Allianz Global Investors

04/2024

Market Snapshot

Equity Snapshot

United States

US equities declined over April. Sentiment was undermined by fears that the US Federal Reserve (Fed) would keep rates higher for longer and concerns over the forthcoming first-quarter earnings season. While there was little difference in the performance of growth versus value, smaller companies trailed larger ones by a sizeable margin.

Economic data suggested that the US economy was slowing while inflation was accelerating. US GDP expanded by a smaller-than-expected 1.6% on an annualised basis in the first quarter. Additionally, the S&P Global US composite purchasing managers' index slid to 50.9 in April, with services activity growing at the weakest pace in five months while the manufacturing sector fell into contraction territory for the first time in four months. Nevertheless, jobs growth remained robust, with the economy adding 303,000 positions in March, well above expectations. Headline inflation rose to 3.5 % on an annual basis in March, the highest level since September 2023, while the Personal Consumption Expenditures Index accelerated to a four-month high of 2.7%.

Stronger-than-expected inflation data and a hot jobs market threatened hopes that the Fed may cuts rates this summer. Fed chair Jay Powell said it was taking longer than expected for inflation to return to target and policymakers needed greater confidence before they could justify cutting rates. As a result, financial markets started to consider the possibility that the Fed may keep rates on hold for an extended period and that rates may not be cut this year.

Europe

European equities retreated over April as hopes of a series of rate cuts from the European Central Bank (ECB) were dashed by signs of improving economic activity. At a sector level, energy companies rose the most, while consumer discretionary were among the weakest. Information technology companies also slumped after disappointing results from semiconductor equipment maker ASML raised fears of an industry-wide slowdown.

The euro-zone economy grew by a stronger-than-forecast 0.3% in the first quarter, marking the quickest pace of growth since the third quarter of 2022. The HCOB eurozone composite purchasing managers' index (PMI) jumped to a 11-month high of 51.4 in April, with services activity rising to 52.9, the highest level since May 2023, although manufacturing activity contracted at the fastest pace in four months. Headline inflation held steady at 2.4% in April, but core inflation slowed to 2.7%. The ECB left rates on hold but said that the case for a rate cut in June was strengthening, although this would likely be followed by a pause.

Asia

Equity markets in Asia delivered mixed results over April. Chinese and Hong Kong stocks rallied as China's economic growth topped forecasts in the first quarter. On the other hand, shares declined in the tech-heavy markets of Taiwan and South Korea as semiconductor stocks in general underperformed amid fears of an industry slowdown after disappointing results from semiconductor equipment maker ASML. Indian stocks rose modestly, reaching new all-time highs in early April driven by optimism over the forthcoming domestic earnings season. In ASEAN markets, Singapore and Malaysia advanced, but market retreated in the Philippines and Indonesia. Bank Indonesia unexpectedly hiked interest rates to a record high of 6.25% as it sought to protect the rupiah which was trading at four-year lows.

Bond

Global bonds moved lower as investors dialled back their hopes for interest rate cuts in 2024. US bonds underperformed on the back of revised rate cut expectations with 10-year US Treasury yield closing the month just under 4.7%, a rise of almost 50 basis points over the month. European and Japanese bond yields also moved higher, albeit to a lesser extent, with 10-year yields in Germany and Japan rising around 30 bps and 15 bps, respectively.

Hopes of a summer rate cut from the Fed were dashed given stronger-than-expected jobs growth and stickier-than-forecast inflation. While the European Central Bank is widely expected to reduce borrowing costs in June, investors are expecting this to be followed by a pause as policymakers wait to see how inflation evolves.

Outlook

Rate expectations returned to the forefront of investors minds in April as inflation data in the US surprised to the upside, muting the ability of the Federal Reserve to cut interest rates. The Fed will want to see cooling in employment and wage growth before acting and the steady but slowing economic growth allows them time to be cautious. It now looks likely that the ECB and a number of other central banks may cut rates before the Fed, with ECB president Christine Lagarde suggesting that a June rate cut is probable. This would be a divergence from the norm and will have an impact on the Euro against an already strong US Dollar.

The tentative signs of growth in the Eurozone and the UK continued in April. The Eurozone grew a stronger than forecast 0.3% in the first quarter, the quickest pace of growth since 2022 and the Eurozone purchasing managers index (PMI) also increased to its highest level for 9 months. The UK also looks to have returned to growth in the first quarter. The Chinese economy expanded by a stronger than expected 5.3% in the first quarter, although the real estate sector continues to be an area of concern.

The geopolitical landscape remains uncertain, with ongoing conflicts in the Ukraine and the Middle East. The involvement of Iran escalated tensions in the Middle East and the subsequent rise in the oil price shows the impact this fragile region can have on global markets. 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.

Company earnings have been mostly positive or improving in the recent earnings season with the MSCI AC index earnings numbers showing growth after a period of contraction. Estimates for 2024 and 2025 are also improving. Our portfolio companies have generally performed well, but with valuations at or slightly above long-term averages, any slight concern or small numbers miss has led to a significant share price reaction. While overall valuations have risen, we believe generally they are reasonable, assuming H2 is as strong as indicated. This has been a clear theme from our companies as they report: emphasis on the second half of the year as a pivot point for growth. We share the optimism of many of our management teams for the year ahead, believing earnings visibility will be key and the portfolio holdings can demonstrate the underlying profit growth that they are renowned for.