Storebrand

Market Commentary

May 2024

Key Points:

- **Inflation figures in the USA have risen for three consecutive months, contributing to elevated interest rate expectations again**
- **Growth prospects for the Eurozone remain stagnant, paving the way for a rate cut from the ECB in June**
- **A strong dollar creates challenges for other countries that must maintain tighter monetary policy for longer**

Market Outlook

Stock Market – Neutral Weight →
The global stock market, led by the USA, corrected downward in April after five months of gains. A new rise in US inflation figures sparked renewed fear of interest rates, while market sentiment was high. We are overweight in Norwegian stocks and stocks in emerging economies, but neutral weight elsewhere, which means that we are overall neutral weight in stocks.

Bonds – Neutral Weight →
Long-term interest rates rose in April following further increases in both growth and inflation prospects, especially in the USA. The highly anticipated rate cuts in the USA are continually postponed and reduced in numbers, but a rate cut is still expected in the Eurozone in June. We remain neutral weight duration and in government bonds.

Money Market – Neutral Weight →

The allocation group sees that a strong dollar leads to a "reverse" currency war to avoid imported inflation.

The allocation group in Storebrand Asset Management:
Søren Kærgaard Slipsager, *Senior Portfolio Manager*, **Olav Chen**, *Head of Allocation and Global Fixed Income*, **Tore Jørgen Rye**, *Senior Portfolio Manager*, **Dagfinn Norum**, *CIO*, **Lasse Theimann**, *Senior Portfolio Manager*, **Sigve Dagsønn Stabrun**, *Senior Portfolio Manager*

Inflation was not dead

After a period of declining global inflation and hopes that the battle against inflation had been won, the narrative, especially in the USA, has somewhat reversed following three months of rising inflation figures. Several indicators such as 'super-core inflation' and other price indicators show a reacceleration in the USA, coinciding with a reacceleration in growth prospects. This combination has led to further delays in the long-anticipated interest rate cuts by the Federal Reserve (Fed). The first rate cut, previously expected in June/July, is now fully priced for November. The US election occurs in early November, and many believe the Fed wants to avoid changes ahead of and during the campaign (the September meeting). Long-term US interest rates have also risen significantly since the New Year and are almost back to the record high levels seen around last October. Thus, market patience is being tested, especially for those positioned for monetary easing from the Fed.

The service sector in the Eurozone shows positive signs

However, the outlook for the European Central Bank (ECB) to make the first cut in June remains intact. Growth prospects in the Eurozone are still at a standstill and have not been revised upwards in recent quarters. The outlook is far weaker than in the USA (for 2024 GDP growth: 0.5 versus 2.3 percent). Despite this, some barometers of the service sector have recently surprised on the upside. Industry, and especially Germany, continues to show low activity, although there are also some anecdotal signs of improvement at certain barometers. Weak economic development in China can partly explain some of the weak performance in the Eurozone, especially in the industrial area. However, there are now signs of improvement in China, and growth prospects there have been revised upward since last fall. Inflation in the Eurozone has not shown the same reacceleration as seen in the USA, which likely paves the way for the first rate cut in the Eurozone since 2016 this summer.

Strong dollar a nuisance

Continued postponements regarding Fed rate cuts have kept the dollar relatively strong despite high market risk appetite. Historically, a strong dollar has been a nuisance and negative for emerging economies (EM), particularly because there has been a lot of dollar-denominated debt in EM, and a strong dollar has made servicing this debt more difficult. For now, EMs have managed well, but a strong dollar has still led many countries to delay potential rate cuts and significantly scale back the amount. This is because the interest rate differential against the world's most important currency is crucial for the outlook for imported inflation in most countries. It is a kind of reverse currency war where central banks must keep pace with their own interest rates against the USA, to prevent their own currencies from becoming too weak, leading to high inflation. With the US's 'exceptionalism' on the economic front, this could thus lead to tighter monetary policy elsewhere for longer, dampening activity more than desired.

Market Outlook

Global Equities – Neutral Weight →

Global stocks, as measured by the MSCI World in local currency, fell by 3 percent in April, after five consecutive months of gains. The last monthly fall was in October last year, also driven by fear of higher interest rates. High market sentiment, reacceleration in US inflation, and subsequent rising rates led to a minor correction in the stock markets before they recovered again. Good figures in the current reporting season have also ensured that the correction was short-lived. We maintain a neutral weight in global stocks.

Emerging Markets (EM) – Overweight ↗

Stock markets in EM rose by over 1 percent and performed much better than the stock markets in industrialized countries. The Chinese stock market rose for the third consecutive month and contributed to the gains. Growth prospects for China are also being further adjusted upward. However, focus on the Chinese currency has increased, with speculations on whether China must devalue against the dollar. This can create uncertainty in the markets. We remain overweight in EM stocks.

Global Bonds – Neutral Weight →

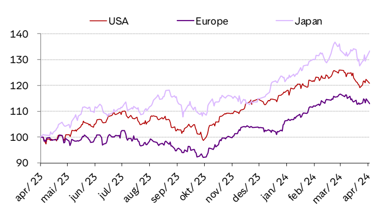
Global government bonds (JPM GBI) fell by nearly 2 percent in April. Higher-than-expected inflation figures for the third consecutive month contributed to lifting US long-term rates toward the high levels of last October. After a weaker than expected US labor market report in early May, the market moved expectations of the first rate cut back to September from November. We remain neutral on duration and global government bonds."

Key Figures as of 30.04.2024

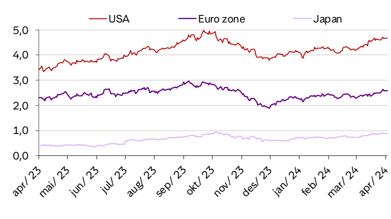
(measured in local currencies)

Global Stocks (MSCI)	April	2024
All Countries	-2,8 %	6,5 %
Developed Markets	-3,2 %	6,5 %
Emerging Markets	1,4 %	6,0 %
Regions (MSCI)		
North America	-4,1 %	5,7 %
Europe	-0,7 %	7,5 %
Asia and Oceania	-1,0 %	12,1 %
Nordic	0,8 %	10,6 %
Countries		
USA (S&P 500)	-4,1 %	5,9 %
Japan (Nikkei 225)	-4,9 %	14,8 %
United Kingdom (FTSE 100)	2,4 %	5,3 %
Germany (GDAX)	-3,0 %	7,0 %
France (CAC)	-2,7 %	5,9 %
Finland (HEX25)	1,5 %	-1,3 %
Denmark (OMXC25GI)	-1,9 %	5,8 %
Sweden (OMXS30GI)	2,2 %	9,1 %
Norway (OSEBX)	3,2 %	4,9 %
Currency (increase equals EUR appreciation)		
EUR pr USD	-1,0 %	-3,2 %
EUR pr GBP	-0,1 %	-1,5 %
EUR pr JPY	2,9 %	8,0 %
Currency (increase equals USD appreciation)		
USD pr EUR	1,0 %	3,3 %
USD pr GBP	0,9 %	1,7 %
USD pr JPY	4,0 %	11,5 %

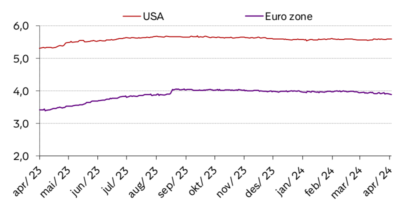
Stock Markets



10-Year Interest Rates



3-Month Interest Rates



Central Bank Rates