Quarterly Market Review

Review of markets over the first quarter of 2024

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Resilient economic data helped investors get into the Spring spirit during the first quarter of 2024. The US economy was confirmed to have grown by more than expected during Q4 2023, while survey data from the composite Purchasing Managers' Index (PMI) remained firmly in expansionary territory, boosting investor sentiment. Macroeconomic data elsewhere around the world also showed encouraging signs, further supporting the prospect of a soft landing.

Against this backdrop, global equities posted strong returns, with the MSCI ACWI up 7.4% during the first quarter. Volatility, meanwhile, remained low with the VIX Index – a reference point for equity market volatility – averaging around 14 over the same period.

While equity investors cheered strong economic data, for fixed income investors it was a more challenging period. Stickier inflation prints, resilient economic activity, and the Federal Reserve (Fed) backpedalling somewhat on its dovish December tone combined to drive negative returns for bonds. The shift in the macro backdrop was also reflected in market expectations for interest rate cuts, where the implied number of US rate cuts for 2024 reduced from six to seven cuts at the end of 2023, to no more than three rate cuts in total, starting in the summer. Today's market pricing is now broadly in line with the Fed's latest dot plot. As prospects for aggressive rate cuts faded, the yield of the Bloomberg Global Aggregate Index increased by 28 basis points (bps) over the quarter, which led to negative returns of -2.1%.

Exhibit 1: Asset class and style returns

2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Q1 '24
Small cap 32.9%	Global REITs 22.9%	Growth 3.5%	Small cap 13.3%	MSCI EM 37.8%	Global Agg -1.2%	Growth 34.1%	Growth 34.2%	Global REITs 32.6%	Cmdty 16.1%	Growth 37.3%	Growth 10.3%
Value 27.5%	Growth 6.5%	Global REITs 0.6%	Value 13.2%	Growth 28.5%	Global REITs -4.9%	DM Equities 28.4%	MSCI EM 18.7%	Cmdty 27.1%	Value -5.8%	DM Equities 24.4%	DM Equities 9.0%
DM Equities 27.4%	DM Equities 5.5%	Small cap 0.1%	Cmdty 11.8%	Small cap 23.2%	Growth -6.4%	Small cap 26.8%	DM Equities 16.5%	Value 22.8%	Global Agg -16.2%	Small cap 16.3%	Value 7.7%
Growth 27.2%	Value 4.4%	DM Equities -0.3%	MSCI EM 11.6%	DM Equities 23.1%	DM Equities -8.2%	Global REITs 24.4%	Small cap 16.5%	DM Equities 22.3%	DM Equities -17.7%	Value 12.4%	Small cap 4.5%
Global REITs 2.3%	Small cap 2.3%	Global Agg -3.2%	DM Equities 8.2%	Value 18.0%	Value -10.1%	Value 22.7%	Global Agg 9.2%	Growth 21.4%	Small cap -18.4%	Global REITs 10.9%	MSCI EM 2.4%
MSCI EM -2.3%	Global Agg 0.6%	Value -4.1%	Global REITs 6.5%	Global REITs 8.0%	Cmdty -11.2%	MSCI EM 18.9%	Value -0.4%	Small cap 16.2%	MSCI EM -19.7%	MSCI EM 10.3%	Cmdty 2.2%
Global Agg -2.6%	MSCI EM -1.8%	MSCI EM -14.6%	Growth 3.2%	Global Agg 7.4%	Small cap -13.5%	Cmdty 7.7%	Cmdty -3.1%	MSCI EM -2.2%	Global REITs -23.7%	Global Agg 5.7%	Global REITs -1.5%
Cmdty -9.5%	Cmdty -17.0%	Cmdty -24.7%	Global Agg 2.1%	Cmdty 1.7%	MSCI EM -14.2%	Global Agg 6.8%	Global REITs -10.4%	Global Agg -4.7%	Growth -29.1%	Cmdty -7.9%	Global Agg -2.1%

Source: Bloomberg Barclays, FTSE, LSEG Datastream, MSCI, J.P. Morgan Asset Management. DM Equities: MSCI World; REITs: FTSE NAREIT Global Real Estate Investment Trusts; Cmdty: Bloomberg Commodity Index; Global Agg: Bloomberg Global Aggregate; Growth: MSCI World Growth; Value: MSCI World Value; Small cap: MSCI World Small Cap. All indices are total return in US dollars. Past performance is not a reliable indicator of current and future results. Data as of 31 March 2024.

