



Wealth
Management

Quarterly report

Q1 2024 market review



Forward-looking
for generations

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Cover image
Bauer brothers, Hortus Botanicus, detail from
"Lilium," 1776/1804
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The UK economy is expected to recover as headline inflation fell to 3.4% in February and is forecast to fall closer to 2% in the second quarter, which should pave the way for the Bank of England to begin its own interest rate cutting cycle.

Sanjay Rijhsinghani, Chief Investment Officer, LGT Wealth Management

Summary: Q1 2024

Increasing optimism that central banks could avoid a recession and achieve a soft landing bolstered equity markets during the quarter, propelling several indices to record highs. Both the S&P 500 and the Nikkei 225 raced ahead, posting double-digit returns in the quarter, while European and Asian equity markets also experienced solid gains. Bonds meanwhile saw weaker performance, as stickier inflation led markets to price in fewer rate cuts.

At a glance

- Equity markets deliver strong returns.
- Meta and Nvidia shine.
- Bank of Japan changes course
- Disinflation slows.
- Rate cut expectations moderate.
- Bond yields nudge higher.

Macro summary

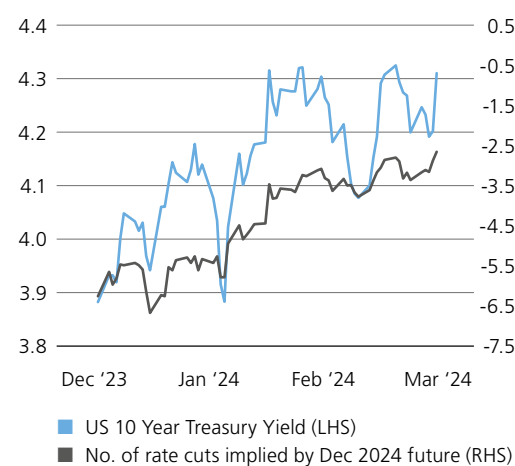
Equities reach all-time highs

Markets gained confidence throughout the quarter that the Federal Reserve (Fed) had successfully engineered a soft landing, which propelled the S&P 500, Nikkei 225 and the MSCI All-Country World Index to record highs in March.¹ Technology stocks benefited from strong fourth quarter earnings, along with soaring optimism surrounding artificial intelligence (AI). The exception was China, as mounting pessimism around its industrial and property sector weighed on index performance. However, recent data indicates the government's stimulus will likely help activity.

Rate cut expectations tempered

Coming into 2024, investors were pricing in rate cuts of between 1.50% to 1.75% by year-end, compared to the Fed's own projections of a decline in interest rates of 0.75%. Data continued to show US economic resilience, along with challenges bringing inflation down to the 2% figure, as the rate of disinflation slowed.² This prompted material moves in the

US 10 Year yields vs number of rate cuts priced in by market for 2024



Source: Bloomberg

^{1, 3, 4, 5} Bloomberg

² Bureau of Labor Statistics

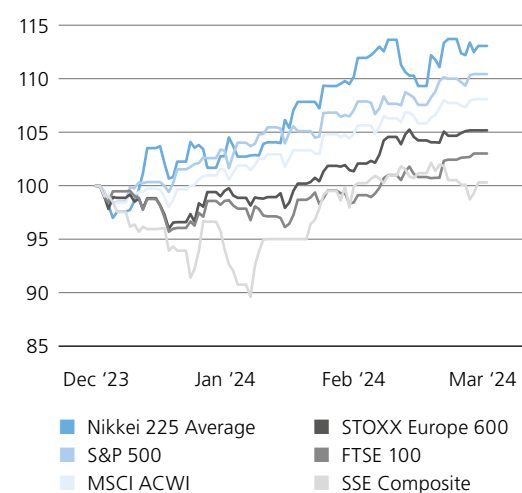
bond markets, and investors priced in fewer rate cuts as the quarter progressed.

