United Capital

UNITED CAPITAL WEALTH MANAGEMENT:

GLOBAL MARKET OUTLOOK MARCH 2024

EXECUTIVE SUMMARY

HIGHER THAN EXPECTED CPI & WEAK EMPLOYMENT DATA

It appears that the optimistic message on disinflation sent by Federal Reserve Chair Jerome Powell continues to resonate loudly with investors. Core CPI rose by a hot 0.4% month-on-month in February, higher than the consensus 0.3%, but the market reaction has been very contained compared to a month ago when inflation surprised by a similar margin. We think, instead that markets continue to rely quite heavily on Powell's relatively dovish testimony, which has made rate cut expectations arguably stickier.

The Fed funds futures curve has shifted only modestly lower compared to the start of the week, still pricing in 19bp of easing at the June meeting, and 85bp by December. Last Thursday, before jobs data were published, the December contract was trading at 92bp, meaning that the combined effect of higher-than-expected payrolls and hot inflation has been a mere 7bp.

Unemployment rate in US inched higher to 3.9%, non-farm payroll data has been revised lower 12 out of past 15 months indicating weak internals in the employment numbers. Job openings are stable but the quits have declined significantly, suggesting a cooling labour market.

GLOBAL CENTRAL BANKS MAY NOT CUT RATES TILL JUNE

Inflation numbers across the major economies have been higher than expected. In US the Core PCE came in at 0.6% MoM, annualised rate of 7.2%. The major economies in Euro zone have printed ~3% Core CPI, higher than ECB's target levels. UK is witnessing service inflation at 6.5%.

BOJ could be closer to exiting negative interest rate policy as Core Inflation has been higher for several months & wages are increasing at higher than expected rate. But weak internal consumption may delay the tweaking of policy rates to April/May.

EXECUTIVE SUMMARY

INVESTMENT IMPLICATIONS

Markets continue to price rate cuts in the back of dovish comments by Powell but sticky inflation in US will delay rate cuts by several months, in our view.

Fixed Income:

We expect US 10 year Treasury yields to rebound to 4.30%-4.50%. We recommend locking in higher yields in developed market sovereign bonds and good quality Investment Grade credit when long-end yields rebound. Delay in rate cuts, weakening employment, dwindling savings & normalisation of wages could lead to rate cuts in Q4.

Equities:

In US we expect a 10% correction from the present levels. We remain cautious on global equities including EM equities. A large part of equity rally occurred on the back of dovish statements by FED but sticky inflation could keep rates higher till Q4. This could dampen the sentiment and lead to volatility in equities. We prefer defensives, industrials, materials and value stocks.

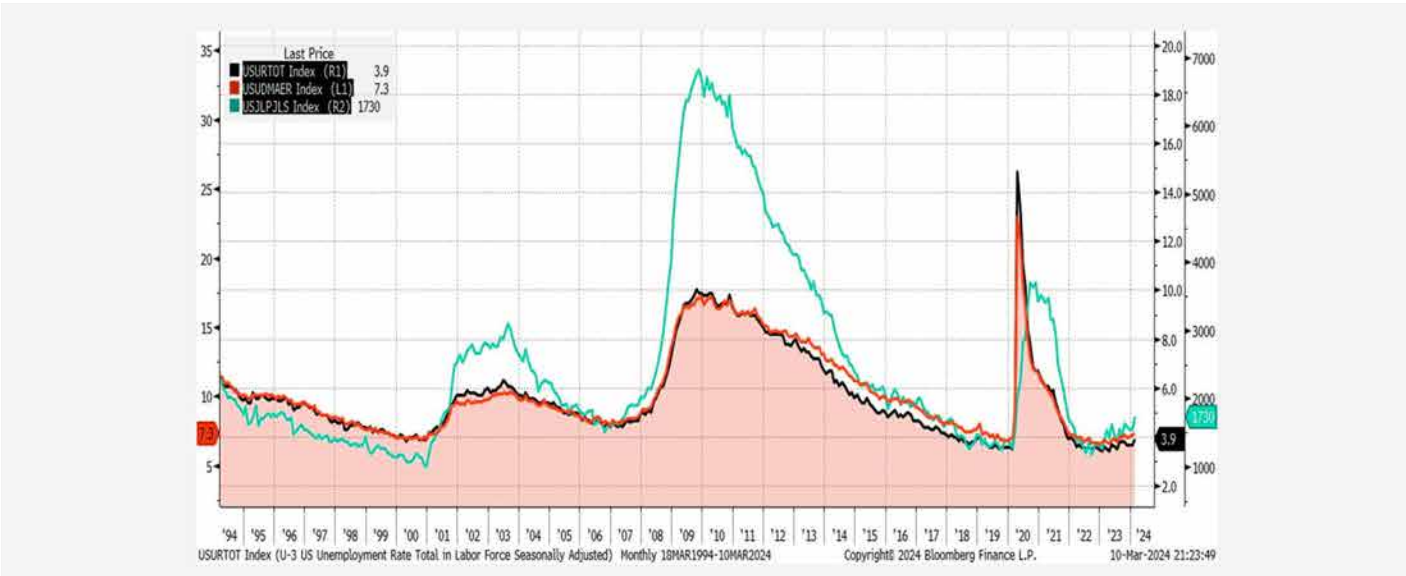
Currencies: Delayed rate cuts by the Fed will support USD.

- EUR/USD to top out in 1.09-1.10 range and target 1.06-1.07 over the next 4-6 weeks.
- GBP/USD face resistance in 1.27-1.30 range before declining to 1.22-1.25.
- In Japan consumption remains weak, the timing of the exit from negative rates remains uncertain and could be postponed till April. USD/JPY to target 150-152 initially, could target 155 if BOJ delays exit from negative rates.
- USD/CHF to receive support in 0.85-0.87 range and target 0.90-0.91.

