Q1 2024 – Market Update

A Tale of Transformation

At the close of last October global equities had just returned -7.5% in the previous six weeks, the 'higher for longer' interest rate narrative was prevalent, and markets felt a hawkish Federal Reserve (Fed - US Central Bank) would 'only' deliver three interest rate cuts in 2024. The overall outlook was quite negative with analysts still forecasting a likely US recession.

Fast forward to the end of March, and we witness a remarkable turnaround. Some markets are up over 25% since November fuelled by optimism surrounding advancements in AI technology and reassurances from the Federal Reserve they would deliver three interest rate cuts in 2024.

World Stock Markets - Q1 2024	Value	% Performance
S&P 500 Index	5,254	**9.7**
DOW Jones Industrial Average Index	39,807	**5.6**
Dow Jones Transportation Average Index	16,212	**2.0**
Nasdaq Composite Index	16,379	**9.1**
DJ Euro Stoxx 50 Index	5,083	**12.4**
FTSE 100 Index	7,953	**2.8**
FTSE All Share Index	4,338	**2.5**
ISEQ Index	9,957	**13.7**
Nikkei 225 Index	40,369	**20.6**
FTSE World Index ($)	516	**7.6**
FTSE All-World x-US ($)	337	**4.0**
FTSE World Index (€)	478	**10.1**
FTSE Asia Pacific ($)	352	**4.3**
FTSE Emerging Markets ($)	531	**1.9**
Gold	2,217	**7.0**
Brent Oil	87.5	**13.6**

*** Updated to 31/03/2024**

US Market Resilience

The US market has demonstrated remarkable resilience despite grappling with relatively high interest rates and a negative yield curve (this occurs when US short-term interest rates (5%) surpass long-term interest rates (4.35%)).

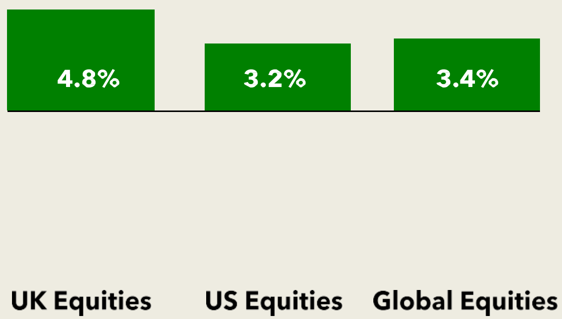
US Stocks ended the first quarter of 2024 on a high as investors cheered a number of indications from Federal Reserve policymakers that rates would decrease in the second half of 2024. As widely expected, the Fed opted to leave interest rates unchanged in the 5.0% - 5.5% range. Investors focused on Fed Chair Jerome Powell's comments in the ensuing press conference, stating that he was not overly concerned with the recent uptick in inflation data, pointing out recent seasonal effects.

The Stock Markets (updated 31 March 2024)

The key benchmark you should care about is achieving all your financial and life goals while not running out of money.

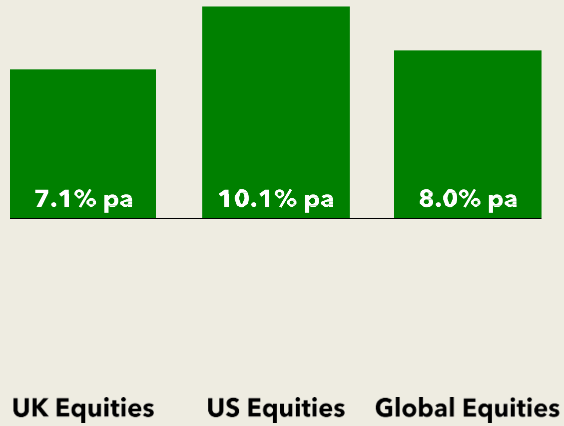
The Unimportant Numbers - 1 Month

Monthly figures are a distraction from your long term goals.



The Important Numbers - 30 Years

Investing in the Great Companies of the World has produced life-changing returns for the disciplined and patient investor over the last 30 years, the average length of a two-person retirement.



Source: FE Analytics, Humans Under Management Returns are based on the total return of the respective indices, which assume dividends reinvested. Past Performance is not a guide to future performance.

Fixed Income

The week also saw the release of some encouraging data for markets. Bond yields (which move inversely to price) declined in response to the Fed's rate implications. The benchmark US 10 Year Treasury yield finished the week at 4.2% compared to 4.3% the previous in week. The German equivalent finished at 2.3% with the Irish 10-year bond yield at 2.7%.

European Observations

In other regions, central bank rate decisions remained the dominant theme throughout the week. In Europe, investors saw a surprise decision from the Swiss National Bank, which cut interest rates by 25 basis points to 1.5%, the central bank's first rate cut in nine years.

European Concerns – Germany & UK Tipping On Recession

As of the latest available information, Germany is experiencing a recession. The German economy shrank by 0.3% in 2023, and there are concerns that this trend is continuing into 2024. The UK also entered a recession in the second half of 2023, with GDP shrinking in successive quarters. However, there are indications that the UK recession may be short-lived, as there are "distinct signs of an upturn" according to the Bank of England's governor.