Markets are currently pricing in that the Fed will begin cutting rates in June. They will likely want to distance themselves from any perceived political interference in what will be a highly charged election year in the US, as President Joe Biden will face Donald Trump in a rematch this November.

AI enthusiasm remains robust

Despite this, equity markets motored ahead, as the enthusiasm for AI showed no signs of slowing down. Facebook-parent Meta experienced a historic \$197 billion gain in its market capitalisation following its earnings.³ It was the highest single-day market cap increase ever, only to be surpassed three weeks later by Nvidia, which added \$277 billion in market cap, bringing its total market value to nearly \$2 trillion by the end of the quarter.⁴ While technology companies led the way in the quarter, the equity market rally broadened out, with the S&P 500 Equal Weight Index gaining 7.9% and the Russell 2000 up 5.2%.⁵ This fervour spread to the corporate bond market, with investment grade and high-yield bonds touching multi-year lows.

Global equity market performance YTD



Source: Bloomberg

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Sanjay Rijhsinghani, Chief Investment Officer, LGT Wealth Management

European stocks also experienced a strong first three months of the year, with the EuroStoxx 600 rising 7.9% in the quarter. The FTSE 100 posted strong performance in March, benefiting from rising commodity prices, but only rose 4% in the quarter.⁶

In the UK, Chancellor Jeremy Hunt's spring budget quietly passed, with the Conservative Party using it as an opportunity to appeal to their voters. The UK economy is expected to recover as headline inflation fell to 3.4% in February and is forecast to fall closer to 2% in the second quarter, which should pave the way for the Bank of England (BoE) to begin its own interest rate cutting cycle.⁷

Blossoming Japan

The most noteworthy central bank action in the quarter came from the East, with the Bank of Japan (BoJ) abandoning its negative interest rate policy and recalibrating its asset purchase programme. The hike was well telegraphed, given strong wage growth data. However, the dovish tone from BoJ members meant that the yen remained weak. Local equity markets continue to experience a resurgence, with the Nikkei 225 reaching an all-time high in March, surpassing the previous high in 1989.⁸ Enthusiasm for

stock exchange structural reforms and increased domestic participation helped equities perform strongly.

China outlook remains mixed

China continues to adopt a strategy of targeted fiscal loosening and outlined its optimistic 5% growth targets, which failed to convince investors. Economic data remains mixed as the economy suffers from property malaise. Despite this Chinese and Hong Kong-listed equities managed to recover from earlier losses in the second half of the quarter, buoyed by valuations and strong rhetoric from Chinese officials.

Conclusion

During the first three months of the year, investors became more confident that inflation would fall to target levels without triggering a deep global recession. This optimism lifted equities and corporate bonds. However, risks remain that a rate cutting cycle will be pushed further out, thus maintaining higher borrowing costs and weighing on profitability. We therefore retain our preference for quality companies with resilience business models, low debt levels and positive cashflows.

^{6, 8} Bloomberg

⁷ Office of National Statistics

Fixed income

Throughout this central bank hiking cycle, we have seen many false dawns. Time and again, investors anticipated an end to the rate hiking cycle and the start of a material cutting cycle. The past two quarters are just the latest examples. During the fourth quarter, we saw bonds rallying sharply as expectations of a significant easing cycle in 2024 became entrenched. In December, when the Fed signalled its median expectation of cuts by 0.75% in 2024, markets moved to price in more than double that amount. This wide gap left a lot of room for disappointment as the Fed emphasised a patient, but data dependant approach to cutting rates.

