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Quarterly market summary

Q1 2024

Economic Overview

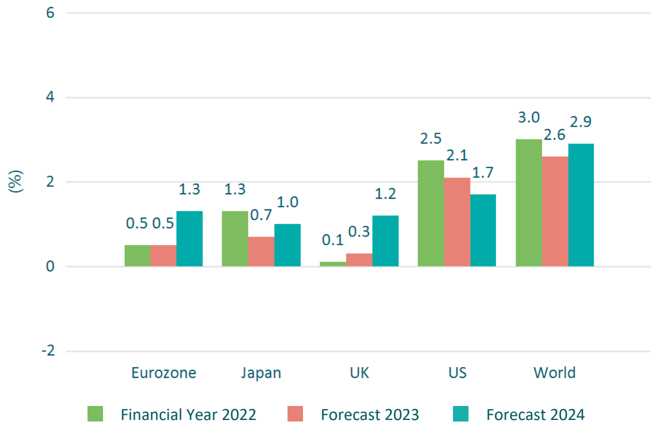
The first quarter of the year saw further declines in inflation across most major economies. However, with inflation in many countries still above central banks' target levels, there was a shift in expectations regarding when central banks will begin to unwind the current tightening cycle.

The UK's annual headline inflation rate fell from 4.0% in January to 3.4% in February, marking its lowest level since September 2021. Inflation also continued to slow in the eurozone where it came in at 2.6% in February, down from 2.8% in January. In the US, inflation proved more stubborn: the annual rise in core inflation, which excludes food and energy, was 3.8% in February, a slower decline than forecasted from 3.9% in January.

Switzerland became the first major central bank to kick off the rate easing cycle, reducing its key interest rate by 25 basis points to 1.5%. The Bank of England (BoE) and the Federal Reserve (Fed) kept rates unchanged at 5.25% and 5.25%-5.50%, respectively. Meanwhile, the Bank of Japan (BoJ) ended its negative interest rate policy as it increased rates for the first time in 17 years from -0.1% to a range of 0%-0.1% following a jump in consumer prices and wages.

The UK economy expanded by 0.2% in January after ending 2023 with two consecutive quarters of negative growth. The monthly figure was driven by growth in construction, which saw a 1.1% increase in January. The US economy grew at an annual rate of 3.4% in the fourth quarter of last year, bolstered by a strong labour market and robust consumer spending. Lacklustre domestic demand and low manufacturing activity in the eurozone resulted in continued economic stagnation with growth unchanged in the last quarter of last year. Simultaneously, weak consumer demand in Japan led to a relatively modest annualised expansion rate of 0.4%. China's economy is showing signs of recovery as increased factory output and investment growth contributed to a 5.2% annual increase in gross domestic product (GDP) in 2023. Amid varied economic performances, the major elections scheduled for this year represent an element of uncertainty in the global economic outlook.

Real GDP growth

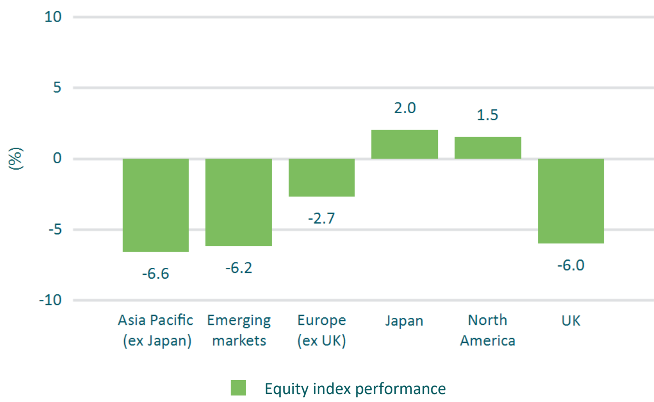


Source: LSEG Datastream, April 2024. *Eurozone figure for 2023 is at January 2024.

Market overview

Buoyed by subsiding inflationary pressures, robust economic data and the prospect of oncoming rate cuts, the first quarter of 2024 concluded with solid gains for global equity markets. It was a different story for bonds, however. The rally in bond markets at the end of last year faded in the first quarter as investors pushed back their timing of potential interest rate cuts by central banks. Bond yields rose in January and February before recovering somewhat in March when the Federal Reserve (Fed) confirmed that it expected to cut rates three times this year. (Bond yields and prices move in opposite directions). The 10-year US Treasury yield ended the period at 4.2%, up from 3.9% in the previous quarter. UK gilt yields were up slightly, along with those of euro sovereigns and Japanese government bonds.

