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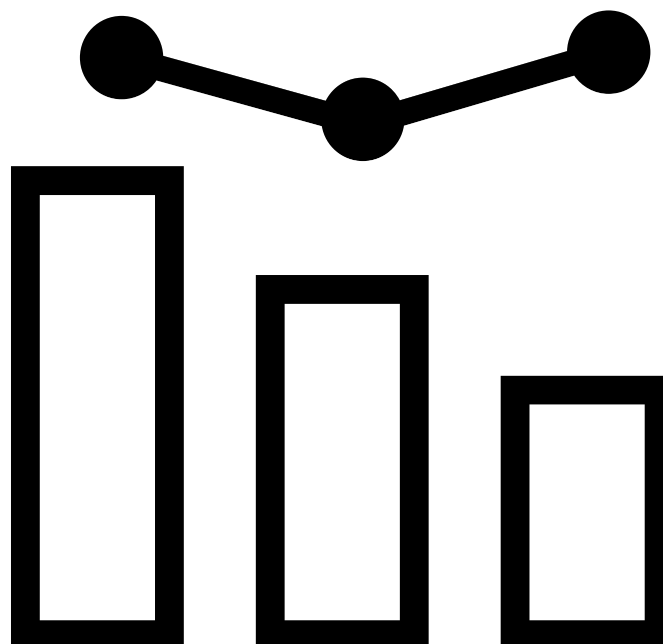


# Market update

March 2024

# March 2024: particularly good quarter for equities

Positive sentiment in the equity markets continued in March. The first quarter of 2024 was thus particularly good for stocks. This was less the case for bonds and even less for listed real estate, although the latter asset class did catch up to some extent in March.

With a quarterly return of more than 10% for the MSCI World Developed Markets index, global equity markets had an excellent quarter, in fact the best first quarter since 2019. The US stock market clearly led the way, with a quarterly return of 12.5% for the MSCI North America index. European and developed Asian equity markets underperformed, although investors in the MSCI Europe index (+7.6% quarter on quarter) and the MSCI Asia Pacific index (+7.0%) also had little to complain about. Within Asia, the Japanese stock market was the standout winner, with a quarterly return of 15% for the Nikkei index (in euros). Emerging market investors had less reason to cheer, with a quarterly return of 'only' 4.4% for the MSCI Emerging Markets index. This was mainly due to a subdued performance from Chinese stocks, but other emerging equity markets in the region (including South Korea, Indonesia and Thailand) and in Latin America (Brazil, Mexico) also underperformed.

In March, it was particularly notable that European equities caught up with US equities, although the differences in return in euros were not very large (3.9% on a monthly basis for the MSCI Europe index and 3.6% for the MSCI North America index respectively). With a return of no less than 7.9%, investors in European listed real estate clearly caught up to a larger extent in March. It should be noted however that real estate had been the worst-performing share class in the previous two months. Even after the catch-up in March, European listed real estate continued to be the worst-performing asset class for the entire first quarter of 2024, returning -3.5% for the quarter.

In addition to real estate investors, bond investors will not be that pleased with the first quarter of 2024. European government bond investors in particular suffered from higher interest rates, which, despite a recovery in March (+1.0%), resulted in a negative quarterly return of 0.6%. Rising interest rates also weighed on corporate bond yields, but thanks to tighter credit spreads, these still delivered positive quarterly returns of 0.5% for European investment grade corporate bonds and 1.5% for the more risky high yield corporate bonds.