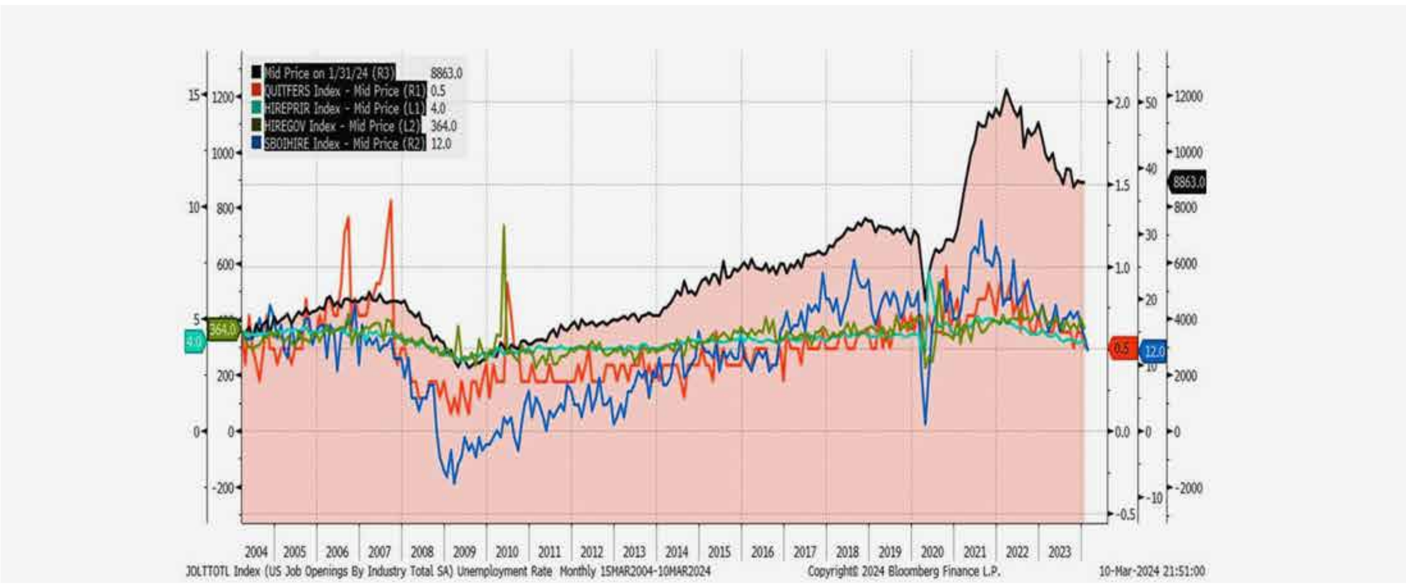
KEY ECONOMIC DATA

US – UNEMPLOYMENT INCHING HIGHER

US unemployment has started inching higher. Unemployment rate has increased from 3.7% to 3.90%. More importantly permanent unemployment has reached 1730K, levels not seen since 2019. Non-farm payrolls have been revised downwards 12 out of 15 preceding months.



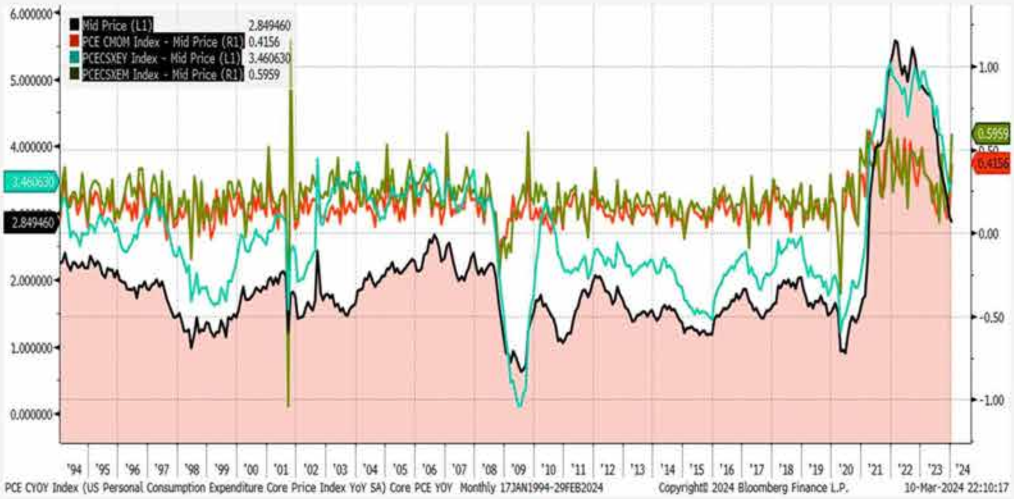
Job openings are stable, with job quits declining. Private hires are declining, with small businesses intentions to hire declining at a fast pace. The employment/job markets is showing signs of weakness.