Other interest rate sensitive asset classes, such as real estate, also suffered on the back of higher interest rates. The Global REITs Index ended the quarter down -1.5%.

In commodity markets, the broad Bloomberg Commodity Index increased slightly by 2.2% last quarter as the fall in gas prices was more than offset by a rise in oil prices on the back of ongoing supply cuts and geopolitical tensions.

Developed market equities had a strong first quarter thanks in large part to the performance of growth stocks, which returned 10.3%.

This was especially true in the US, where the S&P 500 rose 10.6%, outperforming most of its peers, driven once again by the stellar performance of the 'magnificent seven' stocks which posted earnings growth of 56% during Q4 2023, helping to lift overall index earnings growth to 8%.

However, the best performing market of the quarter was once again Japan. The Topix ended up 18.1% in the first three months of the year, despite the Bank of Japan beginning normalisation of its monetary policy in March. The central bank announced an end to its negative interest rate policy, yield curve control, and its purchases of equity exchange traded funds and real estate investment trusts.

While some European equity indexes, such as the French CAC 40, reached new all-time highs, European equities overall continued to lag the US and Japan, with the MSCI Europe ex-UK Index posting returns of 9.7%. European stocks did, however, end the quarter on a brighter note. Global investors, concerned about the concentration risks of the US market, may be starting to turn to Europe where cheaper valuations and a potential shrinking of the economic growth gap relative to the US are making the region look more attractive.

Exhibit 2: World stock market returns

2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Q1 '24
Japan TOPIX 54.4%	US S&P 500 13.7%	Japan TOPIX 12.1%	UK FTSE All-Share 16.8%	MSCI Asia ex-Japan 42.1%	US S&P 500 -4.4%	US S&P 500 31.5%	MSCI Asia ex-Japan 25.4%	US S&P 500 28.7%	UK FTSE All-Share 0.3%	Japan TOPIX 28.3%	Japan TOPIX 18.1%
US S&P 500 32.4%	Japan TOPIX 10.3%	MSCI Europe ex-UK 9.1%	US S&P 500 12.0%	MSCI EM 37.8%	UK FTSE All-Share -9.5%	MSCI Europe ex-UK 27.5%	MSCI EM 18.7%	MSCI Europe ex-UK 24.4%	Japan TOPIX -2.5%	US S&P 500 26.3%	US S&P 500 10.6%
MSCI Europe ex-UK 24.2%	MSCI Europe ex-UK 7.4%	US S&P 500 1.4%	MSCI EM 11.6%	Japan TOPIX 22.2%	MSCI Europe ex-UK -10.6%	UK FTSE All-Share 19.2%	US S&P 500 18.4%	UK FTSE All-Share 18.3%	MSCI Europe ex-UK -12.2%	MSCI Europe ex-UK 17.3%	MSCI Europe ex-UK 9.7%
UK FTSE All-Share 20.8%	MSCI Asia ex-Japan 5.1%	UK FTSE All-Share 1.0%	MSCI Asia ex-Japan 5.8%	US S&P 500 21.8%	MSCI Asia ex-Japan -14.1%	MSCI EM 18.9%	Japan TOPIX 7.4%	Japan TOPIX 12.7%	US S&P 500 -18.1%	MSCI EM 10.3%	UK FTSE All-Share 3.6%
MSCI Asia ex-Japan 3.3%	UK FTSE All-Share 1.2%	MSCI Asia ex-Japan -8.9%	MSCI Europe ex-UK 3.2%	MSCI Europe ex-UK 14.5%	MSCI EM -14.2%	MSCI Asia ex-Japan 18.5%	MSCI Europe ex-UK 2.1%	MSCI EM -2.2%	MSCI Asia ex-Japan -19.4%	UK FTSE All-Share 7.9%	MSCI Asia ex-Japan 2.4%
MSCI EM -2.3%	MSCI EM -1.8%	MSCI EM -14.6%	Japan TOPIX 0.3%	UK FTSE All-Share 13.1%	Japan TOPIX -16.0%	Japan TOPIX 18.1%	UK FTSE All-Share -9.8%	MSCI Asia ex-Japan -4.5%	MSCI EM -19.7%	MSCI Asia ex-Japan 6.3%	MSCI EM 2.4%

Source: FTSE, LSEG Datastream, MSCI, S&P Global, TOPIX, J.P. Morgan Asset Management. All indices are total return in local currency, except for MSCI Asia ex-Japan and MSCI EM, which are in US dollars. Past performance is not a reliable indicator of current and future results. Data as of 31 March 2024.