The returns on the various asset classes were as follows:

| Rendementen (total return, in euro's) | March | Q1 | 2024 | 12 mnd |
|---|---|---|---|---|
| Bloomberg Barclays Eurozone Staatsobligaties | 1,0% | -0,6% | -0,6% | 3,9% |
| Bloomberg Barclays Euro Bedrijfsobligaties | 1,2% | 0,5% | 0,5% | 6,8% |
| Bloomberg Barclays Euro High Yield Bedrijfsobligaties | 0,4% | 1,5% | 1,5% | 10,9% |
| FTSE/EPRA Europe Onroerend Goed | 7,9% | -3,5% | -3,5% | 14,9% |
| MSCI Europe Aandelen | 3,9% | 7,6% | 7,6% | 14,8% |
| MSCI North America Aandelen | 3,6% | 12,5% | 12,5% | 29,5% |
| MSCI Asia Pacific Aandelen | 2,8% | 7,0% | 7,0% | 11,8% |
| MSCI World Developed Markets Aandelen | 3,4% | 10,9% | 10,9% | 23,6% |
| MSCI Emerging Markets Aandelen | 2,6% | 4,4% | 4,4% | 8,3% |
| EUR/USD | -0,4% | -2,2% | -2,2% | -0,4% |

Source: Bloomberg

## US economy still leading the way...

The global economy got off to a better than expected start in 2024. This was mainly due to the US economy, which, contrary to expectations, has still not fallen into recession, while economic figures from China have so far also been largely in line with low expectations. Europe is showing a mixed picture, with the German and French economies clearly struggling, while southern European countries are performing relatively well. There are also major differences in economic development within emerging economies, both between and within the various regions.

For the time to come, the most plausible scenario seems to be that the US economy will continue to outperform the European economy in absolute terms. For example, the IMF expects economic growth of around 1% for the eurozone and 2% for the US for the whole of 2024. This would mean slower growth for the US compared to 2023, but a recovery in growth for the eurozone. The European economy has also exceeded expectations to a greater extent than the US in recent months. While the US economy is so far holding up better than expected, the depletion of corona virus savings, high interest rates and declining government spending are still expected to dampen economic growth in the course of the year.

## ... but Europe looks set for a catch-up, and Chinese economic figures are also positive

It is true that the European economy has come out of the corona crisis less strongly than the US and has also been worse affected by the war in Ukraine, but it also now has greater potential for recovery as a result. Investment in the energy transition and defence industries by both governments and businesses, as well as a recovery in consumer purchasing power thanks to higher wages, can serve as drivers of this growth recovery. On the other hand, interest rates here too are significantly higher than a few years ago and the scope for additional government spending is limited. This will limit the growth recovery that is expected.

The data for the Chinese economy for the first two months of 2024, e.g. on industrial production, exports and retail sales, were largely in line with expectations. As a result, the recent decision by the People's Congress to leave the growth target for 2024 unchanged at 5% compared to last year would not to be entirely unfeasible. On the other hand, the shaky real estate market and banking sector do not warrant too much optimism about the growth prospects for the Chinese economy.

## Inflation pressures will remain high for longer than expected, mainly due to wage increases and commodities

Although inflationary pressures eased sharply in the course of 2022 and 2023, they appear to have stabilised in recent months, at around 2.5-3% year-on-year in the eurozone and 3-3.5% in the US. Core inflation (excluding volatile food and energy prices) continues to decline each month, but here too the rate of the decline appears to have slowed somewhat in recent months. Moreover, core inflation, at 3.0% in the eurozone and 3.8% in the US year-on-year, remains well above the 2% targets set by both the ECB and the Fed.

The main reason for the stabilisation of inflation (at too high a level) is the continuing strong upward price pressure in services. This is mainly due to wage increases as a result of the tight labour market in both the eurozone and the US. Meanwhile, wages have been rising faster than prices for some time. This does not necessarily mean that we are dealing with a wage-price spiral, but it does mean that inflationary pressures will remain strong for longer than previously expected.

In addition to rising wages, higher commodity prices are also keeping inflationary pressures stronger than is desirable. For example, the price of oil has risen by about 15% since the beginning of 2024. And partly due to the more favourable economic developments, the prices of other raw materials are also rising, although the picture is varied. The broad composite CRB Commodities Index is up about 10% this year, mainly due to higher agricultural prices in addition to the oil price, most notably the price of cocoa (+135% since early 2024). On the other hand, metals prices (including iron, steel and zinc) have fallen again, as have the prices of cereals and soya, for example.