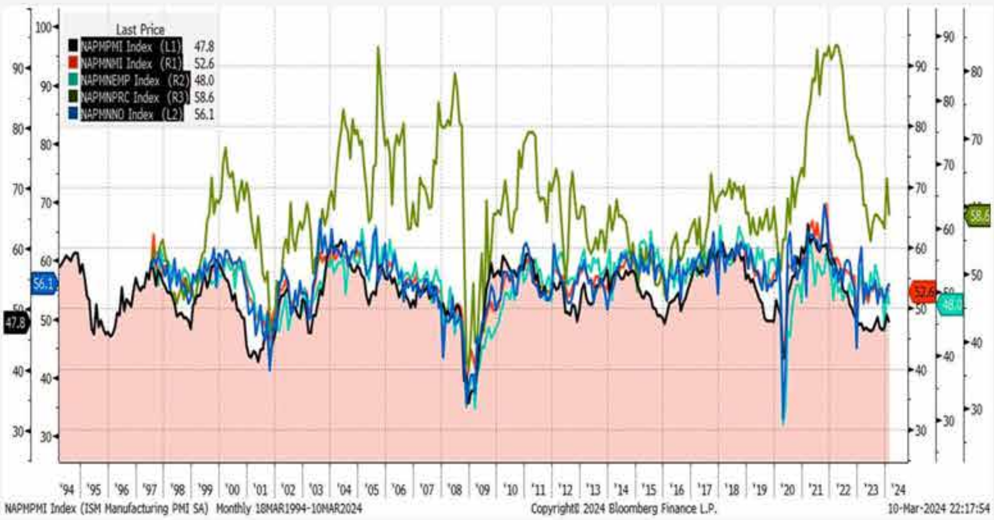
SOURCE - **BLOOMBERG**

US – STICKY & PERSISTENT INFLATION

The sticky part of inflation is heating up. Month on Month Core CPI at 0.40%, the FED's measure of Core PCE (less food and energy) is annualising to 4.8%, the services PCE has spiked to an annualised rate of 7.2%.



Manufacturing PMI remains stable, goods deflation continues. Services PMI that is feeding into the stickier part of inflation is in the expansion zone. Prices & employment subcomponents remain strong, indicating that services side of inflation will remain sticky and strong over the next few months.



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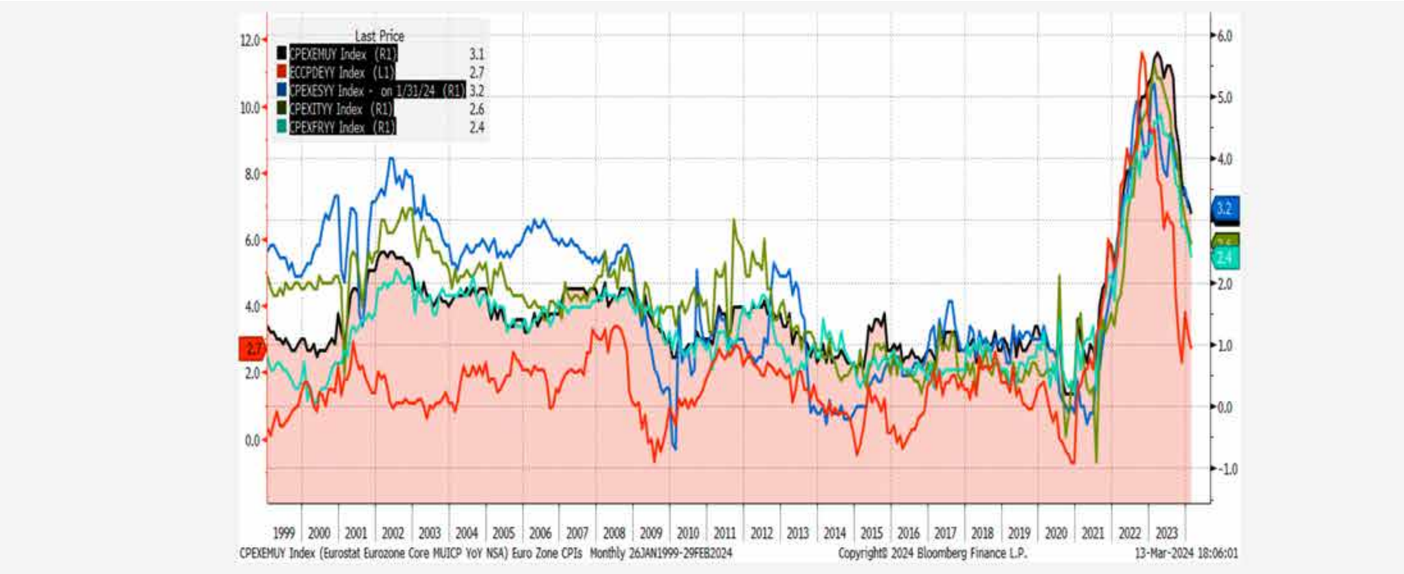
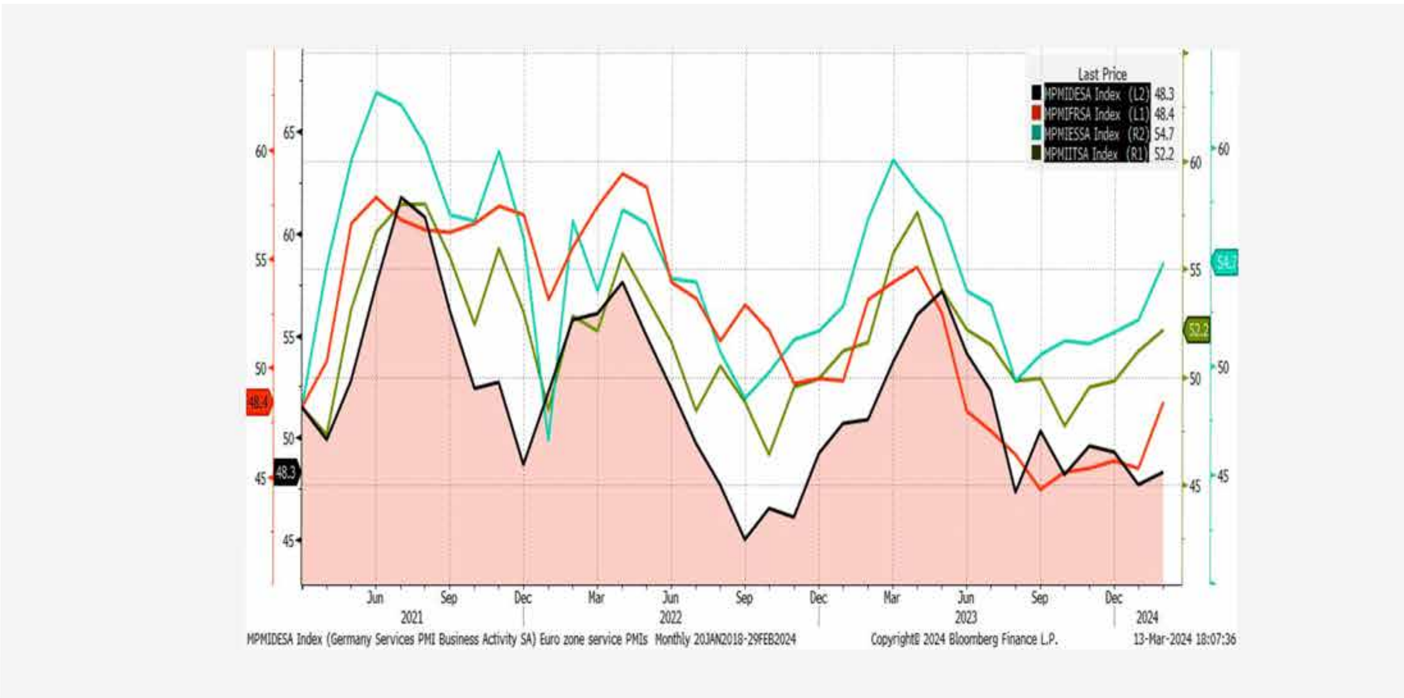
EUROPE – ECB TO DELAY RATE CUTS