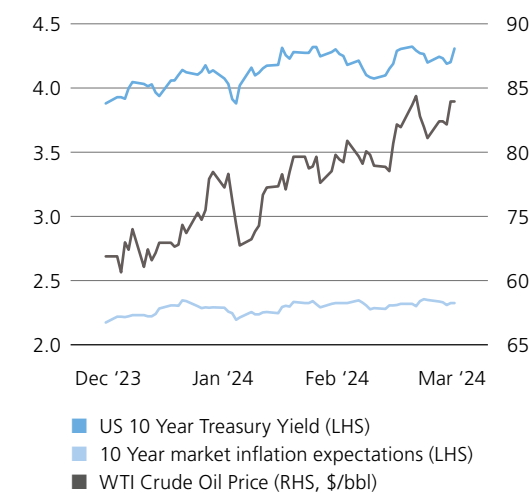
Resilient US economy

As incoming data indicated a resilient US economy and inflation surpassing expectations, this pushed bond yields higher as investors moderated their aggressive expectations. As the quarter progressed, signs of a rebounding housing market and companies rebuilding inventories indicated that the robust economic momentum was not waning. This gave investors confidence that central banks are managing to orchestrate a soft landing.

No rush to cut

Meanwhile, investors started to question whether the Fed would adjust its stance, considering the incoming data. While the Fed emphasised that it is no rush to cut rates in its March meeting, members still expect to reduce rates by 0.75%. This provided reassurance to investors. Despite ending the quarter with ten-year Treasury yields 0.32% higher at 4.2%, they remained below their peak for the quarter.⁹ Inflation expectations edged higher as oil prices pushed ahead above \$80 a barrel, presenting a blow to both consumers and central bankers.¹⁰

US 10Y Treasury vs 10Y breakevens vs oil price (Brent or WTI)



Source: Bloomberg

In the UK, the path towards rate cuts became clearer. The Bank of England (BoE) had raised rates late year in response to inflation shocks, but recent months have seen inflation falling to 3.4% YoY.¹¹ Ad-

ditionally, the energy regulator, Ofgem, announced a further reduction in the energy price cap, effective from 1 April. This adjustment is expected to help bring inflation closer to the 2% target.¹²

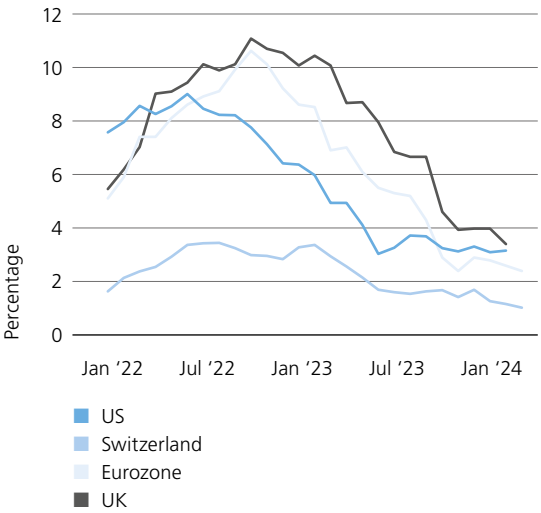
Furthermore, despite rumours that the Conservative Party would use its last budget to provide wide sweeping tax cuts, it ultimately had the effect of fire-crackers rather than fireworks. At the last BoE meeting, no members voted to raise rates for the first since September 2021. While they are likely to take a cautious approach given elevated levels of service inflation and relatively high wage increases, the rising borrowing costs for an estimated 1.5 million households remortgaging this year will undoubtedly weigh on consumption.

Swiss leads the way

In Western Europe, the Swiss National Bank fired the starting gun in cutting rates, taking rates from 1.75% to 1.5%.¹³ Given the relative strength of the Swiss franc and inflation trending below 2% for a

few quarters, the Swiss had ample room to cut rates now. Across the Eurozone, positive developments for inflation mean the European Central Bank (ECB) won't be far behind. The currency bloc saw inflation cool to 2.6% YoY in February and it is expected to move lower still over coming quarters.¹⁴ This comes as Germany stagnates, as its manufacturing prowess remains in the doldrums. Considering the wider picture, the ECB has been the clearest amongst the major central banks, indicating that it expects to have enough data to allow them to start cutting rates in June. Following that rate cut, the ECB is then expected to cut by increments of 0.25% at least every quarter.

