MARKET COMMENTARY

Executive Summary

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February capped a second consecutive month of varied performance for the major asset classes following a blistering end to 2023. With inflation seemingly continuing its meandering course back towards central bankers' 2% target, markets continued to bet on the future trajectory of interest rates. In the US, earnings season was in full swing, with some of the largest companies in the world reporting, while across the world the first of some four billion voters scheduled to vote this year went to the polls.

US Equities

First to the US, where investors the world over waited with bated breath for the release of Nvidia's Q4 results. We've reported previously on the meteoric rise of Nvidia – now the fourth largest company in the world – following blockbuster results released in May last year. It attributed the sharp uptick in earnings to soaring demand for its GPUs (Graphical Processing Units) from providers of Artificial Intelligence (AI) - comments which saw stocks with some (often tenuous) link to AI move sharply higher. With the performance of large swathes of the technology sector seemingly underpinned by AI-enthusiasm, Nvidia's results felt like a watershed moment, one which could make (or break) the recent market rally. In the end, earnings yet again exceeded analysts' expectations, leading to the largest one-day positive move (in total market cap gain) for a single company in stock market history.

Much was made of the outperformance of the so-called 'Magnificent Seven' in 2023, a theme which has continued year-to-date. Meta (Facebook) also caught the eye with very strong results, and the commencement of a dividend – for a brief period prior to Nvidia's results, it too claimed the record for the largest one-day market cap gain in history. The ten largest stocks in the US index now account for c.30% of the total market cap, the highest in decades, with concentration risk a growing concern for investors.

While earnings season dominated headlines, the macro backdrop continued to evolve. US headline inflation came in above expectations, at 3.1%, prompting a short-lived sell-off across equity markets. Core inflation, which many perceive as a better indication of the future trajectory, was unchanged at 3.9%, further damaging prospects of rate cuts in the first half of 2024. Despite this, the large cap index closed the month 5.9% up.

Other Developed Markets

UK investors had little to cheer – despite a seemingly encouraging set of inflation figures, the UK market yet again found itself the laggard amongst developed markets. While unchanged month-on-month, headline inflation came in below market expectations, at 4.0%, while core inflation was also unchanged but below consensus. With the energy price cap set to fall substantially on the first of April, further price pressure easing looks likely in the months ahead. There was less positive news elsewhere – mid-month, the Office for National Statistics (ONS) released data showing the UK entered a technical recession in Q4 2023, with the economy officially shrinking for the second consecutive quarter. Analysts do however expect the downturn to be short-lived, given the strength of the jobs market and robust wage growth. UK large caps closed the month 0.5% up, while mid-caps, typically seen as more representative of the health of the UK economy, fell -1.3%.

The Eurozone narrowly avoided a technical recession in 2023, as weakness in the German economy was offset by growth elsewhere. Novo Nordisk, Europe's (ex. UK) most valuable company, saw its share price rise again in February, capping a remarkable few years of performance since the release of its weight loss drugs, Ozempic and Wegovy. There was positive economic news too, with February's composite Purchasing Managers Index (PMI) coming in above expectations at 48.9. While still in contractionary territory (a PMI below 50 indicated contraction), it indicates that the Eurozone's economic slump may be easing. European equities finished the month 2.7% up.

Asia & Emerging Markets

The Japanese economy did slip unexpectedly into a technical recession, as sluggish consumption and weak demand for exports from China saw Japan officially cede its position as the third largest economy (it now sits fourth, behind the US, China and Germany). Despite this, investors were relatively bullish, with weakness in the economy likely to delay the Bank of Japan's widely anticipated move to end to its ultra-loose monetary policy. Japanese large cap equities finished the month up 2.3%.

Emerging markets indices were broadly higher (+5.5%) through February, led by a resurgent China. The Chinese market slumped to a five-year low in January, but improved activity over the Lunar New Year period, coupled with additional supportive interventions from the Chinese government, saw equities rally 9.1% in February. There were also sizeable gains for Taiwan (+6.2%) and India (+3.4%), while Brazil produced a more muted positive return (+0.9%).

Fixed Income

Global bond indices fell in February, as investors once again pared back their rate cut forecasts. In the US, markets closed out 2023 hopeful of a first rate cut as early as March, but two consecutive above consensus inflation prints saw that pushed out first to May, and then June, with the greater risk of a later (rather than earlier) first move by the Federal Reserve. In response, US Treasuries slipped to a -0.5% loss. In the UK, gilts too were lower (-1.3%), with data showing wage growth declined by less than expected in December. Stronger wage pressures typically suggest inflation might prove stickier than anticipated. In a month where yields rose, it was the less rate sensitive areas of the market that outperformed, with sterling high yield notable for its positive return (+0.4%) through February.

Other Asset Classes

Finally to commodities, where the aggregate index rose 1.6% over the month. Gains for oil were partially offset by falls in precious and industrial metal prices, as well as a sharp drop for natural gas, as mild weather and weak industrial demand in Europe continued to suppress demand. February was also a very strong month for Bitcoin – the cryptocurrency rose 43% in February and has now gained more than 130% from last year's lows, with the approval of Bitcoin ETFs in the US cited as a major driver of recent gains.

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