Emerging market equities underperformed their developed market peers, with the MSCI EM Index returning 2.4% as investors remained concerned about China's growth prospects in the absence of any meaningful fiscal stimulus. The MSCI China Index, nevertheless, rebounded 12.3% from its January low on the back of better economic activity data during the Lunar New Year holiday and some easing measures from the People's Bank of China, which lowered its 5-year loan prime rate for the first time since June 2023.

UK equities lagged most of their international peers with the FTSE All-Share rising just 3.6% since the beginning of the year. The UK market suffered due to its value bias, as well as from the poor performance of the UK economy which was confirmed to have fallen into a technical recession in the last six months of 2023.

In fixed income markets, the Bloomberg Global Aggregate Index fell -2.1% last quarter as yields increased on the back of hotter than expected US inflation data in both January and February.

In Europe, higher yielding countries such as Italy (+0.8%) fared better than Germany (-1.0%). Overall, this helped European sovereign bonds to outperform US Treasuries with a return of -0.6% versus -1.0% for the latter. UK Gilts continued to lag (-1.8%) as still elevated service inflation and wage growth meant the Bank of England maintained its forward guidance, reiterating that policy will need to 'remain restrictive for sufficiently long' to return inflation to target.

Exhibit 3: Fixed income government bond returns

2015	2016	2017	2018	2019	2020	2021	2022	2023	Q1 '24
Italy 4.8%	UK 10.7%	Global 7.5%	Spain 2.5%	Italy 10.6%	Global 9.7%	Japan -0.2%	Japan -5.4%	Italy 9.3%	Italy 0.8%
Spain 1.7%	Spain 4.1%	US 2.3%	Germany 1.9%	Spain 8.3%	UK 8.9%	US -2.3%	US -12.5%	Spain 6.9%	Spain -0.3%
Japan 1.2%	Germany 3.4%	UK 2.0%	Japan 1.0%	UK 7.1%	US 8.0%	Germany -2.9%	Global -16.8%	Germany 5.7%	Japan -0.6%
US 0.8%	Japan 3.2%	Spain 1.1%	US 0.9%	US 6.9%	Italy 7.9%	Italy -3.0%	Italy -17.2%	Global 4.3%	US -1.0%
UK 0.5%	Global 1.7%	Italy 0.8%	UK 0.5%	Global 5.6%	Spain 4.3%	Spain -3.0%	Germany -17.4%	US 4.1%	Germany -1.0%
Germany 0.4%	US 1.0%	Japan 0.2%	Global -0.7%	Germany 3.1%	Germany 3.0%	UK -5.3%	Spain -17.5%	UK 3.6%	UK -1.8%
Global -3.7%	Italy 0.8%	Germany -1.0%	Italy -1.3%	Japan 1.7%	Japan -0.8%	Global -5.8%	UK -25.1%	Japan 0.5%	Global -2.7%

Source: Bloomberg Barclays, LSEG Datastream, J.P. Morgan Asset Management. All indices are Bloomberg Barclays benchmark government indices. All indices are total return in local currency, except for global, which is in US dollars. Past performance is not a reliable indicator of current and future results. Data as of 31 March 2024.

Within credit, high yield outperformed investment grade thanks to its lower interest rate sensitivity and easier financial conditions. European and US high yield indices posted returns of +1.6% and +1.5% respectively while the Global Investment Grade Index ended the quarter with negative returns of -0.8%.

Emerging market debt was up 1.4% over the quarter, as high real yields outweighed the impact of the strengthening US dollar on the asset class.

