RATHBONES

INVESTMENT VIEW

THE MANY HAVE TAKEN OVER FROM THE FEW

APRIL 2024

WILL IT BE A CASE OF THE TORTOISE VERSUS THE HARE, WITH LAST YEAR'S STOCK MARKET WINNERS TAKING A BREATHER WHILE THE LAGGARDS CATCH UP?

Developed market equities have continued to do well this year as the likelihood of recession recedes. In contrast to the first ten months of 2023, when an unusually small number of stocks contributed to the gains of the entire US index and most underperformed, more and more global companies are participating in this year's rising markets.

However, substantial profit growth is still relatively rare and industry analysts have revised down forecasts for 2024 for all but the highest quality and sector-leading companies: finding these remains a core focus for us. While we believe that the outlook for the global economy and corporate profits has brightened significantly, the risks haven't vanished and some stock prices have moved ahead of where the outlook for profits suggests they should be. Still, we have much more confidence than we did a few months ago that good returns can be achieved in the medium-term, but there may be another bump or two in the road ahead this year.

Advanced economies outside the US entered 2024 on a weak footing, but there is a growing body of evidence suggesting that the worst may now have passed. While low by historic standards, there had been a noticeable jump in our own global leading economic indicator by January, and further data has pushed the indicator a touch higher since then. Parts of the equity market more sensitive to these indicators, such as Eurozone equities, have been doing particularly well over recent weeks.

Our analysis isn't unequivocally optimistic. Survey-based measures of firms' hiring plans have deteriorated, for example, and are consistent with an increase in unemployment. In the US, firms have already reduced the average worker's hours and are shedding staff on temporary contracts, both have tended to signal a worsening outlook for full-time employment.

Still, in sum, more data is pointing up and we are more optimistic. Markets tend to respond more to the rate of change than they do to the level of these sorts of readings. But we think there is still about a one-third risk of recession across the developed economies in aggregate, and that makes us retain an element of defence in our investment strategy. The good news is that the traditional ballast in multi-asset portfolios, government bonds, are looking particularly attractive.

Their returns tend to move inversely to interest rates. Financial markets are pricing in more or less the same interest-rate cuts in the US as the UK this year (about three quarter-point cuts). Historically, that scale of cuts would be mild. We believe the risks to interest rates seem to be tilted to the downside, but much more so in the UK than the US. So for the moment we prefer UK bonds to American ones.

Given the improving outlook for growth and relative valuations, we see the long-term prospects of smaller and mid-market companies as particularly attractive. The recent downward revisions to profit forecasts don't preclude decent returns from equities this year, but our analysis suggest that this environment does tend to favour higher quality businesses. They did particularly well in January, and we'll continue to focus on selecting quality businesses with resilient returns as the broader investment outlook brightens.

Investment Insights Webinar
16 April 2024
12:00PM – 12:30PM

If you'd like to join our investment experts at our next Investment Insights webinar on Tuesday 16 April to hear more about the outlook for the global economy and markets, you can register at **www.rathbones.com/about-us/events**

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