

Chief Investment Office

Weekly Market Commentary

For professional advisers only



In Summary

- Inflation concerns persist as headline CPI and core CPI figures surpass expectations, contributing to market uncertainty and a shift in expectations for Federal Reserve rate cuts.
- Despite challenges by persistent inflationary pressures, equity markets demonstrated resilience with the S&P 500 Index only slightly declining.
- The upcoming week is pivotal with central bank meetings that could provide insights into the timing of rate cuts and the overall economic picture.

Over the past week, financial markets have wrestled with persistent inflationary pressures. Key economic indicators, such as the US Consumer Price Index (CPI) and Producer Price Index (PPI), have surpassed forecasts, signalling more entrenched inflation. Simultaneously, oil prices saw a notable increase, with Brent crude reaching US\$85 per barrel, a peak not observed since October. These developments have led to a re-evaluation of the Federal Reserve's (Fed's) potential interest rate trajectory. The anticipation of fewer rate cuts has resulted in higher global yields and a modest decline in equities. The S&P 500 dipped by 0.13%, while the small-cap Russell 2000 Index was particularly impacted, dropping 2.08% over the week.

The headline CPI reported a year-on-year increase of 3.2%, marginally exceeding the expected 3.1%. The core CPI, which omits volatile food and energy prices, also surpassed projections at 3.8%, against the anticipated 3.7%. Also, the headline PPI figure showed a year-on-year rise of 1.6%, outpacing the predicted 1.2%. There is mounting concern that inflation may be resurging or, at a minimum, stabilising above the target level. However, despite these inflationary pressures, the latest US retail sales for February fell below expectations, increasing by only 0.6% compared to the forecasted 0.8%, with a downward revision for the previous month's data, further dampening market sentiment.

The prevailing uncertainty in the markets focuses on the timing of future rate cuts. Previously, June was considered the most likely time for the Fed's initial rate reduction, but recent data has cast doubt on this timeline. Market expectations for a Fed rate

cut have shifted, with markets now suggesting approximately a 60% chance of a cut by June—down significantly from the near certainty of a cut just two weeks earlier. Additionally, market projections have lowered the expectation to 72 basis points of cuts in total by December, marking a considerable change from the start-of-year expectations of approximately 160 basis points in cuts by year-end. This hawkish adjustment is reminiscent of instances seen in 2023 where initial overly optimistic expectations were gradually tempered. Despite the recalibration in rate cut expectations, equities have largely managed to absorb the impact of a more hawkish Fed stance, with the S&P only slightly down. This resilience is supported by a more optimistic growth outlook, stable earnings forecasts for 2024, and sustained interest in key growth themes such as artificial intelligence.

After a week replete with inflation-related data releases, we are now bracing for a week heavy with central bank decisions. The most significant is probably the Bank of Japan's, which is expected to raise rates to 0% on Tuesday, marking the end of an era of global negative interest rates. This event may eclipse the Fed meeting on Wednesday, where no interest rate change is anticipated, but which should offer insights into the Fed's inflation perspective. Investors are patiently waiting for any fresh economic projections and signals of whether the committee will maintain its previous suggestion of three rate cuts for 2024, as indicated in December. Moreover, the Bank of England is set to conduct its policy meeting on Thursday, concluding a momentous week for central banks around the globe.

Economic indicators (week beginning 11 March 2024)

Day	Data Release	Consensus	Prior	Actual
Monday	Japan PPI YoY Feb	0.5%	0.2%	0.6%
Tuesday	United States CPI MoM Feb	0.4%	0.3%	0.4%
	United States CPI YoY Feb	3.1%	3.1%	3.2%
	Germany CPI YoY Feb F	2.5%	2.5%	2.5%
	United Kingdom Jobless Claims Change Feb	--	14.1k	16.8k
	Germany CPI MoM Feb F	0.4%	0.4%	0.4%
	United Kingdom ILO Unemployment Rate 3Mths Jan	3.8%	3.8%	3.9%
	United Kingdom Claimant Count Rate Feb	--	4.0%	4.0%
	Germany CPI EU Harmonized YoY Feb F	2.7%	2.7%	2.7%
Wednesday	United Kingdom Industrial Production MoM Jan	0.0%	0.6%	-0.2%
	United States MBA Mortgage Applications 39508	--	9.7%	7.1%
	United Kingdom Manufacturing Production MoM Jan	0.0%	0.8%	0.0%
Thursday	United States Initial Jobless Claims 39873	219k	217k	209k
	United States Retail Sales Advance MoM Feb	0.8%	-0.8%	0.6%
	United States PPI Final Demand MoM Feb	0.3%	0.3%	0.6%
Friday	France CPI YoY Feb F	2.9%	2.9%	3.0%
	Italy CPI EU Harmonized YoY Feb F	0.9%	0.9%	0.8%
	United States U. of Mich. Sentiment Mar P	77.1	76.9	76.5
	Japan Tertiary Industry Index MoM Jan	0.1%	0.7%	0.3%
	United States Industrial Production MoM Feb	0.0%	-0.1%	0.1%
	China Money Supply M2 YoY Feb	8.8%	8.7%	8.7%
	United States Empire Manufacturing Mar	-7.0%	-2.4%	-2.1%