UK, Swiss, US, Eurozone CPI



Source: Bloomberg



^{9, 10} Bloomberg
¹¹ Office for National Statistics

¹² Ofgem, www.ofgem.gov.uk/energy-price-cap#:~:text=The%20energy%20price%20cap%20is,and%20pay%20by%20Direct%20Debit
¹³ Swiss National Bank
¹⁴ Eurostat

Equities

Japan lifts rates

Moving east, the mixed signals stemming from various Bank of Japan (BoJ) communications kept investors guessing whether March or April would represent lift off. Ultimately, it was the closely watched “Shunto” wage negotiations that forced their hand, resulting in them abandoning the negative interest rate policy in March. The hike from -0.1% to a range between 0-0.1% came along with the end of its yield curve control policy.¹⁵ However, the BoJ pledged to maintain an accommodative stance and tempered expectations that it would raise rates aggressively. Consequently, this resulted in a market response of “buying the rumour and selling the fact”. The yen weakened towards a 34-year low prompting some verbal intervention and will likely force the hand of the BoJ to do more as the year progresses.

Benign default cycle

Corporate bond markets remain strongly supported despite a deluge of new issuance. Given the moderate compensation over government bonds these now offer, investors have become more selective. However, considering equity market valuations, the all-in yield levels remain compelling. Furthermore, the avoidance of a recession means defaults should remain contained to challenged sectors and special situations.

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Throughout this central bank hiking cycle, we have seen many false dawns. Time and again, investors anticipated an end to the rate hiking cycle and the start of a material cutting cycle. The past two quarters are just the latest examples.

Jeremy Sterngold, Deputy CIO and Head of Fixed Inco

International Equities

Equity markets continued to surge in the first quarter, driven by optimism of an economic soft landing. While inflation has dipped slightly with US CPI at 3.2% in February, it remains above the Federal Reserve’s target, possibly delaying interest rate cuts, which has dampened investors’ enthusiasm slightly.¹⁶ Equity markets remained nonplussed and pushed higher throughout the quarter.

AI rally carries on

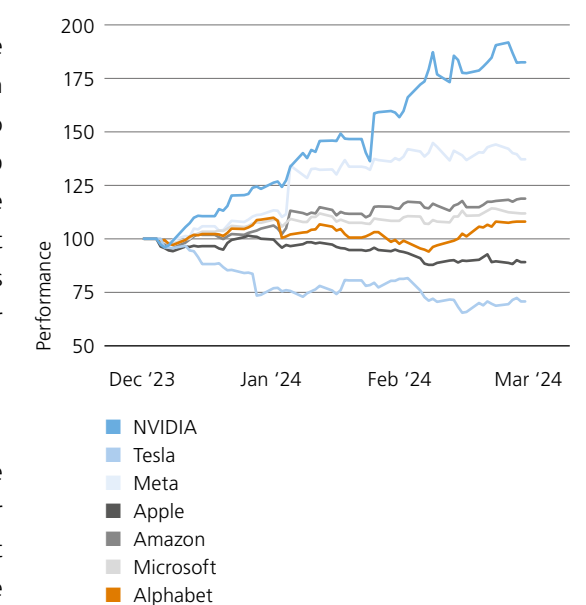
The narrative of artificial intelligence (AI) and the ‘mega cap’ winners dominated the headlines in 2023, and unsurprisingly, this has carried over into 2024. The S&P 500 Index, which is market-cap weighted, surged 10.2% in Q1, further adding to the impressive gain of over 24% in 2023. The largest stocks in the index have performed slightly better, as the S&P equal weight index returning only 7.4% over the quarter.¹⁷

Do rising tides lift all boats?

While most headlines have focused on how the Magnificent 7 performed as a group over the quarter and 2023, it is well worth looking under the hood at what’s really going on. Unsurprisingly, Nvidia was the strongest performer, returning 82.5% in Q1, adding over a trillion dollars in market cap in just three months. This is a staggering amount when you re-

member that Apple only became a trillion-dollar company in 2018. Meta was also a big contributor, gaining 37.2% in Q1, while Amazon rallied 18.7%. However, the rising tide of the market did not lift all boats. Apple was down -10.9% and Tesla fell -29.3%. Tesla’s and Apple’s losses meant the tech-heavy Nasdaq’s returns were below the S&P 500, returning 8.5% in Q1.