Equity market performance v. FTSE World Index (1st quarter 2024)



Source: LSEG Datastream

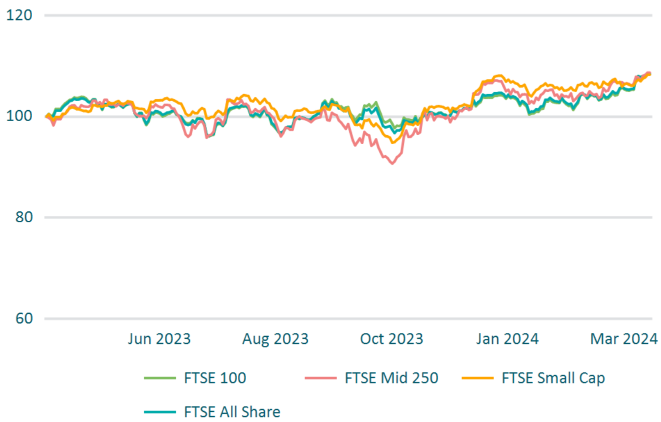
The value of investments will fluctuate, which will cause prices to fall as well as rise and investors may not get back the original amount they invested. There is no guarantee the objective will be achieved.
Past performance is not a guide to future performance.

Equity markets started the year with an impressive rally, with the FTSE World Index returning 9.6% (in sterling). The US stockmarket registered its best first quarter in five years, with the S&P 500 advancing 10.6% (in US dollars), driven partly by the continued appetite for artificial intelligence (AI). Weakness of the yen helped fuel another surge in Japanese equities, with the Nikkei 225 recording 20.6% this quarter (in yen). European equities also posted solid gains. UK equities made a positive start to the year with the FTSE 100 Index up 4.0% (in sterling), although they trailed other regions. Emerging market equities registered more modest returns, held back by weakness in China and Latin America. At the sector level, technology stocks were the clear outperformer, closely followed by communication services, energy and financials. Gold rose over the quarter by 7.2% (in US dollars). The dollar strengthened against major currencies including sterling and the euro. Brent crude oil was up 12.5% over the first quarter (in US dollars) as ongoing production cuts and geopolitical tensions continue to impact markets.

UK equities

The UK stockmarket made a positive start to the year as share prices extended their recent advance. However, the UK continued to lag other regions and the global market index in the first quarter, as investor confidence was hurt by the lacklustre economic outlook. The UK entered a technical recession last year, due to two consecutive quarters of negative economic growth. Sentiment improved towards the end of the quarter when the Bank of England indicated that progress in bringing inflation down towards the 2% target increased the possibility of interest rate cuts ahead. From a sector perspective, industrials led the way, while financials and healthcare also outperformed the broader market. In contrast, materials was the weakest sector. Real estate and utilities were notable laggards too. Meanwhile, large-cap stocks in the FTSE 100 Index outperformed smaller companies.

UK equity market indices (12 months to 31.03.24)

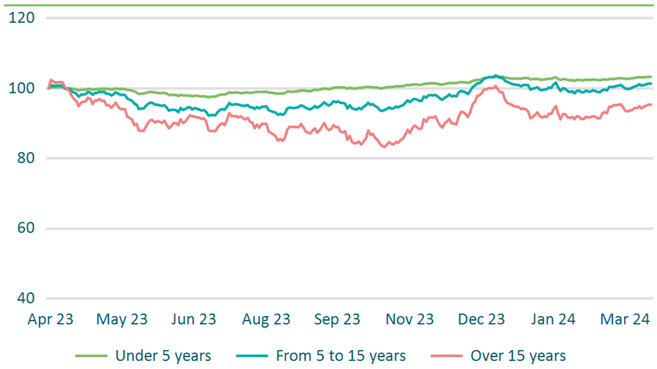


Source: LSEG Datastream Rebased to 100

UK bonds

UK government bonds (gilts) returned -1.6% in the first quarter of 2024, underperforming US government bonds (treasuries) and German government bonds (bunds). Over the period, persistent inflation led investors to scale back their expectations for interest rate cuts this year, which caused bond prices to retrace some of their gains in the previous quarter. The Bank of England maintained interest rates at 5.25% in March; however, governor Andrew Bailey said that rate cuts are "on the way" and that it was "reasonable" for financial markets to price in two or three rate cuts this year - at the start of the quarter the market had anticipated six cuts. The benchmark 10-year gilt yielded 3.9% at the end of the period, up from 3.6% three months earlier. Longer dated gilts, particularly those over 15 years, suffered more than shorter-dated gilts. Index-linked gilts underperformed conventional gilts. In contrast, UK corporate bonds rose 0.2%, while high yield bonds returned 2.3%.

