Storebrand

Market Commentary

April 2024

Key Points:

- **The leading U.S. industrial barometer (ISM Manufacturing) exceeded 50 for the first time in 16 months, signaling expansion.**
- **The European Central Bank (ECB) is likely to cut interest rates before the U.S. Federal Reserve within this year.**
- **Market sentiment is currently high, rendering the markets vulnerable to corrections.**

Market Outlook

Equities – Neutral Weight →
Global equity markets continue to rise, even as anticipated central bank rate cuts are further postponed. Given the high market sentiment, we are shifting from an overweight to a neutral position in global and Swedish equities, while maintaining an overweight stance in Norwegian equities and those from emerging economies.

Bonds – Neutral Weight →
Global, Norwegian, and Swedish government bonds rose nearly 1% in March. There are slight signs of inflation picking up again in the U.S., but not in the Eurozone. With oil prices continuing to rise, we maintain a neutral position on duration and in government bonds.

Money Market – Neutral Weight →

The allocation team notes some divergence in growth prospects between the U.S. and the Eurozone.

The allocation group in Storebrand Asset Management:
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More of the same

The first quarter of 2024 has passed, and moving into the second quarter, we observe a continuation of the macroeconomic patterns that have been prevalent over the last six months. Growth prospects in the U.S. are being further upgraded, while those in the Eurozone have declined further. Consequently, rate cuts from the U.S. Federal Reserve (Fed) are being pushed further into the future. Despite this, equity markets have coped well with the delays in rate cuts. With the "carrot" of forthcoming cuts from the Fed, markets have been in a "risk-on" mode since last autumn. The narrative is increasingly leaning towards a "soft" or "no landing" scenario, with recession fears significantly diminishing. The U.S. ISM Manufacturing index also surpassed 50 for the first time in 16 months, indicating industrial expansion. However, in this late-cycle phase with high capacity utilization and low unemployment, concerns remain. The question is how long the markets will wait for the rate cuts and whether the Fed can significantly cut rates as growth accelerates with signs of rising inflationary pressure.

ECB to Move First

It is likely easier for the ECB to initiate rate cuts than for the Fed. Growth prospects have been declining for almost a year and are significantly lower than in the U.S. While the Fed, with a higher interest rate level, was expected to cut rates first, market prices and expectations have shifted, now anticipating the ECB to deliver the first rate cut in early June. The Fed's first rate cut is now priced in for the end of July, with a possibility for June. Post-pandemic, the economic recovery and subsequent recession fears were reasonably synchronized across industrialized countries. Now, the economic development diverges more significantly as the pandemic's aftermath fades, possibly affecting inflation trends as well, where no signs of increasing inflationary pressure are seen in the Eurozone as opposed to the U.S. Oil prices have risen over the past four months, but gas prices have remained relatively stable, especially compared to the last few years.

High Sentiment

The future inflation development remains crucial for central banks. An unexpected rise in inflation or if it does not quickly fall towards the target due to a reacceleration in growth prospects, especially in the U.S., could easily alarm the markets again. Currently, equity market sentiment is high, with few clouds on the horizon, historically rendering markets vulnerable to minor corrections, as it does not take much bad news to scare the markets. However, high sentiment can also persist for a long time before adjusting. Measuring sentiment accurately and effectively remains challenging. From a tactical perspective, market rallies have often been greatest after pessimism bottoms out (e.g., autumn 2022) and less so when market optimism is high.

Market Outlook

Global Equities – Neutral Weight →

Global equities, measured by the MSCI World in local currency, continued to rise by an additional 3% in March, bringing the year-to-date gain to over 10%. Continued strong macroeconomic data and further improvements in growth prospects, especially in the U.S., along with dovish central banks, have contributed to the continued rally in equities. However, with high sentiment, markets are more vulnerable to disappointments and corrections after such a prolonged period of gains. Having been overweight since the beginning of the year, we are taking profits after a 10% gain (15% in NOK/SEK) and moving to a neutral position in global equities.

Emerging Markets (EM) – Overweight ↗

EM equity markets rose by 3% in March, in line with equity markets in industrialized countries. Macroeconomic data in China has gradually improved and positively surprised, especially the latest industrial barometers. This has helped to lift markets, with equity markets in China and other Asian EM countries continuing to rise. Among the larger EM countries, Brazil has performed the least well, with negative returns so far this year. We remain overweight in EM equities.

Global Bonds – Neutral Weight →

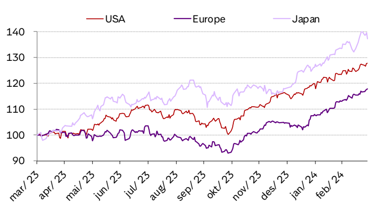
Global government bonds (JPM GBI) rose by nearly 1% in March. Global government bond yields fluctuated throughout March, with central bank meetings in focus and dovish messages prevailing. Further upgrades in growth prospects, especially in the U.S., continue to push rate cut expectations further into the future. Signs of rising inflation in the U.S., along with continually higher oil prices, also contribute. We maintain a neutral position on duration and global government bonds.

Key Figures as of 29.03.2024

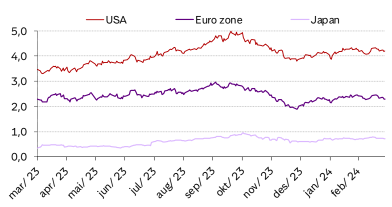
(measured in local currencies)

Global Stocks (MSCI)	March	2024
All Countries	3,4%	9,5%
Developed Markets	3,4%	10,1%
Emerging Markets	3,0%	4,5%
Regions (MSCI)		
North America	3,2%	10,1%
Europe	4,4%	8,3%
Asia and Oceania	3,2%	13,2%
The Nordics	4,4%	9,7%
Countries		
USA (S&P 500)	3,2%	10,4%
Japan (Nikkei 225)	3,1%	20,6%
United Kingdom (FTSE 100)	4,2%	2,8%
Germany (DAX)	4,6%	10,4%
France (CAC 40)	3,5%	8,8%
Finland (OMX Helsinki 25)	-0,8%	-2,8%
Denmark (OMXC25GI)	3,5%	7,8%
Sweden (OMXS30GI)	4.2%	2.5%
Norway(Oslo Børs, OSEBX)	4,9%	1,6%
Currency (increase equals EUR appreciation)		
EUR pr USD	-0,2%	-2,2%
EUR pr GBP	-0,1%	-1,3%
EUR pr JPY	0,9%	5,0%
Currency (increase equals USD appreciation)		
USD pr EUR	0,2%	2,3%
USD pr GBP	0,1%	0,9%
USD pr JPY	1,1%	7,3%

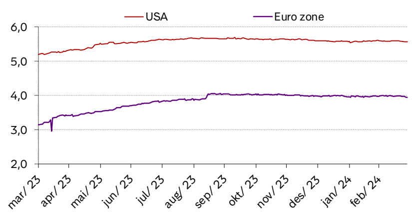
Stock Markets



10-Year Interest Rates



3-Month Interest Rates



Central Bank Rates