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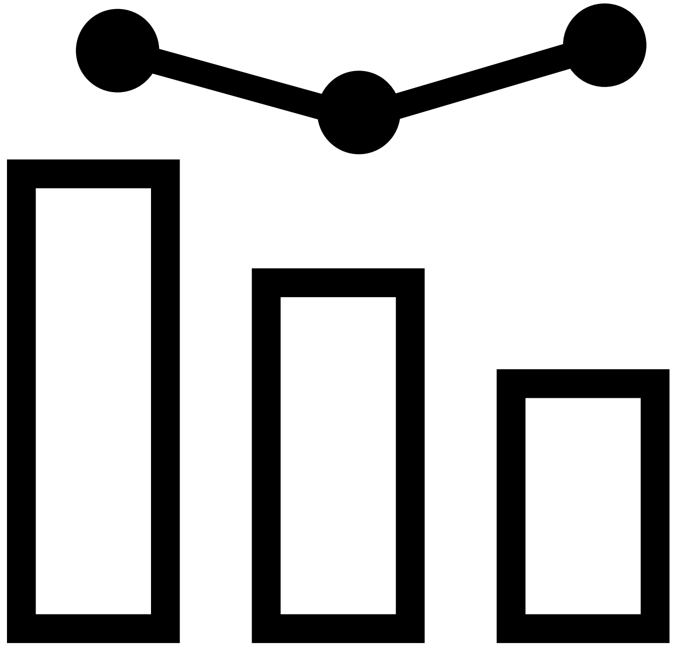

Market update

February 2024

February 2024: equity markets continue their upward trend

The investment year 2024 started well for the stock markets, and that certainly also held true for February. But there was less to celebrate for bond investors and investors in listed real estate.

After a hesitant start, equity markets bounced back in the course of January, and this upward trend continued in February. Even equity markets that had lagged behind in January, particularly those in Asia and emerging markets, rallied in February. The MSCI Asia Pacific index posted a monthly return of +3.9%. The Japanese stock market performed particularly well, so much so that after more than 34 years, the Nikkei index finally broke the previous record level of late 1989. Emerging markets also caught up, with the MSCI Emerging Markets index posting a return of +4.6% in February, more than offsetting the loss made in January (-2.8%). In the emerging markets, the Chinese stock market took the lead, increasing by about 10% in value.

However, North America was again the best performing equity region, with a monthly return of +5.0% for the MSCI North America index. Also when measured from the start of this year and over the past 12 months, the US stock market has been by far the best performing market. With the MSCI Europe index posting a return of 'just' +1.9% for the past month and +10.4% for the past 12 months (compared to +26.5% for the MSCI North America index), European equity markets are clearly lagging behind the US. European listed real estate did even worse, as it fell by 7.8% in value in February and posted a loss of 10.6% since the start of this year. Although briefly making a strong recovery in the last quarter of 2023, listed real estate has also been by far the worst performing asset class over the past 12 months, with an annualised return of -6.4%.

While developments on the equity markets have mostly been very positive, yields for bond investors have been disappointing so far in 2024. With long-term interest rates rising, European government bonds generated a negative yield of 1.2% in February. Corporate bonds performed slightly less poorly, but here, too, higher interest rates led to negative monthly yields on investment grade bonds (-0.9% in February). By contrast, the riskier high yield corporate bonds managed to achieve a positive monthly yield of +0.4%. That said, bonds did generate good yields when measured over the past 12 months, with annualised yields of 5-10%.

The returns on the various asset classes were as follows:

Returns (total return, in euros)	januari	Q1	2024	12 mos.
Bloomberg Barclays Eurozone Staatsobligaties	-1.2%	-1.7%	-1.7%	5.3%
Bloomberg Barclays Euro Bedrijfsobligaties	-0.9%	-0.7%	-0.7%	6.6%
Bloomberg Barclays Euro High Yield Bedrijfsobligaties	0.4%	1.1%	1.1%	10.0%
FTSE/EPRA Europe Onroerend Goed	-7.8%	-10.6%	-10.6%	-6.4%
MSCI Europe Aandelen	1.9%	3.5%	3.5%	10.4%
MSCI North America Aandelen	5.0%	8.6%	8.6%	26.5%
MSCI Asia Pacific Aandelen	3.9%	4.1%	4.1%	9.9%
MSCI World Developed Markets Aandelen	4.0%	7.3%	7.3%	20.4%
MSCI Emerging Markets Aandelen	4.6%	1.7%	1.7%	6.5%
EUR/USD	0.1%	-1.8%	-1.8%	2.1%