Core Inflation across Europe is higher than ECBs target levels. Low growth and high inflation is a key risk. Services CPI remains sticky. ECB to delay rate cuts.



Eurozone Manufacturing PMIs remain in contraction zone while service PMI is in expansionary territory.



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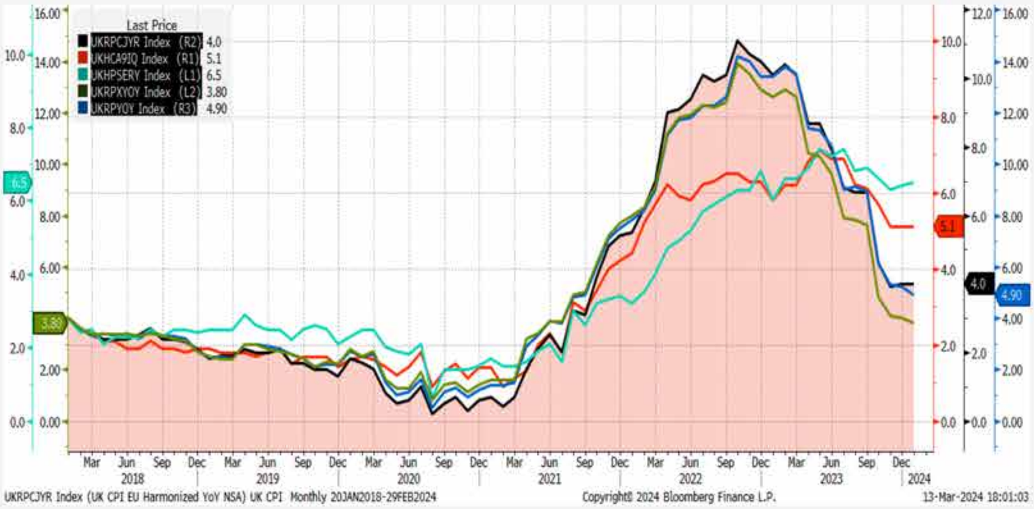
UK – RATE CUTS ARE ELUSIVE

Services Inflation @6.5% and various other measures are between 4% - 5%.

Not enough evidence for BOE to cut rates for 3-6 months.

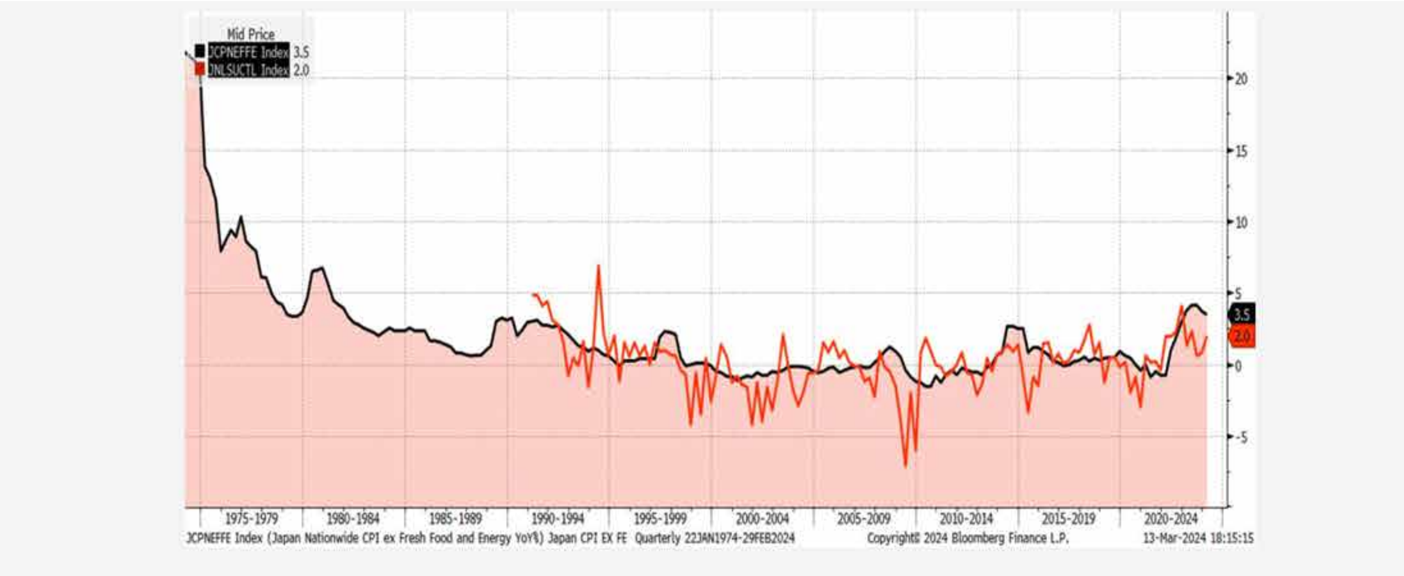


Services sector remains strong and manufacturing is sluggish. This is inline with trends across the globe.