Gilt indices (12 months to 31.03.24)



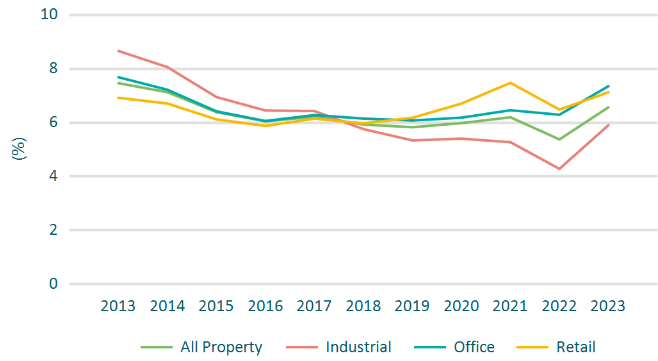
Source: LSEG Datastream Rebased to 100

Past performance is not a guide to future performance.

UK property

UK commercial property capital values continued to fall in the three months to February 2024 (the latest month for which data is available). According to property consultant CBRE, prices fell by 1.3% over the period, which compares to a 2.0% drop for the three months to November 2023. With price falls decelerating in January and February, All UK commercial property recorded a small positive total return (which includes rental income) over the three months to end-February. Performance over the period was most challenging in the Office sector. Whilst capital values also fell in the Retail sector, declines so far in 2024 have been modest. Once again, capital values in the Industrial sector were the most resilient. The rise in UK government bond yields in the first two months of 2024 represented something of a headwind for UK commercial property, as investors typically compare property yields with gilt yields when making investment decisions.

Equivalent yields (to 29.02.24)

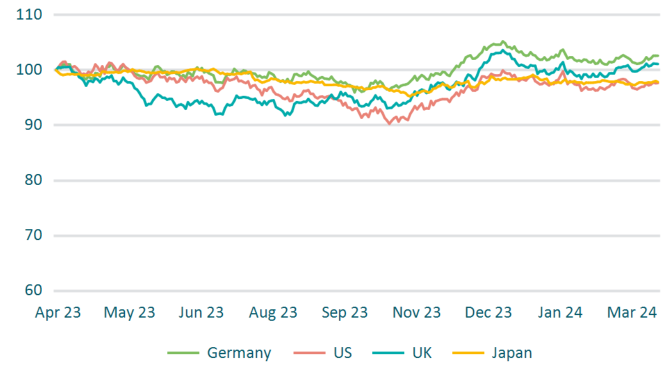


Source: IPD

International Bonds

Global bond markets ended the quarter with a loss after a volatile start to the year as markets adjusted their expectations for the path of interest rates. 2024 began with market participants confident that rate cuts were on the horizon, with the first Federal Reserve cut expected in March. However, in the US mixed inflation data and strong economic data throughout the quarter tempered expectations, with the first cut now priced in for June. As a result, January and February both saw US treasuries deliver negative returns, before turning positive in March. The 10-year Treasury yield finished the quarter at 4.2%, up from 3.9% at the start of the year, equating to a loss of 1.7% (in local currency). (Bond prices and yields move in opposite directions). The prices of 10-year German bunds and UK gilts fell 1.5% and 1.8%, respectively. Corporate bonds fared slightly better, however. Corporate bond issuance was notable with $606 billion worth of dollar bonds issued in the three months, the highest total since 1990. High yield bonds were the only bright spot in fixed income markets.

