



March 2024

# Market Spotlight

## Around the world

- The ongoing disinflationary trend observed since 2023 persists across major developed markets, bolstering central banks' confidence in the possibility of interest rate cuts as early as this summer. The ECB is notably vocal about this.
- The BoJ hiked interest rates for the first time in 17 years. The BoJ governor has said previously that wage negotiations will be a key consideration to end the negative interest rate regime and the recent wage data supported this.
- UK inflation has reached its lowest level since 2021. The UK CPI rose by 3.4% YoY, below expectations, with JP Morgan analysts now expecting UK inflation to reach the BoE's target this May.

**10,000**  
**\$/MT**  
Cocoa price

Cocoa prices have tripled over the past six months driven by extreme weather in West Africa

**2.8%**  
Core PCE YoY

US Core PCE slowed in line with expectations for February

**\$10.9**  
**trillion**  
Market cap increase

The S&P 500 market cap increase since the November 2023 Fed meeting

- Economic expectations for Germany are notably improving according to the latest releases of the ZEW German Economic Expectations index and the German Ifo Expectations index. Both indices edged higher as survey participants expect interest rate cuts in the next six months.
- Mexico has become the latest major Latin American country to cut interest rates. The Bank of Mexico reduced key rates by 25bps, expressing optimism about inflation returning to its target.
- Chinese EV makers experienced strong sales in March after a slow start of the year. The three US-listed Chinese automakers reported a surge in deliveries ranging between 14% to 39% over the month.

## Market snapshot

The recent surge in gold prices was mainly driven by the geopolitical uncertainty and fears of inflation remaining above central banks' target. US and European equities ended the quarter with strong performance supported by positive macroeconomic data. Nevertheless, Japanese equities were the highlight of the quarter but moderated towards the end of the quarter, following the announcement from the BoJ to increase interest rates. Commodities increased slightly for the month with oil on the rise on the back of geopolitical tensions and supply cuts.

### Performance of global asset classes

|                          | 1 Month | YTD   |
|--------------------------|---------|-------|
| Precious Metals          | 8.1%    | 5.2%  |
| UK Equities              | 4.8%    | 4.0%  |
| European Equities        | 4.5%    | 9.6%  |
| Japanese Equities        | 3.8%    | 21.5% |
| US Equities              | 3.2%    | 10.6% |
| World Equities           | 3.1%    | 8.2%  |
| Commodities              | 2.9%    | 0.9%  |
| Emerging Market Equities | 2.5%    | 2.4%  |
| Global High Yield Bonds  | 1.5%    | 2.1%  |
| Global Corporate Bonds   | 1.2%    | -0.8% |
| US Tech                  | 1.1%    | 8.4%  |
| Chinese Equities         | 0.6%    | 3.1%  |
| Global Government Bonds  | 0.6%    | -2.1% |

Source: Bloomberg, Returns are in local currency, as at 29 March 2024.



# What is the data telling us?

US manufacturing PMI surprised to the upside, exceeding expectations. This positive development led to the 10-year Treasury yield rising and market participants pricing in fewer rate cuts for 2024. UK manufacturing PMI rose to a 20-month high, posting above the 50 mark for the first time since July 2022. EU PMI retreated from the last month, but new orders and exports continue to recover.

Apart from the US, services PMI remain resilient across all other regions. The US disappointed expectations with the weakest growth in the services sector in three months.

## Purchasing Managers Index

|        | Manufacturing |      |      |      |      |      |      |      |      |      |      |      |      |
|--------|---------------|------|------|------|------|------|------|------|------|------|------|------|------|
|        | 2023          |      |      |      |      |      | 2024 |      |      |      |      |      |      |
|        | 3             | 4    | 5    | 6    | 7    | 8    | 9    | 10   | 11   | 12   | 1    | 2    | 3    |
| Global | 49.6          | 49.6 | 49.6 | 48.8 | 48.7 | 49   | 49.1 | 48.8 | 49.3 | 49   | 50   | 50.3 | 50.6 |
| US     | 46.3          | 47.1 | 46.9 | 46   | 46.4 | 47.6 | 49   | 46.7 | 46.7 | 47.4 | 49.1 | 47.8 | 50.3 |
| EU     | 47.3          | 45.8 | 44.8 | 43.4 | 42.7 | 43.5 | 43.4 | 43.1 | 44.2 | 44.4 | 46.6 | 46.5 | 46.1 |
| UK     | 47.9          | 47.8 | 47.1 | 46.5 | 45.3 | 43   | 44.3 | 44.8 | 47.2 | 46.2 | 47   | 47.5 | 50.3 |
| China  | 50            | 49.5 | 50.9 | 50.5 | 49.2 | 51   | 50.6 | 49.5 | 50.7 | 50.8 | 50.8 | 50.9 | 51.1 |
| Japan  | 49.2          | 49.5 | 50.6 | 49.8 | 49.6 | 49.6 | 48.5 | 48.7 | 48.3 | 47.7 | 48   | 47.2 | 48.2 |

