Cantab
ASSET MANAGEMENT

Investment Comment

5 April 2024

2024 marks a global election year with eight of the world's 10 most populous countries either having already been, or going, to the polls. There will be elections in at least 64 countries (plus the European Union) this year, with approximately 49% of the world's population voting.

The Federal Reserve (Fed), European Central Bank (ECB), and Bank of England (BoE) all voted to hold interest rates steady at their most recent meetings. These rates are 5.25–5.50%, 4.50%, and 5.25%, respectively. With the US economy performing well – the S&P 500 continues to set new all-time highs – the Fed has so far indicated that there are still three quarter-point cuts on the table for 2024. However, projections for core inflation in the US sit at around 2.6% for 2024, above the Fed's mandate of 2.0%, and call into question the likelihood of cuts. Indeed, Christopher Waller, a Fed official, recently said there was "no rush" to start cutting rates after the most recent "disappointing" inflation data, which showed the CPI (Consumer Price Index) rising at 3.2% annually versus expectations of 3.1%. The recent tragic collapse of the Francis Scott Key Bridge in Baltimore is estimated to cost the US economy $15m per day and has disrupted supply chains, potentially adding to inflationary pressures. With unemployment starting to soften – the figure ticked up to 3.9% in February from 3.7% in January – the Fed finds itself in a difficult situation in which the policy solution to remedy the softening labour market is the antithesis of the solution it would require if inflation were to remain sticky or even increase. The Fed has commented previously that rates can be cut and still be economically restrictive; ultimately, barring any significant flare ups in inflation or the US economy more broadly, it does seem that the Fed is in an easing rather than a tightening mood.

President of the ECB, Christine Lagarde, has said the ECB is unable to commit to a particular path of interest rate cuts once a start is made. Even if it does cut rates in June – which the market is currently expecting given inflation fell sharply over the year – the ECB is likely to keep markets guessing over the timing and scale of cuts. It has vowed to remain "data dependent". Continued high wage growth and weak productivity in the Eurozone means services inflation is expected to remain elevated for most of this year. European equity markets have been broadly supportive over the quarter as participants look through the area's slowdown and towards future economic growth, on the assumption that inflation continues its downward trend.

Andrew Bailey, Governor of the BoE, has said that rate cuts were "in play" at rate-setting meetings, stating that he did not need to see inflation drop to 2.0% before cutting rates – rather, "you need to see you are on the way". However, not all members of the Monetary Policy Committee are so sure: Jonathan Haskey has said he is not preparing to vote for a cut, stating that persistent and underlying inflation are what matter and that they are not yet under control. The UK's most recent reading for the CPI fell to 3.4% in February from 4.0% in January, though underlying wage and rent inflation stand at 6.1 and 6.9% respectively – far above the BoE's comfort range. As it stands, markets are fully pricing in an initial rate cut for the UK in August, with a total of three cuts this year. The BoE does look to be in a difficult situation: the UK entered a technical recession in December 2023 following two consecutive quarters of negative GDP growth, providing support for rate cuts, whilst inflation, though declining, is proving more difficult to quell than the UK's developed peers'.

Bank of Japan (BoJ) Governor Kazuo Ueda brought an end to a decade of ultra-loose monetary policy by raising Japan's overnight rate to a range of 0.0–0.1%. This is Japan's first interest rate rise in 17 years and brings an end to eight years of negative interest rates. This may strengthen the Yen, potentially harming some participants using the Yen for a 'carry trade', whereby an investor borrows in

a low-yielding currency to fund investments in higher-yielding currencies or assets. Whilst the BoJ's rate rise is historic, it is less impactful in a world where the Fed has already hiked five percentage points.

Elsewhere, China continues to face challenges in its economy, with declining real estate markets, mounting debt burdens, and capital imbalances. Without a fundamental change in the Chinese economy, significant recovery seems unlikely in the short term. Additionally, the region broadly has seen rising geopolitical risks over the past few years which have only increased with the conflict in the Middle East. Emerging markets are generally further ahead than developed economies in their inflation fights, meaning that their central banks have greater flexibility to respond to economic surprise from here. Emerging market and Asian central bankers will be concerned over further depreciations in their currencies going forward, though these worries should dissipate once the Fed cuts rates.

We are cautiously optimistic that inflation has been tamed globally and that rate cuts are on the horizon. This will be supportive of risk assets and markets generally. However, we remain cognisant of the inflationary pressures in the economy and are not complacent regarding risks of resurgence.

Sterling-denominated returns of major indices	**10Yr**	**5Yr**	**1Yr**	**Q1 2024**
	%	**%**	**%**	**%**
Fixed Interest				
Overseas Bonds (unhedged)	30.1	-4.2	-1.7	-1.1
Index-Linked Gilts	15.8	-24.9	-5.4	-2.1
Corporate Bonds	28.4	-1.7	6.1	0.0
Equities				
UK	71.3	28.5	8.8	3.8
World (ex-UK)	236.9	85.3	23.1	10.1
Emerging Markets	76.4	15.1	5.9	3.3
Property	21.9	-0.9	6.6	-1.5
Commodities	12.7	40.6	-2.7	3.1
Infrastructure	54.7	-4.3	-4.9	-5.2
ARC Sterling Balanced Asset	44.5	18.1	7.3	3.0
ARC Sterling Steady Growth	62.9	24.5	9.3	4.0
Cash	11.0	8.5	5.0	1.3

Source: MSCI UK IMI, World Ex-UK, Emerging Markets; ICE BofA Global Broad Market+, Bloomberg UK Government Inflation-Linked Bond, ICE BofA Sterling Non-Gilts; UK IMI Liquid Real Estate; Bloomberg Commodity Index (GBP Hedged); IT Infrastructure; Asset Risk Consultants (preliminary data); Cash Equivalent (Bank of England Base Rate). Total Return, Sterling adjusted.

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