The stock market rally just keeps on going

2024 Q1 review by Jake Winterton, Assistant Fund Manager

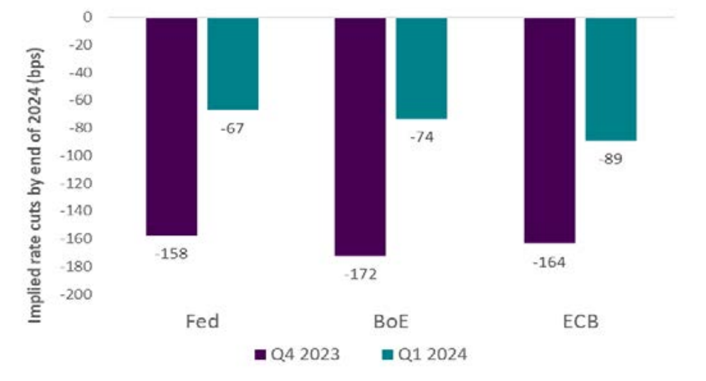
Equity markets recorded a strong start to the new year, building on impressive gains made over last year (Table 1). Global equity indices ended the quarter at all-time highs with resilient macro data; strong corporate earnings results; and expectations of monetary policy loosening this year all helping investor sentiment.

One major development over the quarter saw markets aggressively change their pricing for expected central bank cuts over this year. At the end of last year, markets had expected 1.7% of cuts from the Bank of England, three months later and markets now expect just over 0.7% (Chart 1). This re-pricing saw negative returns for bond markets over the quarter. Equity markets proved to be immune to this as global growth and business confidence showed signs of resilience. Equity indices rallied to fresh highs, led by US tech stocks which were particularly strong as the investor excitement around AI continued. Particularly strong corporate earnings for a selection of tech companies saw the 'magnificent seven' rally close to 20% on the quarter. The best performing equities were Japanese stocks, recording gains of close to 20% to move to all-time highs for the first time in 34 years (Chart 2).

On a tactical level, we benefitted from an overweight equity position which we continue to hold with both the macro and technical backdrop remaining supportive. We also benefitted from overweight positions in growth stocks at the sector level, as well as positive positioning in Japanese equities, which was helped by a weaker yen and improved governance to be the best performing equity region we monitor.

Please see the Investment Clock blog for our latest views.

Chart 1: Rate cut pricing changed sharply over Q1



Source: Refinitiv Datastream as at 29/03/2024.

Chart 2: Japan stocks outperformed as JPY weakened

Source: Refinitiv Datastream as at 29/03/2024.

Table 1: Sterling-based annual returns from major asset classes 2017 – Q1 2024

Year	2017	2018	2019	2020	2021	2022	2023	YTD
1	EM Stocks +21.1%	Property +7.5%	Global Stocks +22.6%	Global Stocks +14.3%	Commodities +28.3%	Commodities +30.7%	Global Stocks +16.0%	Global Stocks +9.3%
2	Global Stocks +14.0%	Cash +0.6%	UK Stocks +19.2%	EM Stocks +11.9%	Global Stocks +20.0%	Cash +1.0%	UK Stocks +7.9%	UK Stocks +3.6%
3	UK Stocks +13.1%	Gilts +0.6%	EM Stocks +15.9%	Gilts +8.3%	Property +19.9%	UK Stocks +0.3%	**Multi Asset +6.9%**	EM Stocks +3.4%
4	Property +11.2%	**Multi Asset -1.6%**	**Multi Asset +10.0%**	**Multi Asset +4.9%**	UK Stocks +18.3%	EM Stocks -6.4%	Cash +4.4%	Commodities +3.1%
5	**Multi Asset +6.3%**	Global Stocks -3.1%	Gilts +6.9%	Cash +0.3%	**Multi Asset +8.3%**	**Multi Asset -7.3%**	Gilts +3.7%	**Multi Asset +2.7%**
6	Gilts +1.8%	Commodities -5.7%	Commodities +3.5%	Property -1.0%	EM Stocks +1.0%	Global Stocks -7.8%	EM Stocks +2.9%	Cash +1.3%
7	Cash +0.3%	EM Stocks -7.6%	Property +2.1%	Commodities -6.1%	Cash +0.0%	Property -10.1%	Property -0.1%	Property +0.3%
8	Commodities -7.1%	UK Stocks -9.5%	Cash +0.7%	UK Stocks -9.8%	Gilts -5.2%	Gilts -23.8%	Commodities -13.1%	Gilts -1.6%