Source: Bloomberg, data accessed 18 March 2024.

Economic indicators (week beginning 18 March 2024)

Day	Data Release	Consensus	Prior
Tuesday	Australia RBA Cash Rate Target 43525	4.4%	4.4%
	Japan Industrial Production MoM Jan F	--	-7.5%
	Germany ZEW Survey Expectations Mar	20.5	19.9
	Canada CPI YoY Feb	3.1%	2.9%
	Germany ZEW Survey Current Situation Mar	-82.2	-81.7
	Canada CPI NSA MoM Feb	0.6%	0.0%
	United States Housing Starts Feb	1430k	1331k
	Japan BOJ Policy Balance Rate 43525	-0.1%	-0.1%
Wednesday	United States FOMC Rate Decision (Upper Bound) 43891	5.5%	5.5%
	United Kingdom CPI YoY Feb	3.5%	4.0%
	United Kingdom CPI MoM Feb	0.7%	-0.6%
	United Kingdom CPI Core YoY Feb	4.6%	5.1%
	United States MBA Mortgage Applications 42064	--	7.1%
	Italy Industrial Production MoM Jan	-0.2%	1.1%
Thursday	United Kingdom Bank of England Bank Rate 44256	5.3%	5.3%
	United States Initial Jobless Claims 42430	215k	209k
	France HCOB France Manufacturing PMI Mar P	47.5	47.1
	Australia Unemployment Rate Feb	4.0%	4.1%
	Australia Employment Change Feb	40.0k	0.5k
	France HCOB France Services PMI Mar P	48.8	48.4
	Japan Jibun Bank Japan PMI Mfg Mar P	--	47.2
	Germany HCOB Germany Manufacturing PMI Mar P	43.0	42.5
	United Kingdom S&P Global UK Manufacturing PMI Mar P	47.8	47.5
	United States S&P Global US Manufacturing PMI Mar P	51.8	52.2
	Japan Natl CPI YoY Feb	2.9%	2.2%
	France HCOB France Composite PMI Mar P	48.7	48.1
	United States Existing Home Sales Feb	3.9m	4.0m
	United States Leading Index Feb	-0.2%	-0.4%
Friday	Germany IFO Business Climate Mar	85.9	85.5
	United Kingdom Retail Sales Inc Auto Fuel MoM Feb	-0.3%	3.4%
	United Kingdom Retail Sales Inc Auto Fuel YoY Feb	-0.8%	0.7%

Source: Bloomberg, data accessed 18 March 2024.



Asset market performance

Index	Value	As at Friday close		YTD	
		CR	TR	CR	TR
MSCI UK GBP	2215	0.83%	0.93%	0.00%	1.02%
MSCI USA USD	4876	-0.20%	-0.17%	7.13%	7.36%
MSCI Europe ex UK EUR	205	0.26%	0.34%	6.65%	6.92%
MSCI AC Asia ex JPN USD	533	-0.75%	-0.68%	0.83%	1.21%
MSCI Japan JPY	1648	-2.36%	-2.36%	13.81%	13.85%
MSCI Emerging Markets USD	1035	-0.23%	-0.12%	1.07%	1.38%
Barclays Sterling Gilts GBP	226		-0.95%		-3.18%
GOLD USD	2156	-1.06%		4.50%	
WTI Oil USD	81	3.88%		13.11%	
MSCI PIMFA Income		0.16%	0.22%	1.54%	2.05%
MSCI PIMFA Balanced		0.26%	0.32%	2.07%	2.56%
MSCI PIMFA Growth		0.44%	0.50%	3.24%	3.68%

Source: Bloomberg, MSCI; please see important information, data accessed 18 March 2024.

YTD denotes year to date, TR denotes total return and CR denotes capital return.



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