

April 2024 Highlights

- US Q1 GDP growth data came in lower than expected, but the release highlighted strong domestic demand, with the downside surprise owing to falling net exports and inventories.
- > While composite purchasing managers' indices (PMIs) indicate slightly slower expansion in the US at the start of Q2, they suggest growth momentum is building in the eurozone, UK and Japan.
- The JPM Global Manufacturing PMI suggests global manufacturing continued to recover in April, albeit at a slightly slower pace, as output and new orders rose again. However, input costs and price inflation accelerated.
- > US headline CPI inflation rose more than expected in March, while the equivalent UK and eurozone measures fell less than expected.
- Renewed fears about persistent inflation pushed market-implied interest rates and sovereign bond yields higher, as markets shifted to expect even fewer and later interest-rate cuts from major central banks in 2024.
- Global equities fell as higher bond yields weighed on the more expensive portions of the market, with value outperforming growth stocks in April. Credit spreads, meanwhile, were little changed perhaps suggesting concerns about inflation, as opposed to growth, have had a bigger influence on market sentiment.
- > Commodities performed well, as gold and industrial metals prices rose on the back of lingering inflation concerns and improving Chinese activity data, respectively.
- The US dollar rose in line with market-implied interest rates. Meanwhile, further yen weakness prompted Japanese policymakers, who were concerned about imported inflation, to intervene to support the currency.

Market performance to end April 2024

UK	Apr 2024	Q1 24	2024	GLOBAL	Apr 2024	Q124	2024
EQUITIES	2.5	3.6	6.1	EQUITIES	-2.6	9.5	6.6
BONDS				North America	-4.0	10.2	5.8
Conventional gilts	-2.9	-1.6	-4.5	Europe ex UK	-1.5	9.5	7.9
Index-linked gilts	-3.6	-1.8	-5.4	Japan	-0.9	18.7	17.6
Credit	-1.7	0.1	-1.7	Dev. Asia ex Japan	-1.6	3.2	1.5
PROPERTY**	n/a	0.6	0.6	Emerging Markets	2.3	4.1	6.5
STERLING				GOVERNMENT BONDS	-1.3	0.2	-1.2
v US dollar	-0.9	-0.9	-1.8	High Yield	-0.7	2.0	1.2
v Euro	0.1	1.4	1.5	Gold	3.7	7.2	11.2
v Japanese yen	3.1	6.4	9.6	Oil	0.6	12.5	13.2

Percentage returns in local currency (\$ for gold and oil). All returns to 30/04/2024, *apart from property and hedge fund data 29/03/2024 Source: DataStream and Bloomberg. FTSE Indices shown: All Share, All World, W North America, AW Developed Europe ex-UK, W Japan, AW Developed Asia Pacific ex-Japan, Emerging, Fixed Gilts All Stocks, Index-Linked Gilts All Maturities, iBoxx Non-Gilts, S&P GSCI Light Energy, Crude Oil BFO, ICE BofA Global High Yield, Gold Bullion LBM, MSCI UK Monthly Property and BBG Aggregate Government Total Return.

Fixed income markets

SOVEREIGN BOND YIELDS

Global sovereign bond yields rose, with US and UK yields rising more than those in Japan and the eurozone.

INFLATION EXPECTATIONS

Inflation expectations rose, as nominal yields rose more than equivalent real yields.

CORPORATE CREDIT

Credit spreads moved sideways, and the 12-month trailing default rate edged lower.

EMERGING MARKET DEBT

Local currency emerging market sovereign bond yields rose, and index currencies weakened versus the US dollar.

Sovereign bond yields continued to rise

Sovereign bond yields rose as higher-than-expected inflation releases weighed on rate-cut expectations. UK and US 10-year bond yields rose 0.4% pa and 0.5% pa to 4.3% pa and 4.7% pa, respectively. Equivalent German and core eurozone bond yields rose less, by 0.3% pa to 2.6% pa, amid better progress on inflation. Equivalent Japanese yields rose even less, by 0.2% pa to 0.9% pa, as markets expect longer-term interest rates to remain relatively low, despite the Bank of Japan's (BoJ) modest increase in interest rates and ending of yield-curve controls in Q1.

Inflation expectations edged higher

UK 10-year implied inflation, as measured by the difference between conventional and inflation-linked bonds of the same maturity, was up 0.1% pa to 3.8% pa, as nominal yields rose more than real yields. Equivalent US and German implied inflation rose by the same amount, to 2.4% pa and 2.2% pa, respectively.

