MONTHLY UPDATE

Latest views from the investment team

The End of Negative Interest Rates

In March the Bank of Japan (BoJ) raised its policy rate for the first time since 2007, becoming the last central bank to drop their negative interest rate policy and closing a door on economic history. In the end, the move away from negative rates has been less dramatic for markets than many feared with the BoJ pledging to make any further changes gradually, helping equities notch further gains over the month. Overall, a good quarter for returns with global equities up over 8%.

In Japan, confidence in achieving the 2% inflation target over the medium term is building as evidence of higher wages mounts. Large labour unions have negotiated wage rises of over 5%, among the highest in decades. Meanwhile, in the UK, March brought some good news with inflation falling to 3.4%, the lowest level for over two years. The decline in food inflation will be particularly welcome to consumers and the Bank of England. A different tone is building in the US where inflation and employment data have been stronger than expected, therefore not supporting the case for an interest rate cut just yet. However, at their March meeting, despite leaving policy rates unchanged, the Federal Reserve stated that they still expect to cut interest rates three times this year and adopted a supportive tone, despite nudging their inflation forecasts higher. This has provided comfort to equity investors, enabling US equities to move to new all-time highs and boosting wider markets. Corporate earnings have also been supportive.

Overall, US corporate earnings for the fourth quarter were strong and well received by the market. The aggregate figures mask large divergences between sectors, with earnings growth in communication services and technology sectors outpacing that of healthcare, energy, and materials. A handful of companies within the communication services and technology sectors have disproportionately supported the US equity market. Meanwhile, earnings from energy and materials sectors lagged as commodity prices declined last year and healthcare suffered from lower pharmaceutical vaccine sales. In the year ahead there are good building blocks – such as low unemployment and a supportive stance from policymakers – for strong future earnings. However, it will be important to focus on the extent to which earnings growth can broaden beyond the mega-cap technology stocks and their related sectors. Recent increases in commodity prices bode well for energy and material sectors, while very long-term demand for healthcare services is underpinned by ageing populations. From a global perspective, we expect the BoJ's accommodative policy (alongside corporate reforms and tax savings incentives) to lead to further gains in Japanese equities while rising global trade suggests large exporters, for example within Europe and Emerging Markets, can also perform well. Therefore, we believe equity market performance can broaden, both within the US market and across the globe.

Bottom Line

Although cuts in interest rates have not been as forthcoming this year as markets priced at year end, the path is still in place. The Federal Reserve still forecast three cuts in 2024 and the Bank of England Governor has signalled that expectations of more than one rate cut in 2024 are sensible. In Europe, the Swiss National Bank kicked things off with a surprise interest rate cut in March. Alongside a healthy corporate sector there are strong foundations for further gains in financial markets.

Month by numbers

Change in various markets over the month:

Asset		Change / Value
Equities		
UK	↑	4.61%
Europe	↑	3.74%
US	↑	3.15%
Emerging Markets	↑	3.02%
Japan	↑	4.17%
Bonds / Rates (* Absolute change (%))		
UK Base Rates	–	0.00% / 5.25%
Fed Funds Rate	–	0.00% / 5.5%
UK 10-Year Yield	↓	-0.19% / 3.94%
US 10-Year Yield	↓	-0.04% / 4.21%
Currencies		
GBP / USD	↓	-0.17% / $1.26
GBP / EUR	↓	-0.15% / 1.17%
DXY (USD Index)	↑	0.37% / 104.55
Commodities		
Gold	↑	9.27% / $2232.90
Oil (Brent)	↑	4.62% / $87.48
Noteworthy		
Cocoa	↑	59.57%

Q&A

What's on your mind?

What is Super Micro Computer?

Super Micro Computer is a technology infrastructure company, whose stock has surged close to 850% over the last 12 months, outpacing even NVIDIA. Recent developments in artificial intelligence require more computing power alongside more data storage, increasing demand for data server infrastructure companies such as Super Micro Computer. Super Micro Computer is reported to have a superior offering due to its speed and customisation advantage. It is still small compared to better known technology stocks, but it is fast-growing and was added to the S&P 500 index in March.

Do Negative Interest Rates Work?

Negative interest rates are used by central banks seeking to spur economic activity, usually amidst deflation concerns. By enabling consumers and businesses to borrow money at extremely low rates, banks provide them with strong incentives to spend and invest while reducing the incentive to save. Banks are encouraged to lend and not to hoard cash, as such helping to stimulate the economy; low rates also weaken the currency, which can often help exporters of goods. Therefore, there are plenty of reasons to expect business volumes to grow and asset prices to rise. However, economists disagree on the effectiveness of negative interest rates. On the downside, consumer cohorts who depend on interest income are hurt and may cut spending, while investment in capital-intensive technologies (enabled by low rates) has unfavourable long-term consequences for jobs.

Why is the Price of Gold Rising?

Gold prices have risen sharply over recent weeks, drawing attention from investors as gold is often viewed as a safe asset in times of turmoil. There are many reasons attributed to the move; firstly, central banks (particularly in Asia) have been accumulating gold reserves; secondly, most central bankers continue to emphasise their stance towards interest rate cuts, implying tolerance for inflation a little above target. Therefore, gold, which is viewed as a hedge against inflation, is deemed attractive. Finally, Bitcoin has been surging since the US Securities and Exchange Commission approved Bitcoin exchange-traded funds in January and this may be supporting demand for gold, because gold and Bitcoin are thought to share some underlying drivers and characteristics. For example, both have limited supply and can be viewed as inflationary hedges in the event of traditional currencies depreciating.

For more information, please contact your adviser.