Allianz
Global Investors

02/2024

Market Snapshot

Equity Snapshot

United States

US stocks rose strongly, with the S&P500 Index breaking through the 5,000 level to reach a fresh record high, whilst the Nasdaq Composite Index also surpassed its previous high set in November 2021. Solid corporate earnings, a resilient US economy and a further surge in AI-related stocks all drove the market higher, with growth stocks outperforming value ones by around 3% over the month.

Non-farm payrolls were far stronger than expected in January, surging 353,000 over the month, with data for November and December 2023 also revised upwards. Average hourly earnings rose 4.5% year-on-year, the strongest annual pace of growth since September. Headline inflation slowed to 3.1% in January, although core inflation held steady at 3.9%, almost double the US Federal Reserve (Fed)'s official target. The core personal consumption expenditures index, the US Fed's preferred measure of inflation, rose 0.4% in January, the fastest pace in nearly a year, although on a year-on-year basis the gauge rose 2.8%, the lowest rate of increase since March 2021. In terms of economic activity, the flash estimate of S&P Global's US composite purchasing managers' index slid to 51.4 in February from 52.0 in January. Whilst manufacturing activity rose to a 17-month high of 51.5, activity in the services sector slid to 51.3 from 52.5 in January.

Europe

European equities advanced in February. The rally meant the broad STOXX Europe 600 Index surpassed the previous high set in January 2022. Consumer discretionary companies were particularly strong, as luxury goods companies were boosted by better-than-expected results from Hermes. The technology and industrials sectors also outpaced the overall market, whilst real estate and utilities were the weakest sectors, notching up sizeable falls.

The flash estimate of the HCOB euro-zone composite purchasing managers' index (PMI) improved further in February, rising to an eight-month high of 48.9. Service sector activity jumped to 50.0, the highest level in seven months. Whilst manufacturing activity deteriorated to 46.1, it indicated that activity had improved from last year's late-summer slump. The European Commission revised down its growth and inflation projections, saying it expected the euro-zone economy to grow by 0.8% in 2024, down from a prior estimate of 1.2%, whilst inflation is now forecast to fall to 2.7%, from a previous estimate of 3.2%.

Asia

Asia Pacific equities delivered mixed performances in February, While Chinese stocks had an encouraging pre and post-Chinese New Year rally, overall performance in the region was held back by muted returns in Australia, weighed down by weak returns in the materials and energy sectors. Elsewhere, stocks delivered solid gains in Taiwan and South Korea. Taiwanese equities ended the month at record high, buoyed by robust gains from chipmaker Taiwan Semiconductor Manufacturing which continues to benefit from the interest in AI-related stocks. ASEAN markets advanced but lagged more developed markets. The Philippines, Indonesia and Malaysia posted the strongest returns, while Singapore was the weakest market, weighed down by disappointing earnings.

Bond

Global bonds sold off as hopes of rate cuts in March faded. During the month, the yield on the 10-year US Treasury moved back above 4.3%, a level last seen in early December, while the yield on the 10-year German Bund retested 2.45%, its highest level since late November.
Fed chair Jay Powell said there was no need to cut rates soon given the strength of the labour market, but indicated that it was still likely that the market would see three 25-basis-point cuts over the course of this year. Investor sentiment was also buoyed by dovish comments from several members of the European Central Bank (ECB), potentially favouring interest rate cuts earlier than initially expected. Headline inflation rates slowed modestly but policymakers continue to be vigilant for signs that inflationary pressures.

Outlook

After the prospect of interest rate cuts dominated the end to 2023, February saw the markets shrug off news that the first cut would be later and the downward trending path slower, than many participants expected. With growth in the US remaining strong, inflation within the services industries proving sticky and continued strength in the jobs market, there is little pressure on the Federal Reserve to cut rates aggressively. The most recent minutes from the FOMC minutes showed that US policymakers remain "highly attentive" to the risk of rising inflation and that data needs to confirm that inflation is moving towards 2% in a sustainable way.

Alongside the robust growth in the US, there are tentative signs that sentiment may be shifting within the Eurozone and the UK, as purchasing managers indices (PMIs) climbed to the highest levels since the middle of 2023. As revised economic data showed that some economies entered a technical recession at the tail end of last year, any positive momentum is greatly received. The Chinese real estate sector remains an area of concern with developer Evergrande issued with a liquidation order by a Hong Kong judge and fellow developer Country Garden hit with a wind-up petition from a creditor. A number of policies that aim to provide growth stimulus for the economy, primarily through infrastructure projects, were announced at the National People's Congress but it remains to be seen if this is enough to sustain an ambitious 5% growth target.

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, but it seems that the swift action taken has mitigated the impact for the time being. 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 recent earnings season has been generally healthy with the portfolio companies mainly on the right side of earnings numbers. FY 2023 earnings numbers for the MSCI AC World have been flat but distorted by the extraordinary growth trajectory of the 'Magnificent 7". 2024 estimates and where available 2025, show a slightly wider base of positive earnings. Anecdotally, this is also what we are hearing in company management meetings, where optimism is higher for the second half of 2024 and beyond. Higher but not yet prohibitive valuations, mean that earnings visibility will be key in the coming months. Apple however dropped after their earning release, as otherwise positive numbers were overshadowed by declining iPhone sales in China, highlighting the fact that at these heightened valuations, a small misstep can have a disproportionate impact on share prices. We are confident that the structural growth, low debt levels and high earnings visibility of our companies means the portfolio is well positioned but will be mindful of valuations and adjust position sizes where we feel appropriate.