Monthly Macro

April 2024

Jim Leaviss
CIO of Public Fixed Income

Stuart Canning
Fund Manager, Multi Asset

What were the biggest drivers of markets in March?

- At March's Federal Open Market Committee (FOMC) meeting the Federal Reserve (Fed) left interest rates unchanged but maintained three cuts for 2024 in their dot plot. Elsewhere, however, central banks began to make moves.
- The Bank of Japan brought its negative interest rate policy to an end, with the first rise in Japanese interest rates since 2007. The move came on the back of the strongest 'shunto' wage negotiations in living memory.
- The Swiss National Bank surprised markets with its first rate cut in nine years becoming the first developed market economy to cut in this cycle. Swiss inflation has been weak compared to most other developed markets.
- In emerging markets, Mexico became the last central bank to cut. Rates are now at 11%, while inflation is running under 4.5%, giving a strong real interest rate.
- There was no rate change from the Bank of England but there was a definitive change in tone with Governor Andrew Bailey talking about rate cuts being "on the way". UK CPI numbers reached their lowest levels for two and a half years.
- Markets were largely driven by perceptions of an improving growth backdrop, and disinflation that is slower than might have been anticipated but ultimately heading in the right direction.
- Most equity markets were strong, with notable gains from financials in Europe and the US. At a country level, China continued to recover from weakness in January and Japanese stocks were strong, supported by yen weakness.
- Developed fixed income assets also performed positively, having been weak in the previous month. Yields in the developed world remain relatively range bound as investors continue to try to anticipate short term policy changes in the months ahead.
- Interest rates were increased in Japan, though this did little to support the yen. The Swiss central bank cut rates. Following talk from the European Central Bank (ECB) in particular, there is increasing belief in US exceptionalism, whereby a stronger US economy will mean later rate cuts than elsewhere in the world and support the dollar.
- Commodity markets sent mixed signals about economic activity. The oil price and copper rose relatively sharply, but iron ore fell significantly. Gold was strong.

What will you be looking out for in April?

- Despite maintaining three interest rate cuts at March's FOMC meeting, the Fed increased GDP expectations for 2024; growth is expected to be 2.1% over the course of the year, compared to 1.4% previously. It also increased its core PCE forecast from 2.4% to 2.6%.
- According to the *Taylor* rule, an economic model for monetary policy, that increase in growth relative to potential growth and inflation suggests that the Fed should have removed at least one of their cuts from this year.
- Markets remain comfortable that risks of both lower growth and higher inflation are limited at present. In the main this has been justified by macro developments.
- We are seeing this translate into more return-seeking behaviour among investors. In fixed income there seems to be talk of 'all in yields' rather than spreads. Equity investors are looking beyond to areas that could be second derivative beneficiaries of AI, or looking at Korea to be 'the next Japan.' Will these moves accelerate?

Key dates for the month ahead:

10 Apr: US core inflation rate

17 Apr: UK inflation YoY

30 Apr: Fed interest rate decision

Continued on page 2