Magnificent Seven performance YTD



Source: Bloomberg

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While most headlines have focused on how the Magnificent 7 performed as a group over the quarter and 2023, it is well worth looking under the hood at what’s really going on.

Tom Sandilands, Senior Equity Analyst

¹⁵ Bank of Japan

¹⁶ Bureau of Labor Statistics

¹⁷ Bloomberg

Widespread rally

Information Technology (+12.5%), energy (+12.7%) and communications (+15.6%) sectors led the way in the US. After being one of the worst performers last quarter, energy saw a big turnaround as oil prices ticked higher amid global geopolitical tensions. IT continued to shine brightly with AI, cloud computing, and cybersecurity interest helping fuel the rally. Communications meanwhile benefited from Alphabet (+8.1%) and Netflix (+24.7%), as well as Meta. After being the strongest performing sector last quarter, real estate was the weakest sector, down -1.4%. Investors are having to lower their expectations of interest rate cuts as the economy continues to power on, and this sector is particularly sensitive to interest rate expectations.¹⁸

Mixed picture globally

Looking beyond the US, the picture is more mixed. Japan and Germany performed strongly and outperformed the US, with the Tokyo Price Index up +18%, and Dax Index up +10.4% in local currency terms. France saw its best growth in a year, with the CAC Index up +8.8% in Q1. The outlier is China, which has seen its market shrink for three straight quarters. However, the tides appear to be turning, with the Shanghai Shenzhen Composite rising +2.2% in the quarter and the Shanghai Composite up +3.1%.¹⁹

It has been an impressive start to the year for global equity markets, as investors gained confidence that a soft landing is achievable. Given these expectations appear to have been priced in, investors will be closely watching whether earnings momentum continues to build in the second quarter.

UK Equities

The low single-digit return delivered by the FTSE All-Share Index over the first three months of 2024 has not generated wide-spread enthusiasm for UK stocks, but it is worth noting that the index is now approaching 20-year highs.

Global corporate interest in UK picks up

Global interest in the UK will depend on many factors, rather than a single headline grabbing move in the FTSE. However, given the uptick in corporate bid interest across a range of diverse companies, including Spirent, the telecom testing company; Currys, the electrical retailer; insurance group Direct Line; and DS Smith, one of the leading packaging groups in Europe, it is clear overseas rivals are continuing to take advantage of UK listed companies trading at significant discounts compared to the US.

There were 40 transactions worth more than £100 million announced in 2023,²⁰ but the deals were predominately among smaller companies, with just three offers made for FTSE 350 companies. However, DS Smith is a FTSE 100 stock with a market capitalisation of over £5 billion, and with Mondi and International Paper offering competing bids, there are clearly bargains in the UK.

“Oil prices rebounding over the quarter triggered fresh interest in the UK’s two oil majors – BP and Shell. These behemoths helped push the FTSE 100’s first quarter performance ahead of the more domestically focused FTSE 250.

