European Central Bank board did not meet in February, President Lagarde continued to underscore the risks of premature interest rate cuts.

The Bank of England convened early in the month, maintaining the status quo on interest rates with a three-way split in the committee's decision (two for a hike, two for a cut, and six to hold). The key message was that interest rates have likely reached their peak, but more evidence of inflation returning to target is needed before implementing rate cuts. Meanwhile, the latest GDP data revealed that the UK economy officially entered a technical recession in Q4 of 2023. However, this is expected to be a brief and shallow recession, with subsequent PMIs published later in the month already indicating an increase in activity.

Major global government bond market yields increased across the board, with the US 10-year yield rising by 29 basis points to 4.24% and the German 10-year yield by 24 basis points to 2.40%. The UK market lagged behind, with the 10-year yield increasing by 32 basis points to 4.12%. Canada was among the better performers, with the benchmark 10-year yield rising by just 5 basis points over the month, as January's inflation print surprised to the downside, leading to a sharp increase in market pricing for an expected June rate cut.

In the foreign exchange market, lower yielding currencies, including the Japanese yen and the Swiss franc were the underperformers on the month. Conversely, the dollar modestly strengthened against its main-traded currencies.

Convertible bonds could not keep pace in February with the gains made by equities. The FTSE Global Focus convertible bond index finished the month with a gain of 0.7%. Convertible primary markets started well into the year and the trend continued into February. Altogether $9.8 billion of new convertibles attracted investors in February.

Valuations of convertibles, however, remained subdued. Despite Japanese stocks continuing on an uptrend, there are lower convertible valuations in this region. Generally, convertibles, especially in Asia and in Europe, are trading below fair value.

COMMODITIES

The S&P GSCI Index was modestly higher in February, with price gains for livestock and energy offsetting falls in agriculture, industrial metals, and precious metals. Within energy, crude oil, Brent crude and unleaded gasoline all gained, while the price of natural gas fell sharply. Price falls for heating oil and gas oil were more modest.

Agriculture was the worst-performing component of the index. In industrial metals, prices for aluminium, copper, lead, and zinc all fell, while nickel achieved a robust price gain. In precious metals, gold and silver prices both fell in the month.

DIGITAL ASSETS

After a slow start to the year digital asset markets took off in February. Bitcoin and Ethereum returned 45.2% and 46.7% respectively. The price of Bitcoin is rapidly nearing all-time highs ($69,000) as it reached close to $63,000 in February.

This strong price momentum is fuelled by several factors, including increased demand in the US following the introduction of Bitcoin ETFs (exchange traded funds) in January. These new products are generating greater awareness of the asset class more generally. There are also “safe haven” flows from certain emerging markets such as Nigeria which have troubled currencies.

At the same time, the supply of Bitcoin, which has always been scarce given a large number of long-term holders, is about to shrink further as we go through the “halving” in April (when the daily new creation of Bitcoin tokens awarded to miners for their activities will be cut by half).

TOTAL RETURNS (NET) % – TO END FEBRUARY 2024

	1 MONTH			12 MONTHS		
Equities	**USD**	**EUR**	**GBP**	**USD**	**EUR**	**GBP**
MSCI World	4.2	4.6	4.9	25.0	22.5	19.6
MSCI World Value	2.4	2.8	3.1	12.7	10.4	7.9
MSCI World Growth	6.0	6.4	6.7	37.7	35.0	31.8
MSCI World Smaller Companies	3.3	3.7	4.0	8.7	6.5	4.0
MSCI Emerging Markets	4.8	5.2	5.5	8.7	6.6	4.1
MSCI AC Asia ex Japan	5.6	6.0	6.3	4.9	2.8	0.4
S&P500	5.3	5.7	6.1	30.5	27.8	24.9
MSCI EMU	2.9	3.3	3.6	14.8	12.5	9.9
FTSE Europe ex UK	2.0	2.4	2.7	15.7	13.4	10.7
FTSE All-Share	-0.5	-0.1	0.2	5.1	3.0	0.6
TOPIX*	2.5	2.9	3.2	25.3	22.8	19.9

	1 MONTH			12 MONTHS		
Government Bonds	**USD**	**EUR**	**GBP**	**USD**	**EUR**	**GBP**
JPM GBI US All Mats	-1.3	-0.9	-0.6	2.4	0.3	-2.0
JPM GBI UK All Mats	-1.8	-1.4	-1.1	5.5	3.4	0.9
JPM GBI Japan All Mats**	-2.0	-1.6	-1.3	-9.8	-11.6	-13.7
JPM GBI Germany All Traded	-1.9	-1.6	-1.3	5.7	3.6	1.2
Corporate Bonds	**USD**	**EUR**	**GBP**	**USD**	**EUR**	**GBP**
BofA ML Global Broad Market Corporate	-1.3	-1.0	-0.7	6.8	4.7	2.2
BofA ML US Corporate Master	-1.4	-1.0	-0.7	6.1	4.0	1.6
BofA ML EMU Corporate ex T1 (5-10Y)	-1.7	-1.3	-1.0	10.0	7.8	5.3
BofA ML £ Non-Gilts	-1.2	-0.9	-0.6	10.3	8.1	5.6
Non-investment Grade Bonds	**USD**	**EUR**	**GBP**	**USD**	**EUR**	**GBP**
BofA ML Global High Yield	0.3	0.7	1.0	11.2	8.9	6.4
BofA ML Euro High Yield	-0.0	0.4	0.7	12.9	10.6	8.1

Source: LSEG DataStream. Local currency returns in February 2024: *4.9%, **0.4%.
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