March 2024

Ascot Lloyd
Independent Financial Advice

Investment Commentary

Analysing market dynamics and economic realities

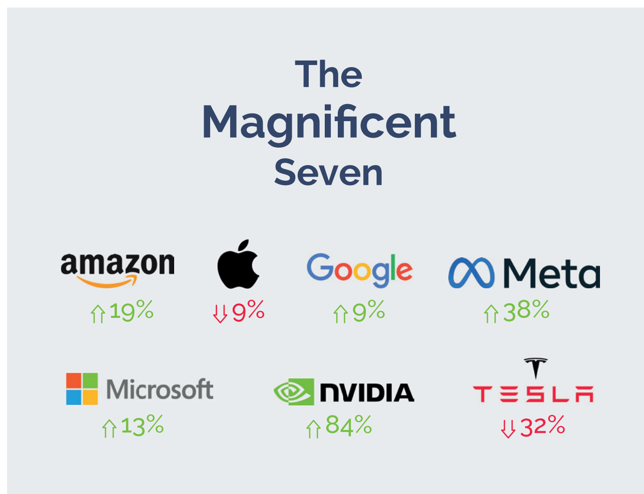
It seems Spring has sprung; March provided equity markets with a rather sunny disposition, making the first quarter a very bright start to the investment year.

Equity market performance across regions

High interest rates may not be helping bonds, but their weak (i.e. zero) returns in Q1 have been more than compensated for by increasing share prices. Global equities in aggregate are up over 20% over the past year in sterling terms (despite the headwind of a stronger pound) with almost half of that performance delivered during the last 3 months.

The US continues to lead the way, although the so-called "Magnificent Seven" companies have lost a couple of companions, Apple and Tesla having fallen by over 9% and 32% respectively so far in 2024.

Still, the remaining retinue of Alphabet (+9%), Amazon (+19%), Meta (+38%), Microsoft (+13%) and Nvidia (+84%) have helped the broader US market rise by over 11% in the quarter.



Global economic outlook

Meanwhile Europe and Japan's equity markets continue to impress, rising 7% and 11% respectively; even China's stock market, down over 40% over the last 3 years, seems to be turning the corner as the quarter closed, its manufacturing sector making a significant contribution to what appears to be the start of a broad global economic expansion phase.

> Even generally unloved (and surely undervalued) UK shares rose almost 5% in March alone, the FTSE 100 reacquainting itself with its all-time high, set just over a year ago.

To reiterate, it does feel like we are at the start of a cyclical upturn, with the after-effects of the pandemic fading away. US jobs data shows vacancies falling, but only back to the pre-COVID trend. Supply bottlenecks have eased significantly (but more on that below). Having started 2024 anticipating at least 3 rate cuts in the US before mid-year, the market (as implied by interest rate 'bets') now awards only a 50/50 chance of any cut before July.

That said, we would not be surprised if both the EU and UK central banks start to cut their rates before the summer.

Adjustment to interest rate realities

In general, markets seem to have got used to higher rates for both interest and inflation. The strength of the US economy implies that the world can cope with a 5% interest rate, at least for now. In the late 1990s the US economy was roaring along, despite an interest rate over 5%. As we've argued before, the post-financial crisis and pandemic periods underpinned over 15 years of statistically aberrant (as in low) rates, which may now be reverting to their average.

Two years ago, some commentators were suggesting we were reliving the high inflation and interest rate regime of the 1970s; on reflection perhaps it's more a post-pandemic equivalent of the mid-1940s; post-war pent-up demand and disrupted supply chains drove up inflation but not unemployment.

That period saw inflation back to trend after 2 years – roughly where we are now. The key is what inflation rate should be recalibrated as 'normal', given economic strength is normally associated with higher inflation. Already, companies in sectors that do well in inflationary periods (e.g. Energy, utilities, financial companies) are beginning to outperform. Investors' money is chasing momentum (buying companies whose share prices are rising most) and value, i.e. undervalued 'unfashionable' companies.

The outlook for Bonds

So where does that leave Bonds? Falling yields (and thus rising prices) depend on interest rate cuts (that yields must match) and inflation expectations (which affect the future purchasing power of the interest paid). The US 10-year treasury yield is hugely important as it is essentially the "risk-free" rate for the world. Since 2020 it has risen from virtually zero to 5% last October, then fallen as interest rate cuts appeared imminent. As those expectations have been mollified, the yield has so far this year renewed its ascent towards that significant 5% barrier. We say barrier because at least one 0.25% rate cut is virtually certain this year, if not by July, and with a current base rate of 5.25% bond buyers would see that as a great opportunity. We see no reason to deny our investors that opportunity, especially given the continuing support equities are giving multi-asset portfolios meanwhile.

> The last time that rate crossed 5% was in mid-2007, when the financial crisis set in, and Bonds had a subsequent 13-year bonanza.

Navigating supply chain disruptions

Regarding supply chains, in March the 300-metre long, 90,000 ton (when empty) "Dali" container ship, carrying 4,700 containers, struck Baltimore's Francis Scott Key Bridge causing it to collapse, sadly killing six people and blocking port entry and exit. Baltimore is the US's 9th largest port and is its largest 'roll on roll off' facility, i.e. handling cars and other wheeled vehicles. As the port is unlikely to reopen before the end of May, there is some speculation regarding renewed supply bottlenecks, and subsequent inflation impacts. For some perspective, Baltimore is only the US's 17th busiest port, and other havens on the East Coast have sufficient spare capacity to cope with diverted loads. Meanwhile, over the period since the pandemic and Ukraine invasion, the Fed's index of supply chain pressure has returned to its long-term average despite the Panama Canal's reduced capacity (following a serious drought) and the Houthi's attacks on Red Sea shipping. For the time being at least, we don't expect this event to have a significant economic impact.

A sweet investment: unconventional opportunities

And finally… Given we've recently enjoyed a chocolate-filled Easter, it might interest you to learn that over the past year one of the world's most successful investment ideas would have been (in hindsight) to buy a tonne of Cocoa beans (roughly 5000 110g chocolate bars) for $2270 in January 2023.

A sweet investment indeed…

The price has risen to approaching $10,000, i.e. over 330% since start of 2023, and during the first quarter of 2024 alone, has risen over 140%, surpassing AI darling Nvidia, which managed to gain a mere 82%.

What's coming up?

We will shortly be publishing the upcoming 'Stay In Touch' newsletter, which will cover topics such as changes to ISA rules, how to achieve financial freedom and how to speak to your family about finances.

#StayInTouch

Should you need any help or advice regarding your financial planning, please don't hesitate to get in touch.

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