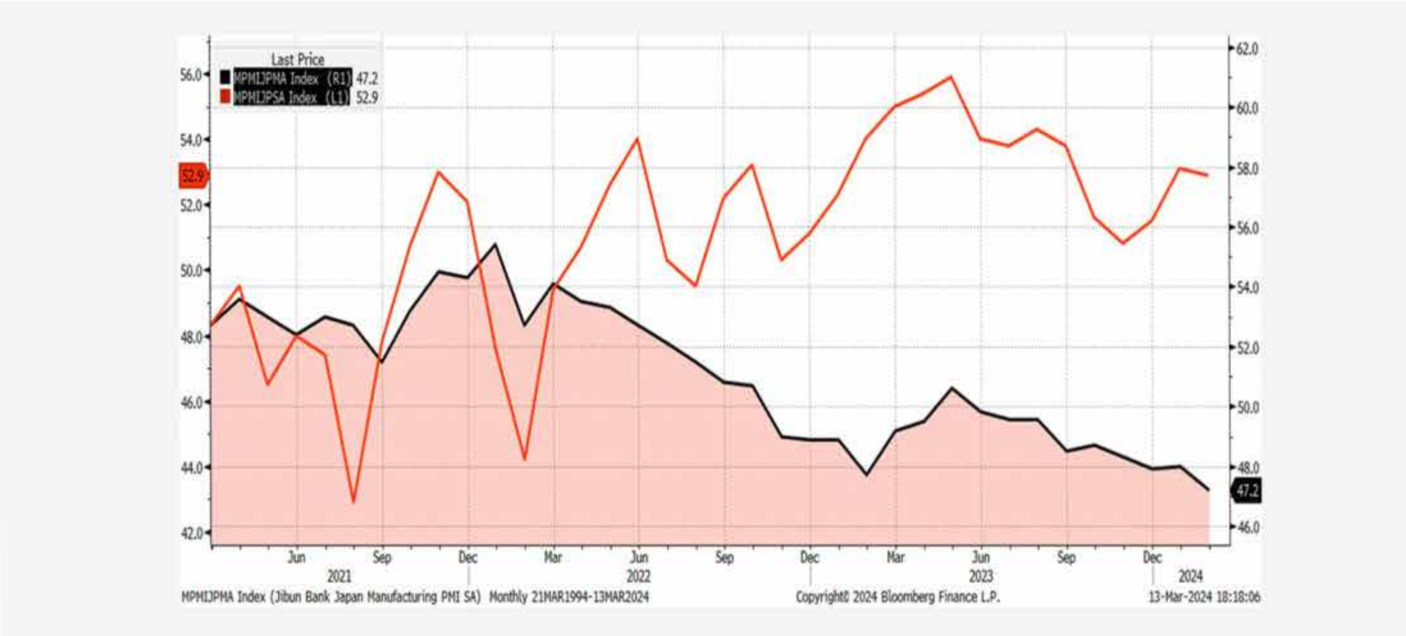
SOURCE - **BLOOMBERG**

JAPAN – BOJ CLOSER TO PIVOT?

Wages are steadily climbing and core inflation at 3.5% could give enough confidence to BOJ to exit the negative interest rate policy regime. BOJ officials have been expressing confidence on the return to inflationary regime.



Service PMI is in expansionary territory, while manufacturing PMI is in contraction zone. But exports have been sluggish. BOJ may tweak the policy but may not increase interest rates as global demand/trade flows are weak.



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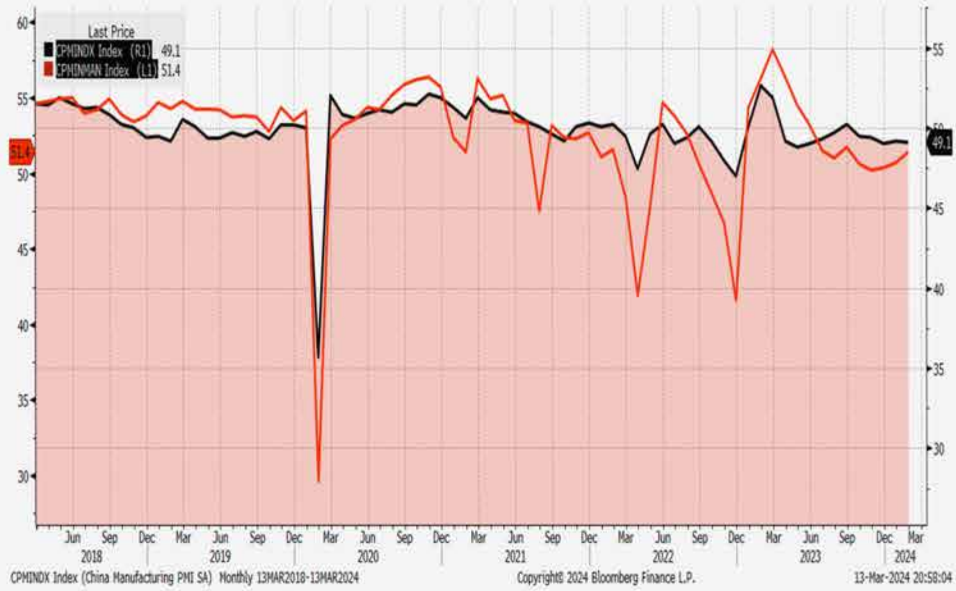
CHINA – SLUGGISH GROWTH

PPI in China is in negative territory and CPI at 1% indicates weak internal demand conditions. Real estate related losses to cap demand & extend the deflationary cycle.