Source: Bloomberg

No big surprises in economic data…

Macroeconomic data did not bring any major surprises in February. For the eurozone, most indicators continue to point to moderate growth prospects, even after the 'near-recession' of 2023. Looking with slightly rose-tinted glasses at last month's figures, there is some cause for optimism, as the European macro figures were less bad than they were half a year ago, and for the most part also slightly better than expected. For example, the European Purchasing Managers' Index (PMI), which measures market confidence among purchasing managers, posted a modest increase in February from 47.9 to 48.9, slightly better than forecast. This indicates a modest recovery in business activity in the eurozone, although this growth is still below average, as the 'neutral' level of this index is 50. In terms of the sub-indices underlying the overall PMI figure, the services PMI showed an improvement (from 48.4 to 50.0), whereas the manufacturing PMI declined (from 46.6 to 46.1). At country level, the French PMIs showed a marked improvement, while the picture for Germany, and especially German industry, still looks quite gloomy. As expected, consumer confidence in the eurozone also increased slightly in February (from -16.1 to -15.5), but this level is still below average. On balance, European consumer confidence has remained virtually unchanged over the past six months.

… but a modest shift of dynamics in favour Europe is something to keep an eye on

The story for the US economy is more or less the opposite of that for the eurozone. The US economy has for a long time been significantly outperforming the European economy, but recently cracks appeared in that positive picture in the form of slightly disappointing macro data. For example, the ISM index, which measures confidence among US manufacturers, fell slightly in February, from 49.1 to 47.8. Although this is still a long way off from 'recession levels' (which would be reached if the index dropped to around 42), it disappointed the consensus expectations of economists, who had actually forecast an increase. A similar story applies to US consumer confidence, which likewise declined in February, contrary to expectations. 'Hard' data on the real economy, such as retail sales and industrial output, likewise point to a cooling of the US economy.

Although it's still too early to conclude based on the February macro data that the eurozone has started to catch up with the US economy, it will be interesting for both economists and investors to monitor whether this trend will gather momentum in the near future. This could, for example, put an end to the long-term trend of US equity markets outperforming those in Europe.

Halt in falling inflation trend appears to be temporary

In terms of inflation, America and Europe present a fairly similar picture, with the sharp fall in inflationary pressure over the past twelve to eighteen months (from 8-10% to 3%) apparently having come to a halt for the time being. In both the Eurozone and the US, the headline rate of inflation even showed a slight resurgence of inflationary pressure in late 2023 and early 2024. However, it was expected that this would prove to a temporary upswing rather than the start of a new wave of inflation. The latest inflation figures appear to justify this expectation. In January, the headline inflation rate in the US fell again by 3.4% to 3.1% year-on-year, while in the Eurozone it fell from 2.8% to 2.6% year-on-year in February. One point of attention, however, is that core inflation (excluding volatile food and energy prices) in the Eurozone remains above 3% (3.1% year-on-year in February), while in the US it remains well above that rate as well, at 3.9% year-on-year in January. In addition, all these inflation rates were higher than analysts had expected.

Looking at the underlying figures, it's clear that the inflationary pressure has shifted from goods to services. This is somewhat worrying, as the inflation of prices for services is far more driven by wage developments than is the case for goods. However, recently there was also some good news in terms of wage developments. In the fourth quarter of 2023, 'negotiated wages' increased by 4.5% in the eurozone. This means wages are now rising faster than prices (which is good news for employees), but given that wage growth was even higher in the quarter before (4.7%), it's also good news for others, including the ECB. It appears that wage growth has passed its peak, while there is still no sign of the dreaded 'wage-price spiral'.

Interest rate markets are now realistically priced; any upside potential left for equities and real estate?

The general expectation among analysts is that the inflationary pressure will continue to recede further towards the 2% inflation targets of the US and European central banks in the coming months, but also that this downward path will be less steep and potentially bumpier than we have seen in the past twelve to eighteen months. For the interest rate markets, this has led to analysts pushing their expectations about the timing of the first interest rate cuts by the ECB and the Fed back from February to later in the year. At the end of January, analysts were still expecting that the Fed would make its first interest rate cut in May or even as early as March, but now they believe that the first rate cut in the US won't happen before June. The story for the ECB is somewhat similar. At the end of January, it was still expected that the first rate cut would take place in April, but it's now likewise anticipated that it will happen closer to June.

We therefore believe that interest rate expectations are now considerably more realistic than 1-2 months ago. In addition, long-term yields on government bonds increased further over the past month, in line with our earlier forecast. In our view, this means that interest rate markets are now reasonably priced. If interest rates don't rise (much) further from the current levels, this would in principle be good news for both shares and listed real estate. Consequently, we still see some room for further price gains for both asset classes. It should be noted, however, that equities now appear to be quite 'expensive', which in our view puts a clear brake on the upside potential.

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