### Expectations about the pace of interest rate cuts now appear to be realistic, although there may still be disappointments

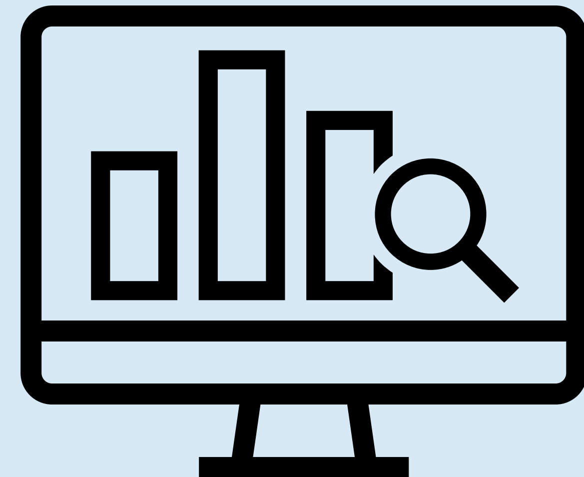
The longer-than-expected high inflation pressures, combined with a better-than-expected economic growth outlook, mean that central banks will not rush to cut interest rates. Both the Fed and the ECB have been indicating this for some time, but until the beginning of this year, the interest rate markets have largely ignored hawkish statements from the central banks. At the beginning of 2024, interest rate markets were still counting on initial interest rate cuts from both the Fed and the ECB around the end of the first quarter, with 6 or 7 rate cuts during the whole of the year. Expectations for an initial rate cut have now been shifted to June or July, and only three or a maximum of four rate cuts are expected for the whole of 2024.

The current expectations in the interest rate markets look to be much more realistic than they were at the beginning of the year, and they are also more or less in line with what central bankers themselves expect. That does not mean that expectations will not change again in the coming months, but that will depend heavily on the development of economic data and, of course, on inflation. At this point, a gradual easing of inflationary pressures towards the central banks' 2% inflation targets over the coming period looks to be the most likely scenario. The current expectations for the development of interest rate could thus remain fairly intact. At present, the greater risk would appear to be that macroeconomic data will continue to be better and inflation data will continue to be higher than expected, rather than the reverse. There is thus a greater risk that the central banks will keep interest rates higher for longer than they will cut interest rates earlier than expected. Of course, the latter scenario could occur in an unexpected crisis situation, such as the corona crisis of 2020 or the credit crisis of 2008, but that is difficult to prepare for.

## Stock outlook softens after first-quarter rally

In the financial markets, the first quarter of 2024 was dominated by rising stock prices and interest rates and tighter corporate bond spreads. Meanwhile, interest rates appear to have topped out and stocks appear to be both overbought and expensive. We are not suggesting that a strong correction in the stock markets and/or the interest rate markets is imminent, but in our view the situation does warrant a less aggressive tactical positioning. For stocks, not all categories are equally overbought and/or expensive. At sector level, this applies particularly to technology stocks, at while at in regional terms, especially for US stocks and at the style level, this applies more to growth stocks than to value stocks. Within equities, we still see some upside potential for European listed real estate, which has so far only shown a limited recovery after the strong depreciation in recent years and therefore appears to be relatively cheap.

Following the recent interest rate increases, we believe that interest rate markets are now reasonably priced, both at the short end, which is mainly relevant for cash, and at the long end, meaning government bonds. For corporate bonds, we still see limited upside potential, in the form of tighter credit spreads, but we believe that listed real estate is relatively attractive.



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a.s.r.
Archimedeslaan 10
3584 BA Utrecht
www.asrvermogensbeheer.nl

ASR Vermogensbeheer N.V. - KvK 30227237 Utrecht

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