Weak external trade and slowing internal economy is a huge challenge to the political regime.



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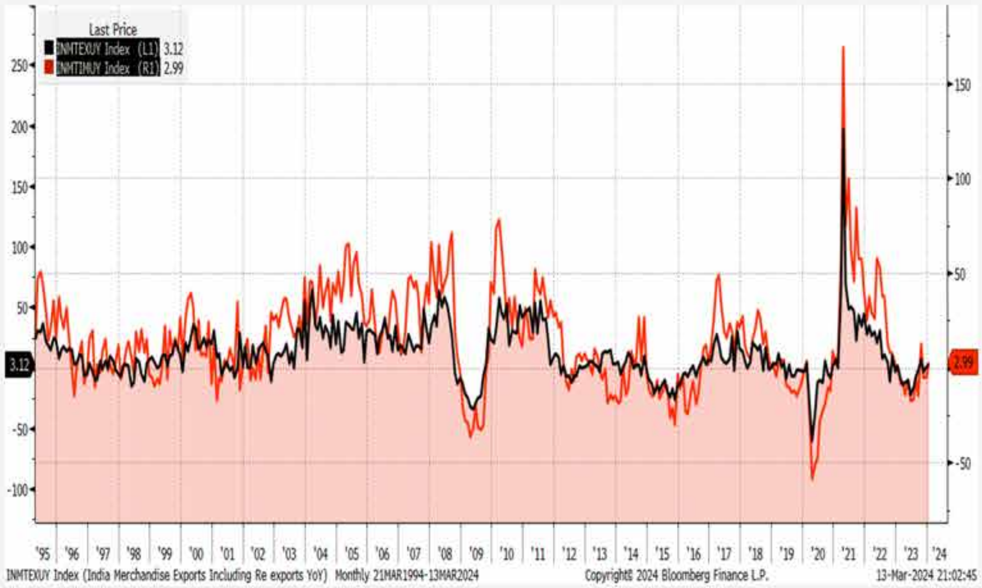
INDIA – CONTINUES TO BE THE OUTLIER

In India manufacturing as well as service PMIs are in expansion zone. Government capex spend has been supportive of growth.

Q3 GDP at 8.4% is highest among the major global economies.

Exports and Imports remain weak.



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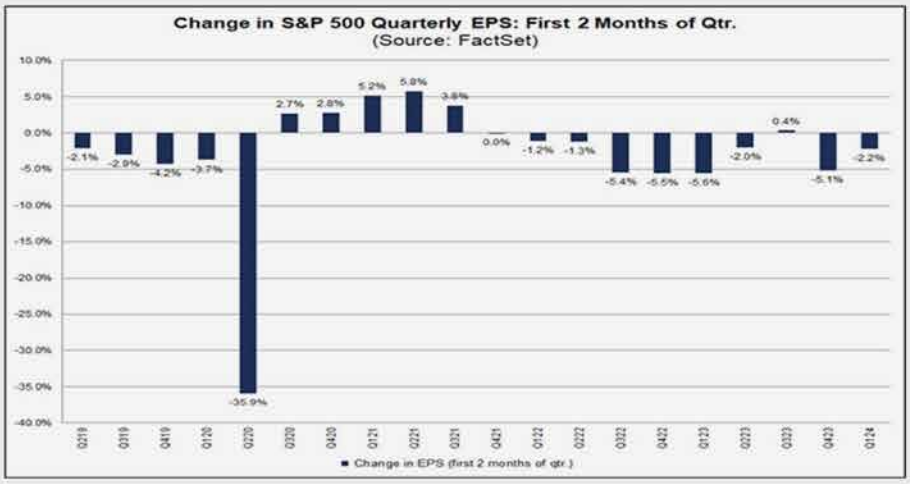
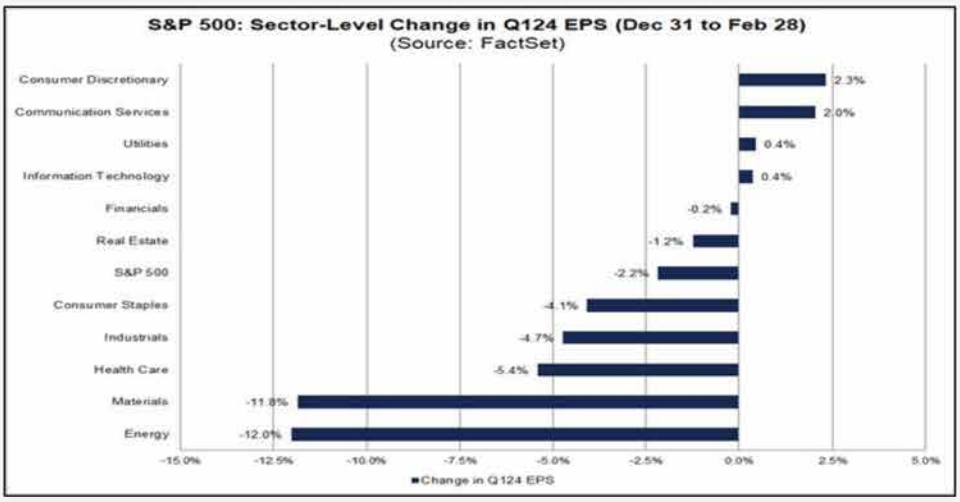
S&P 500 – EPS REVISIONS

During the months of January and February, analysts lowered EPS estimates for the first quarter by a smaller margin than average. The Q1 bottom-up EPS estimate (which is an aggregation of the median EPS estimates for Q1 for all the companies in the index) decreased by 2.2% (to $55.11 from $56.34) from December 31 to February 28.