10-year government bond markets (12 months to 31.03.24)



Source: LSEG Datastream

Rebased to 100

Local currency

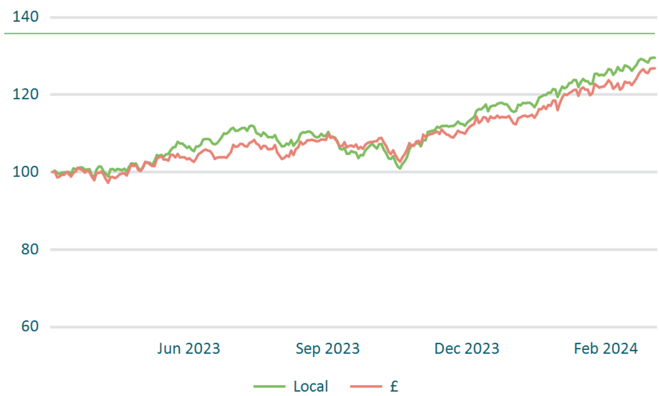
European bonds

European sovereign bond markets delivered negative returns over the first quarter of 2024, with German 10-year bunds returning -1.5%, while the equivalent French government bonds fell by 1.4%. The European Central Bank remained cautious regarding interest rate cuts, signalling that it was too early to discuss rate cuts at its March meeting. Markets are still pricing in three cuts this year, as inflation data continues to cool. The Swiss National Bank broke step from other major central banks and made a surprise interest rate cut in March, making it the first Western central bank to do so. In contrast, European corporate bonds rose 0.4% over the quarter, while high yield corporate bonds returned 1.5%.

North America

US equities kicked off the year with a robust rally in the first quarter and outperformed the global market. The S&P 500 Index repeatedly hit record highs as share prices continued their upward momentum from the end of last year. The positive investor sentiment was supported by optimism about the US economy, which expanded at an annual rate of 3.4% in the fourth quarter of 2023, and the prospect of interest rate cuts. Continued excitement about artificial intelligence (AI) also drove the market gains. Information technology stocks were among the best performers, with shares in chip maker Nvidia rising more than 80% over the first three months of the year. The market rally broadened beyond the technology sector, however, as energy and financials also outperformed the wider market. In contrast, consumer discretionary, real estate and utilities were notable laggards. Canada's stockmarket also made a positive start to the year.

FTSE World North America Index (12 months to 31.03.24)



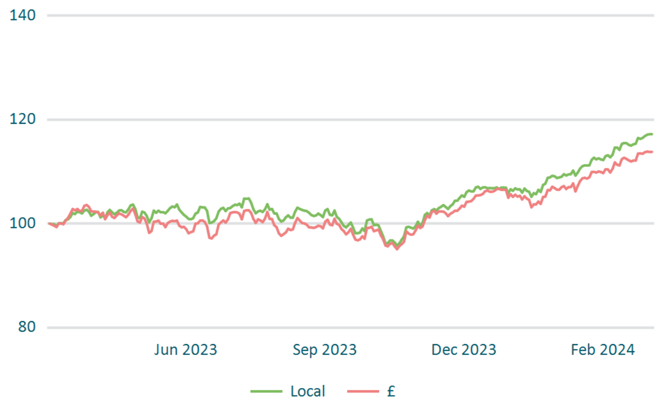
Source: LSEG Datastream

Rebased to 100

Europe

European equities rose for the second consecutive quarter in the first three months of 2024. Decent corporate earnings, the continued gradual decline in inflation – the eurozone's annual inflation rate was 2.6% in February – and expectations of interest rate cuts helped fuel investors' risk appetite. Information technology stocks led the way amid ongoing excitement about the potential of artificial intelligence (AI). Consumer discretionary and financial stocks also delivered returns ahead of the broader market. On the other hand, real estate and utilities, two sectors regarded as sensitive to interest rates, underperformed, along with consumer staples. At the country level, Italy and the Netherlands were among the best performers, whereas Finland and Switzerland were among the weakest.

FTSE World Europe (ex-UK) Index (12 months to 31.03.24)

