Allianz Global Investors

01/2024

Market Snapshot

Equity Snapshot

United States

US stocks rose, with the S&P 500 Index hitting a fresh record high towards month-end, buoyed by continued robust gains from the Magnificent Seven group of high-growth companies that stand to benefit from the growing use of artificial intelligence. The tech-heavy rally meant growth stocks outperformed value ones while large-cap stocks outpaced smaller companies.

The US economy expanded by an annualised 3.3% in the fourth quarter of 2023. Over the calendar year, GDP rose 3.1%, making the US the fastest growing developed economy in 2023. The flash estimate of the S&P Global US composite purchasing managers' index rose to a seven-month high of 52.3 in January, with activity in both services and manufacturing accelerating. US consumers appear to be in a positive frame of mind. Retail sales jumped 0.6% in December, while January's University of Michigan's consumer sentiment index rose to its highest level since July 2021.

Europe

Euro-zone equities moved higher in January, hitting their highest levels since January 2022, amid growing confidence that the European Central Bank (ECB) would reduce rates in 2024. Dutch stocks were especially strong, boosted by robust gains from semiconductor equipment maker ASML. At a sector level, information technology companies posted double-digit rallies, while energy, materials and utilities companies lost the most ground.

The euro-zone economy flatlined in the fourth quarter of 2023: while German GDP fell 0.3% and France showed no growth, output in Italy, Spain and Portugal was stronger than expected. The flash estimate of January's HCOB euro-zone composite purchasing managers' index (PMI) rose to a six-month high of 47.9 as an improvement in manufacturing activity offset a deeper decline in services. Headline euro-zone inflation accelerated to 2.9% in December, from 2.4% the prior month, but early indications suggested that inflation rates may have eased again in January. The ECB kept rates on hold. ECB president Christine Lagarde acknowledged that the worst of the inflation fight was likely over and the "disinflation process was at work" but signalled that rate cuts were more probable in the summer than the spring.

Asia

Asia Pacific equities retreated modestly over January, weighed down by weak returns in China and Hong Kong, which extended the previous year's decline with both onshore and offshore markets falling by close to 10% in USD terms. Elsewhere returns were mixed as investors awaited the results of the US Federal Reserve's rate-setting meeting at the end of the month and its implications for US rates in 2024. Australian stocks advanced modestly, with the ASX Index hitting a record high in the final days of the month. The Taiwan market was helped by upbeat guidance from heavyweight chipmaker Taiwan Semiconductor Manufacturing. ASEAN markets delivered mixed returns. Malaysia, the Philippines, and Indonesia posted gains, while Singapore and Thailand lost ground. Stocks in Thailand hit a three-year low towards month-end as sentiment continued to be dampened disappointing economic growth.

Bond

Global bonds sold off as hopes of rate cuts in the first quarter of 2024 seemed overly optimistic given a modest reacceleration in inflation and stronger economic data. The yield on the 10-year US Treasury moved back above 4.0% while the yield on the 10-year German Bund traded as high as 2.35%, before yields declined again towards month-end. In general, corporate bonds outperformed government debt. The Fed kept rates on hold at its January meeting, with Fed chair Jay Powell suggesting that it was unlikely rates would be cut as soon as March. The ECB kept rates on hold and acknowledged that the worst of the inflation fight was likely over and the "disinflation process was at work", but signaled that rates cuts were more probable in the summer than the spring.

Outlook

After the exuberant end to 2023, buoyed by the prospect of rate cuts in the first half of 2024, January saw a calmer environment for equity markets. Slightly higher inflation numbers, stronger than expected GDP growth in the US and comments from the Federal Reserve (Fed) slightly dampened optimism that the first rate cuts were imminent. It should be noted that the bond markets still imply the first loosening to be in May, with a further four cuts before the end of 2024. With the inflation trajectory unlikely to be linear and the full impact of the 2023 tightening perhaps yet to be felt, central banks face a difficult balancing act.

Widespread expectations for a broad-based recession in 2023 proved unfounded but the economic outlook remains mixed and varies by region and country. The US remains strong and was the fastest growing developed economy in 2023, while growth is currently stagnant in the Eurozone and China is expanding at the slowest rate since 1990. The property sector in China also remains an area of huge concern, despite efforts from the authorities to limit the damage of a prolonged downturn.

The geopolitical landscape remains uncertain, with ongoing conflicts in the Ukraine and the Middle East. Attacks in the Red Sea have also caused disruption to shipping, leading to rising costs and longer delivery times for raw materials and components. Hopefully the measures taken mean this is temporary, with the post pandemic normalization of inventories previously nearing completion. 2024 is also a big year for elections as 40% of the World's population vote for new leaders, including the US and UK. A variety of fiscal stimulus could be used or promised in an attempt to sway voters.

The most recent earnings season saw a widening disparity of company results. Predicted earnings growth for FY 2023, as measured for the MSCI AC World Index, is flat but returning to high single digit growth in FY 2024. This figure slightly obscures the leadership shown by a handful of industries and especially the Magnificent. Global growth is slowing and with re-financing costs much higher than in the last decade, the earnings disparity between companies that can structurally grow and those that have relied heavily on cheap financing will increase. If the most recent inflation numbers become a wider trend and we have indeed reached the peak of the rate environment, a period of relative calm should put the focus back on fundamentals and create a good hunting ground for stock pickers. We are confident that the structural growth, low debt levels and high earnings visibility of our companies mean the portfolio is well positioned to take advantage.