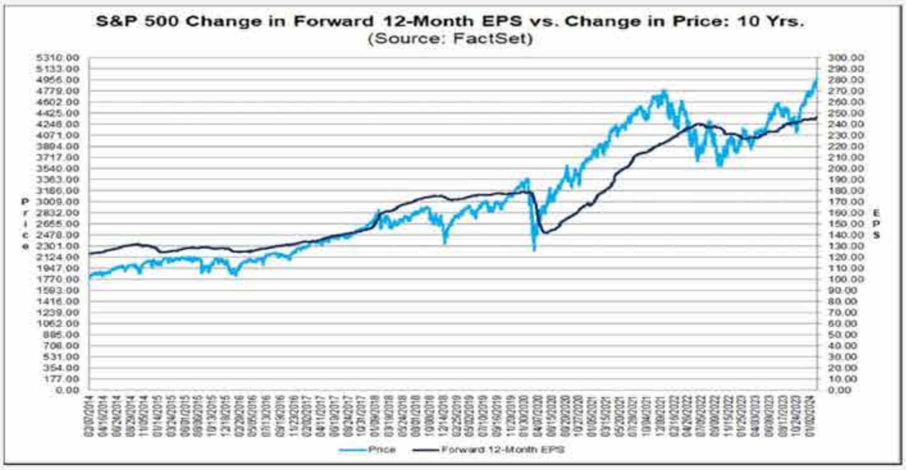
At the sector level, seven of the eleven sectors witnessed a decrease in their bottom-up EPS estimate for Q1 2024 from December 31 to February 28, led by the Energy (-12.0%) and Materials (-11.8%) sectors. On the other hand, four sectors recorded an increase in their bottom-up EPS estimate for Q1 2024 during this period, led by the Consumer Discretionary (+2.3%) and Communication Services (+2.0%) sectors.



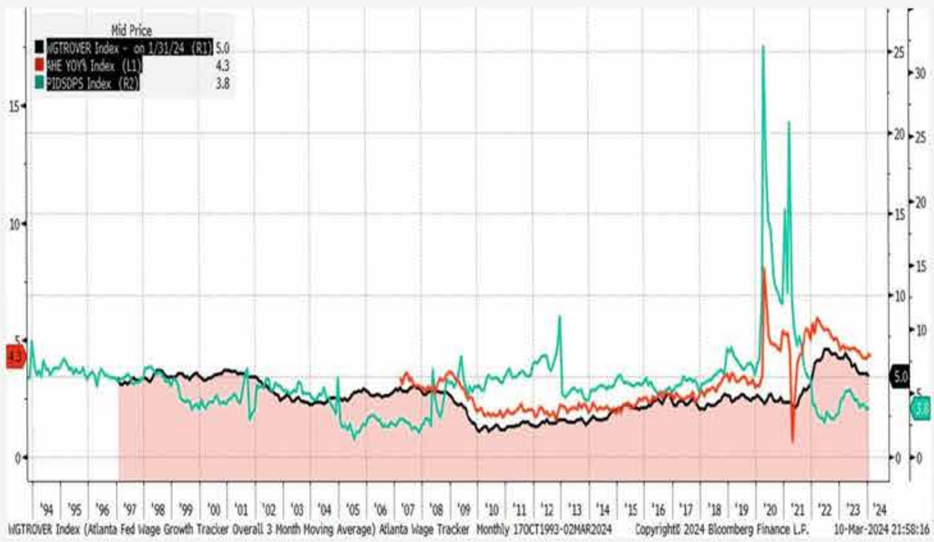
*SOURCE - **FACTSET***

S&P 500 – PRICE GROWTH

S&P has always outperformed the forward earnings growth expectations in the last 10 years. Low interest rate environment along with low inflation supported S&P growth above the Fwd EPD growth.



Declining savings, deteriorating employment numbers, sticky inflation and low savings could be headwinds for S&P 500 price action in the quarters ahead.



SOURCE - ***FACTSET***

ANNEXURE

SECTOR PERFORMANCE

MSCI Sector Performance					
Asset class	Instrument	2021	2022	2023	YTD 2024
MSCI World Sectors	MSCI World Index	20.1%	-19.5%	21.8%	7.2%
	Utilities	7.1%	-7.0%	-2.5%	-2.0%
	Energy	35.1%	41.1%	-0.7%	4.5%
	Consumer Staples	10.8%	-8.0%	0.1%	3.1%
	Real Estate	21.1%	-28.0%	3.4%	-5.0%
	Materials Sector	12.9%	-13.7%	11.7%	0.7%
	Health Sector	18.3%	-6.6%	2.4%	6.7%
	Industrials	15.1%	-14.6%	21.2%	6.9%
	Financials	25.1%	-12.4%	13.1%	8.0%
	Communication Services	13.4%	-37.6%	44.0%	9.7%
	Information Technology	29.1%	-31.3%	52.3%	12.1%
	Consumer Discretionary	17.1%	-34.0%	33.6%	5.0%

SOURCE - **BLOOMBERG**

COMMODITIES PERFORMANCE

Asset Class Performance					
Asset Class	Instrument	2021	2022	2023	YTD 2024
Commodities	Natural Gas	46.9%	20.0%	-43.8%	-33.6%
	Brent Crude Oil	50.2%	10.5%	-10.3%	9.8%
	Nickel	26.0%	43.2%	-45.0%	10.4%
	Copper	26.8%	-14.6%	2.1%	4.0%
	Silver	-11.7%	2.8%	-0.7%	5.0%
	Gold	-3.6%	-0.3%	13.1%	5.2%
	Plantinum	-9.6%	10.9%	-7.7%	-5.1%
	Palladium	-22.2%	-5.9%	-38.6%	-3.3%
	Coffee	76.3%	-26.0%	12.6%	1.8%
	Bloomberg Commodity Index	27.1%	13.8%	-12.6%	0.5%