Past performance is not a reliable indicator of future results. Source: RLAM, Refinitiv Datastream as at March 2024; property as at February 2024. 'Multi Asset' returns are based a mixture of 8.12% UK equities, 21.13% in global equities, 3.25% in EM equities, 7.5% in property, 5% in commodities, 5% in global high yield, 6.25% in UK IG credit, 2.5% in global IG credit, 10% in UK SD IG credit, 2.5% in UK linkers, 1.5% in UK SD linkers, 3.5% in global SD linkers, 6.75% in gilts, 2% in overseas government bonds, 5% in SD gilts and 10% in cash. Indices used are FTSE All Share, FTSE World, MSCI Emerging Markets ESG Leaders, MSCI/AREF UK All Balanced Quarterly Property Fund, Bloomberg Commodity Index, BoAML BB-B Global Non-Financial High Yield Constrained Index, iBoxx Sterling Non-Gilt Index, Bloomberg Barclays Global Aggregate Corporate Index, FTSE Actuaries UK Index Linked Gilts, Bloomberg Barclays UK Government Inflation Linked Bond 1-10 year Index, Bloomberg Barclays World Government Inflation Linked Bond (ex UK) 1-10 year, FTSE Actuaries UK Conventional Gilts Index, JPM Global ex-UK Traded Index, FTSE Actuaries UK Conventional Gilts up to 5 Years Index, SONIA. Total returns in sterling terms.

Markets: US tech and Japan continue where they left off in 2023

- Global equities got off to a strong start to the year, rising in nine consecutive weeks, on the back of strong corporate earnings results and resilient economic data.
- Japanese equities picked up sharply over the quarter, following on from last year's strong outperformance. US stocks recorded their first consecutive quarterly double-digit return in a decade, helped by strong outperformance of AI-related technology stocks.
- Bond yields rose as markets priced out around half of previously expected rate cuts for this year. Japanese yields echoed other regions as Bank of Japan hiked rates out of negative territory for the first time in eight years.
- Commodities traded broadly flat on aggregate. Oil prices rose as OPEC+ extended output cuts, while natural gas fell amid strong US production and warm weather. Precious metals rose as gold made new all-time highs.
- In FX, USD rose broadly as markets priced out around 90bps of expected Fed cuts for 2024 over the quarter. Yen fell to lowest levels in 34 years.

FX	1 GBP buys	%chg Q1 (vs GBP)	%chg 2024
USD	1.26	0.9	0.9
EUR	1.17	-1.4	-1.4
CHF	1.14	-5.8	-5.8
JPY	191.0	-6.0	-6.0
AUD	1.94	-3.6	-3.6
CAD	1.71	-1.3	-1.3

CB rates	Rate (%)	chg in Q1 (%)	chg 2024 (%)
Fed	5.50	0.00	0.00
BoE	5.25	0.00	0.00
ECB	4.00	0.00	0.00
BoJ	0.07	0.11	0.11

Bond Yield	Yield (%)	chg in Q1 (bps)	chg 2024 (bps)
US 10 Year	4.20	32	32
UK 10 Year	3.93	40	40
EU 10 Year	2.30	27	27
JP 10 Year	0.72	11	11

	Local Currency		GBP	
Multi Asset	Q1	2024	Q1	2024
UK Stocks	3.6	3.6	3.6	3.6
Global ex UK Stocks	9.7	9.7	9.3	9.3
Gilts	-1.6	-1.6	-1.6	-1.6
UK Cash	1.3	1.3	1.3	1.3
UK Property	0.3	0.3	0.3	0.3
Commodities	2.2	2.2	3.1	3.1