Credit spreads remain historically tight

Credit spreads were little changed in April as the growth outlook remained intact and yield buyers continued to keep spreads suppressed. US, European and sterling investment-grade credit spreads fell slightly to 0.9% pa, 1.1% pa and 1.2%, respectively. US and European speculative-grade spreads remained at 3.1% and 3.5% pa, respectively. Despite this, credit markets recorded negative total returns, given the rise in underlying sovereign bond yields. Naturally, speculative-grade bond markets outperformed, reflecting their shorter duration profile and lower interest-rate sensitivity, while floating-rate speculative-grade US loans produced modest positive returns.

Moody's expects defaults to fall

Moody's 12-month speculative-grade default rate fell by 0.1% to 5.0% in March from February's upwardly revised rate. With global growth expected to stabilise at only modestly lower levels in 2024, and with the prospect of interest-rate cuts on the horizon, the ratings agency forecasts that the default rate will decline to 3.3% by the end of 2024, below long-term averages. This forecast is underpinned by healthy corporate balance sheets, limited near-term refinancing requirements, anticipated easing in financial conditions and low speculative-grade credit spreads.

Emerging market debt delivers a negative return

Hard-currency debt, as measured by the JPM EMBI Global Diversified Index, returned -2.1% in dollar terms, as a 0.3% pa increase in credit spreads and rise underlying treasury yields took index-level yields 0.8% pa higher. Local-currency emerging market debt, as measured by the JPM GBI-EM Global Diversified Traded Index, also returned -2.1% in dollar terms as yields rose 0.4% pa and index currencies, in aggregate, weakened 1.3% versus the dollar.

Global equities

Growth stocks underperform value as higher bond yields weigh on valuations

Global equities gave back some of their year-to-date gains as the FTSE All World Total Return Index fell 2.6% in local-currency terms. While first-quarter earnings reported to date have continued to highlight business resilience, higher bond yields have weighed on valuations, particularly in the more expensive segments of the market, with growth stocks underperforming value in April. Technology and consumer-discretionary sectors underperformed, as did healthcare. Telecoms was the worst-performing sector. Meanwhile, more value-oriented sectors, such as utilities, energy, basic materials, consumer staples, financials and industrials all outperformed, in that order. The energy sector also derived support from elevated oil prices while basic materials benefited from rising industrial metals prices.

Underperforming technology sector weighs on US performance

North American equities were the only underperforming region, owing primarily to above-average exposure to the underperforming technology and healthcare sectors. The North American equity index declined 4.0% as an unexpected upside inflation surprise in March's data tempered investors' optimism for interest-rate cuts in the region and as higher bond yields weighed on the expensive technology sector.

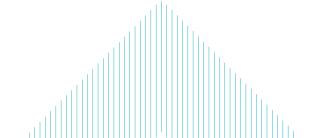
UK outperforms, given energy and broader commodity exposure

Following first-quarter underperformance, UK and emerging markets were the top performers by region, followed by Asia Pacific ex-Japan, Japan and Europe ex-UK, in that order. UK indices generally benefited from above-average exposure to more value-oriented sectors, such as energy and basic materials, as did emerging markets, which saw renewed investor interest. Asia Pacific ex-Japan and Japan also outperformed as currency weakness boosted exports and overseas earnings. European ex-UK indices outperformed, again owing to greater exposure to energy and commodity companies and less exposure to the technology sector.

Currencies, commodities and property

An increase in market-implied interest rates saw the trade-weighted US dollar rise 1.2%. Despite intervention from the BoJ to defend the currency, the tradeweighted yen fell a further 2.6% in April. While a weaker yen is typically positive for Japanese exporters and the equity market, policymakers have become concerned about the impact of imported inflation and weaker purchasing power for importers and consumers on domestic demand. Gold rose a further 3.7% in April, while a sharp rise in copper prices, amid forecast supply shortages and increased demand, led to a 13.4% increase in industrial metal prices.

The MSCI UK Monthly Property Total Return Index rose 0.3% in March as income return offset a small fall in capital values. The drop in capital values was due to a 0.8% decline in office values, while retail managed a 0.2% rise and industrial values were flat. The 12-month total return to end-March was also 0.3%, as income offset a 5.3% fall in capital values. Over 12 months, capital values dropped most steeply in the office sector, declining 16.3%, compared with a 5.6% fall in retail values and a 0.8% rise in industrial values. While values continue to fall in the office sector month on month, the pace of decline in the MSCI UK Monthly Property Capital Value Index, which is now 25% below its June 2022 peak, has slowed in recent months.