Exhibit 4: Fixed income sector returns

2015	2016	2017	2018	2019	2020	2021	2022	2023	Q1 '24
Euro Gov. 1.6%	US HY 17.5%	EM Debt 9.3%	Euro Gov. 1.0%	EM Debt 14.4%	Global IL 12.7%	US HY 5.3%	US HY -11.2%	US HY 13.5%	Euro HY 1.6%
EM Debt 1.2%	EM Debt 10.2%	Global IG 9.1%	US Treas. 0.9%	US HY 14.4%	Global IG 10.4%	Euro HY 3.4%	Euro HY -11.7%	Euro HY 11.9%	US HY 1.5%
US Treas. 0.8%	Euro HY 10.1%	Global IL 8.7%	US HY -2.3%	Global IG 11.5%	US Treas. 8.0%	Global IL 2.7%	US Treas. -12.5%	EM Debt 10.5%	EM Debt 1.4%
Euro HY 0.5%	Global IG 4.3%	US HY 7.5%	Global IG -3.6%	Euro HY 10.7%	US HY 6.1%	EM Debt -1.5%	EM Debt -16.5%	Global IG 9.6%	Euro Gov. -0.6%
Global IG -3.6%	Global IL 3.9%	Euro HY 6.1%	Euro HY -3.6%	Global IL 8.0%	EM Debt 5.9%	US Treas. -2.3%	Global IG -16.7%	Euro Gov. 7.1%	Global IG -0.8%
US HY -4.6%	Euro Gov. 3.2%	US Treas. 2.3%	Global IL -4.1%	US Treas. 6.9%	Euro Gov. 5.0%	Global IG -2.9%	Euro Gov. -18.5%	Global IL 5.8%	US Treas. -1.0%
Global IL -5.0%	US Treas. 1.0%	Euro Gov. 0.2%	EM Debt -4.6%	Euro Gov. 6.8%	Euro HY 2.7%	Euro Gov. -3.5%	Global IL -22.9%	US Treas. 4.1%	Global IL -1.8%

Source: Bloomberg Barclays, BofA/Merrill Lynch, J.P. Morgan Economic Research, LSEG Datastream, J.P. Morgan Asset Management. Global IL: Bloomberg Global Inflation-Linked; Euro Gov.: Bloomberg Euro Aggregate - Government; US Treas: Bloomberg US Aggregate Government - Treasury; Global IG: Bloomberg Global Aggregate - Corporate; US HY: BofA/Merrill Lynch US HY Constrained; Euro HY: BofA/Merrill Lynch Euro Non-Financial HY Constrained; EM Debt: J.P. Morgan EMBIG. All indices are total return in local currency, except for EM and global indices, which are in US dollars. Past performance is not a reliable indicator of current and future results. Data as of 31 March 2024.

All in all, it has been a pretty good start to the year for investors, albeit with further concentration of stock market gains in the large-cap growth space against a backdrop of rising equity market valuations.

While the resilience of the global economy and the prospect of rate cuts in the second part of the year could continue to support this trend, some markets appear increasingly priced for perfection and hence are not immune to profit taking.

Indeed, markets are, as always, threatened by a multitude of economic, environmental, political and geopolitical risks which could lead to volatility ahead. In this context, maintaining a well-diversified portfolio is more important than ever. The good news is that investors now have ample choice to diversify and increase the resilience of their portfolios.

Fixed income markets are more fairly priced today than at the end of 2023 and appear well positioned to help cushion portfolio performance in the case of an adverse growth shock. In the equity market, stocks offering attractive dividend and share buyback yields could also increase the resilience of portfolios.

Exhibit 5: Index returns over March 2024

Index	GBP	USD	JPY	EUR	LOC
Equities (MSCI)					
MSCI World Index	3.4	3.3	4.4	3.5	3.4
MSCI USA	3.3	3.2	4.3	3.4	3.2
MSCI Europe ex-UK	3.8	3.7	4.9	3.9	4.5
MSCI United Kingdom	4.6	4.5	5.6	4.7	4.6
MSCI Japan	3.3	3.2	4.3	3.4	4.3
MSCI AC Asia ex-JP	2.7	2.6	3.7	2.8	3.2
MSCI EM Latin America	1.2	1.1	2.2	1.3	0.8
MSCI EM (Emerging Markets)	2.7	2.5	3.7	2.7	3.1
Bonds					
Bloomberg Barclays Global Aggregate	0.7	0.6	1.7	0.8	
Bloomberg Barclays US Aggregate	1.1	0.9	2.1	1.1	0.9
Bloomberg Barclays Japan Aggregate	-1.0	-1.1	0.0	-0.9	0.0
Bloomberg Barclays UK Aggregate	1.7	1.6	2.7	1.8	1.7
Bloomberg Barclays Euro Aggregate	1.0	0.9	2.0	1.1	1.1
Currencies					
Sterling		-0.1	0.9	0.1	
US dollar	0.1		1.1	0.2	
Yen	-0.9	-1.1		-0.9	
Euro	-0.1	-0.2	0.9		

Source: Bloomberg Barclays, LSEG Datastream, MSCI, J.P. Morgan Asset Management. Past performance is not a reliable indicator of current and future results. Data as of 31 March 2024.

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