James Follows, Head of UK Equities



Performance comes from range of sectors

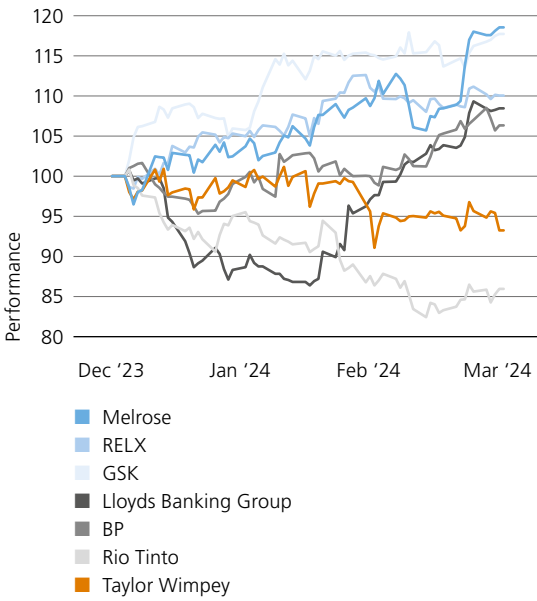
Over the first quarter, performance has come from a diverse range of stocks and sectors. Melrose, the aerospace parts specialist; RELX, the business information provider formerly known as Reed Elsevier; GSK, the pharmaceutical company previously known as Glaxo; financial stocks such as Lloyds Bank and Aviva; Sage, the accounting software group; and Wise, the currency transfer specialist, all posted strong returns in the first three months of the year.

Oil prices rebound

Oil prices rebounding over the quarter triggered fresh interest in the UK’s two oil majors – BP and Shell. These behemoths helped push the FTSE 100’s first quarter performance ahead of the more domestically focused FTSE 250. Weak performers included Burberry, which sold off after its rival Gucci revealed a big slump in sales in China; the business services group Capita; and Close Brothers, which cut its dividend in the wake of regulatory investigations. If lower inflation leads to interest rate cuts and falling bond yields, investors may reassess the merits of UK focused mid-cap names.

However, investors should be mindful that election years tend to lead to consumer uncertainty and more cautious spending. We therefore prefer larger and more globally orientated FTSE 100 stocks. Each investment case will vary from stock to stock, and so, we continue to advocate a selective approach.

UK equity performance YTD across various sectors



Source: Bloomberg

^{18, 19} Bloomberg
²⁰ Peel Hunt

Key market data

Key market data (as at 31 March 2024)

Asset class	Level	1m %	3m %	6m %	1y %	3y %	5y %	YTD %
Equity indices (total return) *								
FTSE All-Share (GBP)	4338	4.20	2.51	5.11	4.33	13.23	9.04	2.51
S&P 500 (USD)	5254	3.10	10.16	22.53	27.86	32.26	85.38	10.16
Euro Stoxx 50 (EUR)	5083	4.22	12.43	21.77	17.81	29.71	51.67	12.43
Nikkei 225 (JPY)	40369	3.07	20.63	26.72	43.96	38.35	90.37	20.63
MSCI World (USD)	2700	3.42	10.18	21.15	26.74	35.02	85.84	10.18
MSCI AC Asia Pacific ex Japan (USD)	641	2.87	4.39	9.66	7.86	-5.57	25.30	4.39
MSCI Emerging Markets (USD)	63841	2.78	4.28	10.17	10.76	-6.07	25.94	4.28
10 year bond yields **								
UK	3.92	-0.31	0.39	-0.48	0.40	3.10	2.93	0.39
US	4.20	-0.04	0.32	-0.37	0.71	2.46	1.79	0.32
Germany	2.29	-0.13	0.29	-0.52	-0.03	2.59	2.36	0.29
Japan	0.70	-0.01	0.09	-0.06	0.38	0.62	0.80	0.09
Commodities (USD)								
Gold	2217.40	9.24	6.39	18.72	11.45	28.44	69.88	6.39
Oil	87.48	1.89	9.33	-11.39	7.26	33.72	25.04	9.33
Currency								
GBP-USD	1.26	-0.13	-0.91	3.50	2.17	-8.44	-3.05	5.02
GBP-EUR	1.17	0.06	1.35	1.46	2.78	-0.36	0.79	3.77
EUR-USD	1.08	-0.20	-2.23	2.01	-0.59	-8.11	-3.81	1.20
USD-JPY	151.35	1.12	7.35	1.42	13.72	36.96	36.73	14.70

Source: Bloomberg, ICE, London Stock Exchange, MSCI, Standard & Poor's, Stoxx Tokyo Stock Exchange

* Performance is given on total return indices, but the levels are for the main indices.
** Displayed as absolute changes in yields, rather than percentages.

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