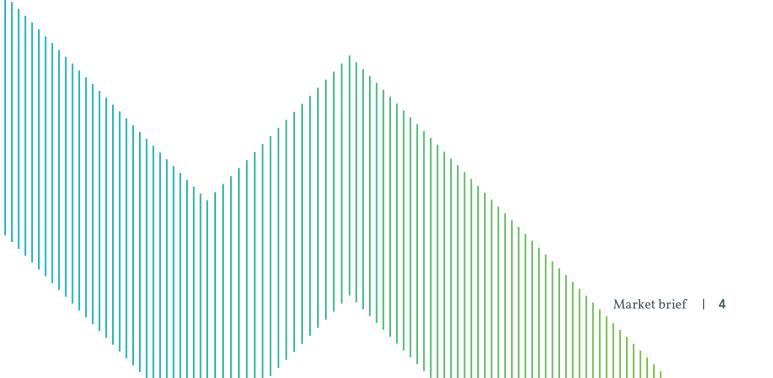
The global economy

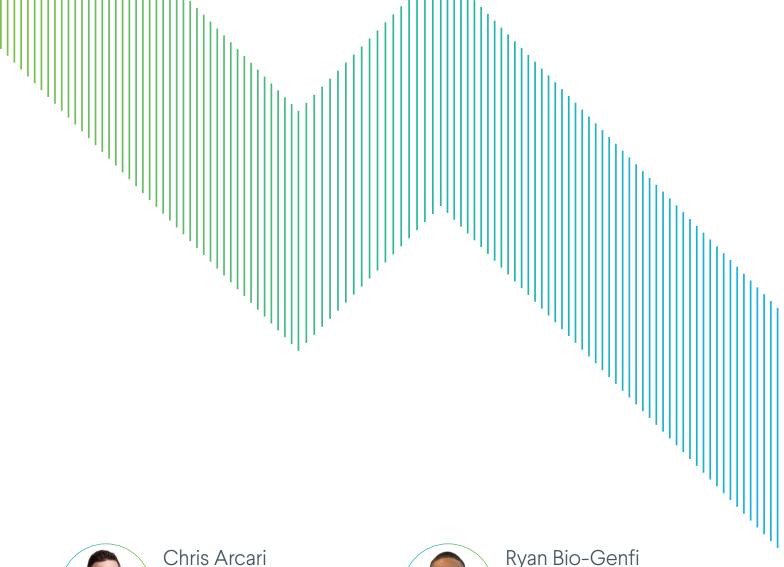
Preliminary US Q1 GDP data came in lower than expected, at an annualised quarterly pace of 1.6%. While this was below the expected growth of 2.5%, and the blistering 3.4% pace set in the last quarter of 2023, the data suggest private sector demand remains strong, with consumer spending and residential and non-residential investment still expanding at a decent pace. Volatile business inventories and higher-than-expected imports were the main drags on the headline figures. The eurozone and Chinese economies, meanwhile, grew more quickly than expected, expanding 0.3% and 1.6% quarter-on-quarter in Q1, highlighting positive momentum in each region's upturn.

Composite PMIs, which aggregate service and manufacturing sector activity, surprised to the downside in the US, as output growth slowed amid signs of demand weakness. They surprised to the upside in the UK, eurozone and Japan, on the back of strong service-sector activity. However, while the UK and eurozone recorded their fastest expansions in month-on-month activity in 12 months, cost pressures also intensified. Despite some pockets of renewed regional weakness, the JPM Global Manufacturing PMI suggests the global manufacturing recovery continued in April, as output and new orders rose again. But here, too, the survey points to an acceleration of input costs and output price inflation in the manufacturing sector.

In addition to coincident survey data highlighting renewed inflation pressures, inflation data released in April came in higher than expected. Year-on-year US headline CPI inflation unexpectedly rose 0.3% to 3.5% in March and core CPI, which excludes volatile energy and food prices, remained at an elevated 3.8%. Crucially, US Q1 GDP data showed the core personal consumption expenditures price deflator – a measure keenly watched by the US Federal Reserve (the Fed) – increasing to 3.7% in Q1. In the UK and eurozone, headline CPI continued to decline, albeit slightly less than expected, to 3.2% and 2.4%, respectively. The equivalent core measures also declined. However, at 4.2% and 2.9% in the UK and eurozone, respectively, they remain above headline measures.

Amid renewed fears about persistent inflation, markets further scaled back their expectations for the timing and number of interest-rate cuts from the major central banks in 2024. At the end of April, markets were anticipating only one 0.25% pa cut from the Fed in 2024, with between one and two 0.25% pa rate cuts from the Bank of England. Given the weaker inflationary pressures than in the US and UK, markets anticipate that the European Central Bank will act earlier, delivering two 0.25% pa cuts in 2024.







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