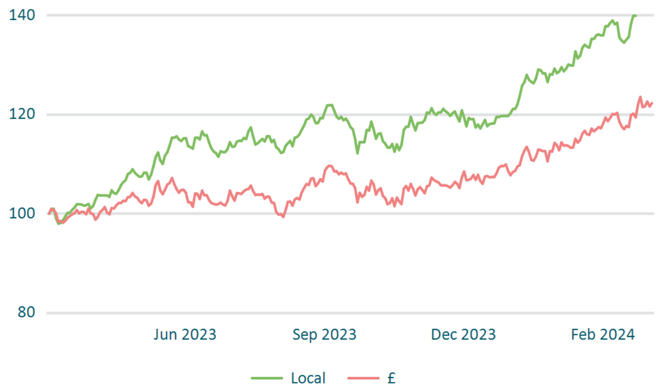


Source: LSEG Datastream Rebased to 100

Japan

The Japanese stockmarket rallied fiercely in the first quarter of 2024 in local currency terms, with the Nikkei 225 breaching 40,000 for the first time. Returns to sterling-based investors, though, were dampened somewhat by the weakness of the yen. Within the market, technology shares made big gains on the back of a positive earnings season. Around the middle of March, the Bank of Japan ended its negative interest rate policy and raised interest rates – the first time there has been an increase since 2007. Officials set a policy rate range of between 0% and 0.1%, saying its 2% inflation target had come into sight, but pledged to continue buying Japanese government bonds and said financial conditions would remain accommodative. The move was widely expected and came after workers at some of Japan's largest companies secured their biggest pay rise for many years.

FTSE World Japan Index (12 months to 31.03.24)

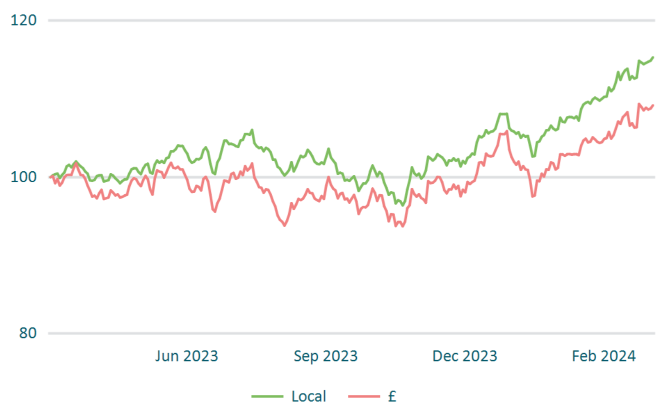


Source: LSEG Datastream Rebased to 100

Pacific Basin Ex-Japan

Asia Pacific ex Japan lagged the FTSE World Index in the first quarter of 2024, which was largely due to the poor performance of China and Hong Kong. The region's largest stockmarket, China, got off to a shaky start to the quarter as investors continued to fret about weakness radiating from its property sector. Another notable laggard was Thailand – the country's bank shares were out of favour as sentiment was dented by the prospect that net interest margins might have peaked. Better-performing markets included Taiwan, South Korea and India. All three markets have significant technology exposure (particularly the first two) and benefited from the strength of this sector. South Korea's market was also boosted by the proposed introduction of measures to boost shareholder returns. India's stockmarket reached a record high during the quarter as economic growth in the final three months of 2023 came in much stronger than expected.

FTSE All World Asia Pacific ex Japan Index (12 months to 31.03.24)



Source: LSEG Datastream Rebased to 100

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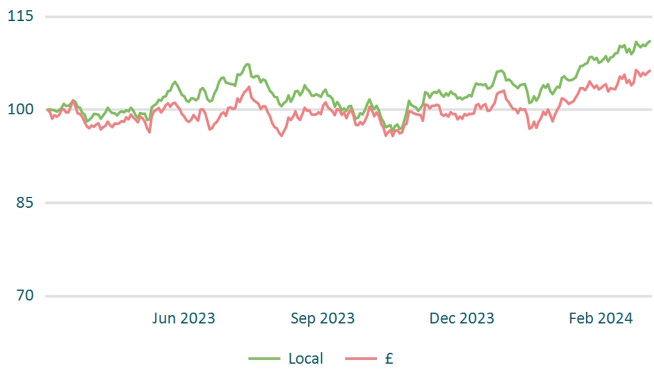
Emerging markets

Overall, emerging market stocks lagged the FTSE World Index in the first quarter, held back by the underperformance of China and some Latin American markets. Asia's largest stockmarket, China, got off to a shaky start to the year, as investors continued to fret about weakness radiating from its property sector. Better-performing markets included Taiwan, South Korea and India. All three markets have significant technology exposure (particularly the first two) and benefited from the strength of this sector. In Europe, the Middle East and Africa (EMEA), Turkey's stockmarket performed strongly in sterling terms. Turkey's central bank surprised investors by unexpectedly raising interest rates by 5% to 50% in order to halt accelerating capital flight and cool inflation. In Latin America, larger markets such as Brazil and Mexico struggled over the quarter, despite both countries cutting interest rates in March. However, some smaller markets, including Colombia and Peru made strong gains.