	Local Currency		GBP	
Equity Regions	Q1	2024	Q1	2024
UK	3.6	3.6	3.6	3.6
North America	10.2	10.2	11.1	11.1
Europe ex UK	8.3	8.3	6.9	6.9
Japan	18.7	18.7	11.6	11.6
Pacific ex Japan	6.7	6.7	3.5	3.5
Emerging Markets	4.1	4.1	3.4	3.4

Global	Local Currency		GBP	
Equity Sectors	Q1	2024	Q1	2024
Consumer Discretionary	7.3	7.3	6.9	6.9
Industrials	11.2	11.2	10.2	10.2
Financials	11.0	11.0	10.4	10.4
Consumer Staples	4.2	4.2	3.7	3.7
Utilities	2.8	2.8	2.6	2.6
Healthcare	8.5	8.5	8.2	8.2
Energy	10.8	10.8	10.7	10.7
Materials	4.2	4.2	2.9	2.9
Communication Services	6.3	6.3	4.8	4.8
Technology	13.0	13.0	13.1	13.1

	Local Currency		GBP	
Bonds	Q1	2024	Q1	2024
Conventional Gilts	-1.6	-1.6	-1.6	-1.6
Index Linked Gilts	-1.8	-1.8	-1.8	-1.8
GBP Credit	0.1	0.1	0.1	0.1
Global High Yield	1.7	1.7	1.8	1.8

	Local Currency		GBP	
Commodities	Q1	2024	Q1	2024
Energy	4.8	4.8	5.8	5.8
Agriculture	-3.0	-3.0	-2.1	-2.1
Industrial Metals	-0.7	-0.7	0.2	0.2
Precious Metals	6.6	6.6	7.5	7.5

Note: Standard indices sourced from DataStream and Bloomberg as at 29 March 2024; Property data as at 29 February 2024.

Jake Winterton is the assistant fund manager within Royal London Asset Management's multi asset team. The team manages portfolios including the Governed Range pension portfolios, the Global Multi Asset Portfolios (GMAPs), Multi Asset Strategies Fund (MAST) which is available on third party platforms and the euro based multi asset funds that form the core of the Royal London Irish pensions offering.

Investment risks – RL GMAP fund range

Investment risk: The value of investments and any income from them may go down as well as up and is not guaranteed. Investors may not get back the amount invested.

Credit risk: Should the issuer of a fixed income security become unable to make income or capital payments, or their rating is downgraded, the value of that investment will fall. Fixed income securities that have a lower credit rating can pay a higher level of income and have an increased risk of default.

Derivative risk: Derivatives are highly sensitive to changes in the value of the underlying asset which can increase both fund losses and gains. The impact to the fund can be greater where they are used in an extensive or complex manner, where the fund could lose significantly more than the amount invested in derivatives.

EPM Techniques: The fund may engage in EPM techniques including holdings of derivative instruments. Whilst intended to reduce risk, the use of these instruments may expose the fund to increased price volatility.

Exchange Rate risk: Changes in currency exchange rates may affect the value of your investment.

Interest Rate risk: Fixed interest securities are particularly affected by trends in interest rates and inflation. If interest rates go up, the value of capital may fall, and vice versa. Inflation will also decrease the real value of capital.

Emerging Markets risk: Investing in emerging markets may provide the potential for greater rewards but carries greater risk due to the possibility of high volatility, low liquidity, currency fluctuations, the adverse effect of social, political and economic instability, weak supervisory structures and accounting standards.

Counterparty risk: The insolvency of any institutions providing services such as safekeeping of assets or acting as counterparty to derivatives or other instruments, may expose the fund to financial loss.

Fund investing in Funds risk: The fund is valued using the latest available price for each underlying investment, however it may not fully reflect changing stock market conditions and the fund may apply a 'fair value price' to all or part of its portfolio to mitigate this risk. In extreme liquidity conditions, redemptions in the underlying investments, and/or the fund itself, may be deferred or suspended.

Liquidity and Dealing risk: The fund invests indirectly in assets that may at times be difficult to value, harder to sell, or sell at a fair price. This means that there may be occasions when you experience a delay in being able to deal in the fund, or receive less than may otherwise be expected when selling your investment.

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