*SOURCE - **BLOOMBERG***

MARKETS - PERFORMANCE

Asset class	Instrument	2021	2022	2023	YTD 2024
Fixed Income	Bloomberg US Treasury Index	-2.3%	-12.5%	4.1%	-1.2%
	Bloomberg Global High Yield	1.0%	-12.7%	14.0%	1.8%
	Bloomberg EM Local Currency Debt	-1.6%	-8.4%	6.9%	-0.3%
	Bloomberg Global Aggregate - Corporate	-2.9%	-16.7%	9.6%	-0.8%
Equities	Shanghai A shares	4.8%	-15.1%	-3.7%	2.1%
	Japan Nikkei 225	16.0%	4.9%	16.2%	16.0%
	FTSE 100	14.3%	0.9%	3.8%	0.5%
	Euro zone STOXX	21.0%	-11.7%	19.2%	11.0%
	S&P 500	26.9%	-19.4%	24.2%	8.3%
	Dow Jones Industrial Average	18.7%	-8.8%	13.7%	3.6%
	Nasdaq 100	26.6%	-33.0%	53.8%	7.4%
	MSCI Frontier Markets	16.4%	-29.0%	7.3%	2.9%
	MSCI Emerging Markets	-4.6%	-22.4%	7.0%	2.2%
	MSCI Developed Markets	20.1%	-19.5%	21.8%	7.2%
	MSCI All-Country	16.8%	-19.8%	20.1%	6.6%
Volatility	Volatility index S&P500	-24.3%	25.8%	-42.5%	8.8%
	Volatility index Nasdaq	-21.3%	30.2%	-41.3%	10.6%
	Volatility index Eurostoxx 50	67.5%	-17.6%	-29.5%	-9.1%

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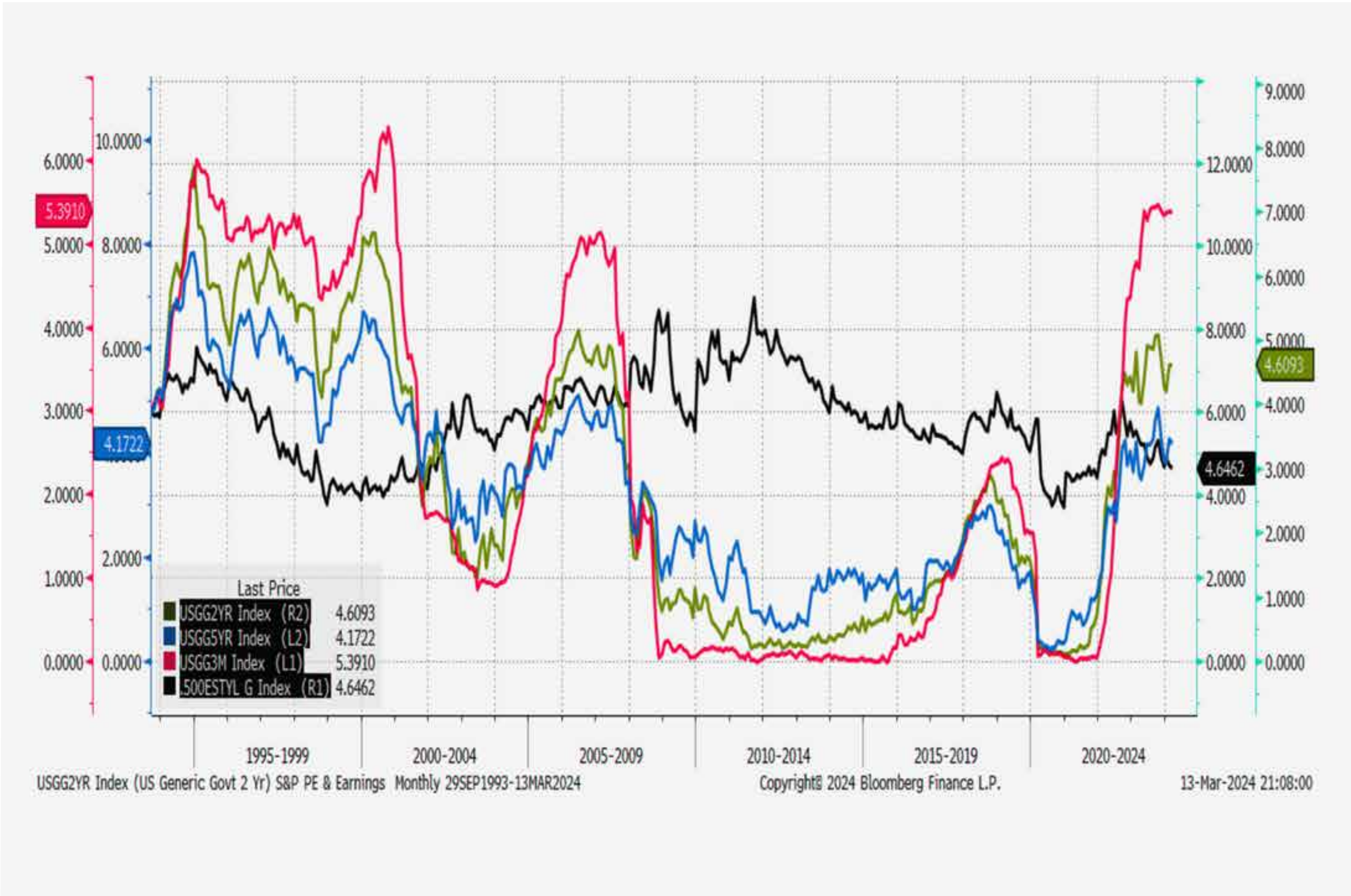
S&P Earnings Yield

Earnings yield is lower than bond yields, indicating limited upside to S&P 500.



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