MSCI Emerging Markets Index (12 months to 31.03.24)



Source: LSEG Datastream Rebased to 100

Please note that the views on markets expressed in this report are those of M&G as at 31.03.24 and should not be taken as investment recommendations.
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Market Data

	1st Quarter 2024%		12 months to 31.03.24%	
	Local	Sterling	Local	Sterling
Equity index total returns*				
FTSE World	10.0	9.6	26.6	22.5
FTSE All World ex UK	9.7	9.3	25.6	21.4
FTSE All-Share	3.6	3.6	8.4	8.4
FTSE 100	4.0	4.0	8.4	8.4
FTSE Mid 250	1.6	1.6	8.7	8.7
FTSE Small Cap	0.2	0.2	8.3	8.3
FTSE World Europe (ex UK)	9.6	6.9	17.2	13.8
FTSE World France	8.3	6.8	13.8	10.7
FTSE World Germany	9.6	8.1	17.1	13.9
FTSE World Italy	16.1	14.6	37.7	34.0
FTSE World Spain	10.3	8.9	25.1	21.7
FTSE World North America	10.2	11.1	29.6	26.8
S&P 500 Composite Index	10.6	11.6	29.9	27.1
FTSE World Japan	18.7	11.6	42.1	22.3
Nikkei 225	20.6	13.4	44.0	23.9
FTSE All World Asia Pac (ex Jp)	4.5	3.0	9.0	4.5
FTSE Australia	5.4	1.7	15.3	9.9
FTSE China (All Cap)	-2.3	-1.7	-18.1	-19.6
FTSE Hong Kong	-9.8	-9.2	-20.3	-21.7
FTSE Korea	6.4	2.7	19.7	13.3
FTSE Singapore	-0.2	-1.5	5.2	1.5
FTSE Thailand	-2.2	-7.7	-9.2	-16.7
MSCI Emerging Markets	4.6	3.4	11.1	6.3
MSCI Brazil	-4.5	-6.5	25.9	24.8
MSCI Argentina	13.9	15.0	80.7	76.8
MSCI Mexico	-1.3	1.5	8.8	15.7
MSCI South Africa	-3.4	-5.9	2.9	-5.6

*Returns include income
Source: LSEG Datastream.
All data is sourced from M&G unless otherwise stated.

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		1st Quarter 2024%		12 months to 31.03.24%	
		Local	Sterling	Local	Sterling
Bond index total returns*					
FTSE Actuaries UK Conventional Gilts All Stocks Index		-1.6	-1.6	0.0	0.0
UK gilts under 5 years		0.0	0.0	3.3	3.3
UK gilts 5 - 15 years		-1.5	-1.5	1.4	1.4
UK gilts over 15 years		-3.6	-3.6	-4.6	-4.6
FTSE Actuaries UK Index-Linked Gilts All Stocks Index		-1.8	-1.8	-5.0	-5.0
iBoxx £ Non-Gilts Index		0.1	0.1	6.1	6.1
Salomon World Govt Bond Index		-2.4	-1.5	-0.8	-2.9
10-yr benchmark bond returns*	**Yield as at 31.03.24 (%)**				
UK	3.9	-1.8	-1.8	1.1	1.1
US	4.2	-1.7	-0.8	-2.3	-4.4
Japan	0.7	-0.5	-6.5	-2.1	-15.8
Germany	2.3	-1.5	-2.8	2.6	-0.2
France	2.8	-1.4	-2.7	3.7	0.8
Currency changes vs sterling	**Exchange rate as at 31.03.24**	**Q-Q chg %**		**Y-Y chg %**	
Dollar	1.2633	0.9	–	-2.1	–
Euro	1.16965	-1.3	–	-2.7	–
Yen	191.1866	-6.0	–	-13.9	–
Interest rates	**Rates as at 31.03.24 (%)**				
UK base rate	5.25	0.0		1.0	
US Fed Funds rate	5.50	0.0		0.5	
ECB base rate	4.50	0.0		1.0	
Commodities	**Price level as at 31.03.24**				
Oil (Brent crude) US$ per barrel	87.4	12.5	13.6	9.6	7.3
Gold bullion US$/troy oz	2,214.3	7.2	8.2	12.0	9.7
Comm Research Bureau Index		NA	NA	NA	NA

*Returns include income
Source: LSEG Datastream.
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For definitions of the investment terminology used within this document please see the glossary at:
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