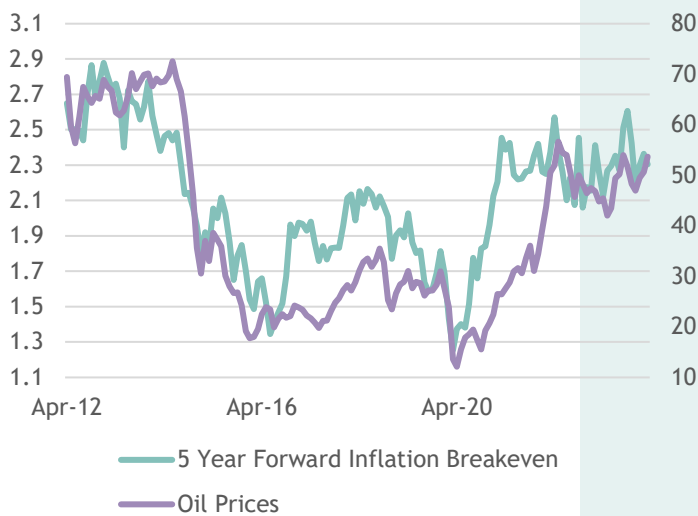
  

|        | Service |      |      |      |      |      |      |      |      |      |      |      |      |
|--------|---------|------|------|------|------|------|------|------|------|------|------|------|------|
|        | 2023    |      |      |      |      |      | 2024 |      |      |      |      |      |      |
|        | 3       | 4    | 5    | 6    | 7    | 8    | 9    | 10   | 11   | 12   | 1    | 2    | 3*   |
| Global | 54.4    | 55.4 | 55.5 | 53.9 | 52.7 | 51.1 | 50.8 | 50.4 | 50.6 | 51.6 | 52.3 | 52.4 |      |
| US     | 51.2    | 51.9 | 50.3 | 53.9 | 52.7 | 54.5 | 53.6 | 51.8 | 52.7 | 50.6 | 53.4 | 52.6 | 51.4 |
| EU     | 55      | 56.2 | 55.1 | 52   | 50.9 | 47.9 | 48.7 | 47.8 | 48.7 | 48.8 | 48.4 | 50.2 | 51.5 |
| UK     | 52.9    | 55.9 | 55.2 | 53.7 | 51.5 | 49.5 | 49.3 | 49.5 | 50.9 | 53.4 | 54.3 | 53.8 | 53.1 |
| China  | 57.8    | 56.4 | 57.1 | 53.9 | 54.1 | 51.8 | 50.2 | 50.4 | 51.5 | 52.9 | 52.7 | 52.5 | 52.7 |
| Japan  | 55      | 55.4 | 55.9 | 54   | 53.8 | 54.3 | 53.8 | 51.6 | 50.8 | 51.5 | 53.1 | 52.9 | 54.1 |

Source: JP Morgan, ISM Institute, HCOB, S&P Global/CIPS, Caixin, au Jibun Bank, from 1 March 2023 to 31 March 2024.

\*Service PMI for March not available at the time of publication.

## Oil prices vs. 5 year forward inflation break-even



## Chart of the month

Long-term inflation break-evens have been sensitive to oil price moves, especially after the post-pandemic surge in prices. The recent surge in oil prices has raised concerns about inflation resurgence, as both US crude and Brent have seen three consecutive months of increases. Geopolitical risks remain present in the market, with continued drone attacks by Ukraine on Russian oil refineries and further escalations in the Middle East that could lead to a renewed oil-related supply shock that could boost the cost of energy.

We expect holding commodity assets is crucial in client portfolios to mitigate the impact of inflation and is an important diversifier.

## Looking ahead

The recovery in the cyclical sector of the global economy continues to gather momentum. Rising manufacturing PMIs and rising exports from Asian trade-orientated economies are signalling that the manufacturing sector may be awakening from its 2023 slumber. Increasing commodity prices seen in copper and oil is further evidence of this. An effect of this cyclical recovery is that the deflationary impulse we witnessed last year from goods may migrate to an inflationary upside. This may challenge the Fed's rate cutting narrative, especially as oil has a large impact on headline inflation. This has led to increasing bond yields year-to-date, especially in US treasuries. Nevertheless, in the absence of escalations in geopolitics, and considering the spare capacity of OPEC+ that could increase production, oil prices can remain below the \$95/bbl level. We expect the disinflation trend that begun in 2023 will continue, especially in Europe and the UK. However, increasing commodity prices will be need to monitored, as any significant moves could see this trend be derailed.



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