CS INVESTMENT MANAGERS

VIEW FROM THE SQUARE

February 2024

Leap Year, awaiting interest rate cut proposals

The start of the year saw investors reigning in expectations of six interest cuts by the end of 2024, tempered closer to three or four, which is more consistent with messaging from the Federal Reserve (Fed). Shifting expectations were driven by the Fed's indication that March is likely too soon for interest rate cuts, with this further validated by US inflation coming in slightly hotter than expected. This in turn, has driven longer term bond yields higher, with the US 10 year yield reaching 4.3%.

The UK economy tipped into a technical recession, defined as two successive quarters of negative growth, with the economy contracting 0.1% in the third quarter and 0.3% in the final quarter of 2023. Despite this news, UK equities remained resilient, supported by the shallow nature of the recession, as well as inflation coming in lower than was forecast at 4.0% to the end of January. Both of these datapoints boosted hopes of a possible loosening of monetary policy, although Andrew Bailey (Governor of the Bank of England) commented that services and wage inflation remained too high.

Meanwhile, US markets, in spite of slightly higher than expected inflation, started the year in a similarly positive manner to how they finished 2023, as a number of the major indices reached new highs. This can largely be attributed to the Magnificent 7. No! Not the Scotland co-captain Rory Darge- but rather the largest US tech stocks Apple, Amazon, Alphabet, Meta, Microsoft, Nvidia and Tesla. However, performance within the Magnificent 7 has been more divergent to start the year, with Nvidia responsible for the lion's share of returns. Tesla has weakened after Q4 earnings disappointed amid a backdrop of slowing EV adoption.

This time last year, the China post-Covid 'reopening' narrative was common. However, this failed to materialise as was hoped. A year ahead and the picture in China remains challenged as the economy struggles with deflation, a fragile housing sector and weak sentiment generally. To date, monetary stimulus announced has done little to boost returns, albeit it seems to have steadied the downward trend. We remain positive on other countries within the Asia Pacific region and so, rotated exposure there last year, while evidence of an improving picture in China may lead us to revisit the investment case from our current underweight position.

There are a number of attractive areas of the market, both in risk assets where there lie a number of opportunities from a valuation and growth potential perspective, as well as more defensive areas such as bonds that are offering yields in excess of the rate of inflation. Continued selectivity and nimbleness will be required by us to navigate the coming periods where inflation and interest rate expectations are likely to continue influencing market direction.

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William Forsyth, Executive Chairman & CIO

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