From an overall European perspective, the Eurozone's economic outlook for 2024 remains challenging due to faltering demand and increasing geopolitical tensions. However the release of data same some positive signs for the European economy.

Irish Positives, Yet Mixed Messages

A positive sign is the reduction of Irish inflation to below the ECB target of 2%. While the Irish figure is a positive, the rate across the euro zone is above the target at 2.4%. Further complicating things, although the euro zone figure as a whole is falling, in some countries the readings are going the other way.

Uncertain Sustainability

Then there is the issue of sustainability. When the central bankers gather in Frankfurt, they want to be confident that any fall in inflation is durable. And, on this, there continues to be concerns, not least regarding the rate of wage inflation.

Commercial Property – Covid Hangover

Irish commercial property continues the downward grind which started in mid-2022. The *Irish Life Exempt Property Fund* – the closest to a real-time benchmark for the sector – declined by 3.3% in Q1 2024. The challenges in recent years - high interest rates and changing occupier trends since Covid is impacting the sector. Investment in Irish commercial property hit a record low in 2023, with higher borrowing costs, layoffs in the tech sector, and the rise of remote working, contributing to this decline.

The office sector, in particular, is still getting over the impact of Covid. This has resulted in rising vacancy rates and concerns about sustainability measures influencing investment decisions. The market has experienced a significant reset period since the pandemic with a greater emphasis on working from home set to continue. As a result there is a growing focus on alternative asset classes like infrastructure, data centres, and renewable energy projects for stable returns.

Gold Price Curiously Rising

This is a curious gold bull market which is now defying conventional wisdom. Gold investors are usually left behind at times of strong equity markets as gold traditionally would be seen as an insurance policy against negative events. We are not seeing that this time. The gold price breakout however looks real with the price above $2,300 this week (as of the 5th of April). The gold price is rising in the face of a firm US dollar and positive US real interest rates (when short-term interest rates are above consumer price inflation).

3 Year Gold Price Chart

Curious Trends

Central banks are the main buyer along with a strong demand for gold in the Indian market. One needs to be careful following the central banks, as they were sellers of gold, en masse, for several years leading up to the bottom of the gold market in the late 1990s. In fact, it was central bank selling that created the bottom in the gold price back then. In our view, the only reason to hold gold in a portfolio is as a diversifier and as mentioned above a hedge against negative events. The time may be close to reduce gold exposure based on the strong performance and with bonds now offering some level of return.

Summary

While markets have become more realistic with regard to inflation and interest rate cuts, core inflation readings are still ahead of central bank targets. This may lead to a slower than expected easing of interest rates by Central Banks in the second half of 2024.

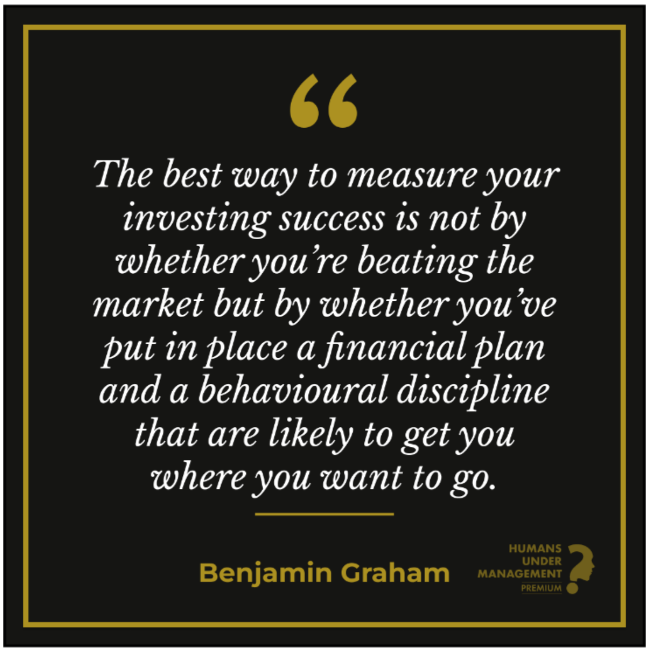
- A sense of exuberance still persists around big tech. Market expectations for corporate earnings look quite optimistic against a background of historically high profit margins.
- Although the degree to which market valuations are affected by geo-politics is open to question, that backdrop has disimproved, notably in the middle east.
- In equity markets there continues to be value in markets outside the US. Value stocks, small cap, and emerging markets valuations support the potential of superior returns over time.
- European, UK, Asia Pacific and emerging equity markets all offer good value relative to history and relatively low interest rates from a historical perspective.

Avoid impulses, stay with a prudent long term strategy

Investing for better than bank deposit returns requires patience. Returns don't come in a straight line and a further reason why taking a minimum 5-year plus view is essential. Getting despondent and selling at times of market volatility can lead to a permanent loss due to a subsequent reluctance to get back into the market. This is why we carry out investment reviews, so that we can provide each client with customised advice.

I hope you have found this update useful and as always we remain on hand to help with any queries.

Ronan McGrath
Managing Director
Oakwood Financial Advisors
5th April 2024



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