World markets review — First quarter 2024

Equities

Global stocks rallied in the first quarter, extending strong gains from 2023. The S&P 500 Index hit a series of record highs, boosted by healthy corporate earnings, solid U.S. economic growth and investor expectations that the Federal Reserve will cut interest rates later in the year. The MSCI Japan Index also moved significantly higher, generating the best returns among major developed markets.

Information technology stocks rose on investor enthusiasm for advancements in artificial intelligence. Market gains broadened to other sectors, including communication services, energy, financials and industrials. In the MSCI All Country World Index (ACWI), only one sector lost ground: Real estate stocks fell 1%, pressured by relatively high interest rates and stress in the commercial property sector.

	March 2024		1Q 2024		2023	
Equity index returns (%)	**U.S. dollar**	**Local currency**	**U.S. dollar**	**Local currency**	**U.S. dollar**	**Local currency**
S&P 500	3.2	3.2	10.6	10.6	26.3	26.3
MSCI ACWI	3.1	3.4	8.2	9.5	22.2	21.6
MSCI ACWI ex USA	3.1	3.7	4.7	8.2	15.6	14.1
MSCI World	3.2	3.4	8.9	10.1	23.8	23.1
MSCI Emerging Markets	2.5	3.0	2.4	4.5	9.8	9.9
MSCI EAFE	3.3	4.0	5.8	10.0	18.2	16.2
MSCI Europe	3.7	4.4	5.2	8.3	19.9	14.3
MSCI Pacific	2.5	3.2	6.7	13.2	15.3	20.1

Source: RIMES

Fixed income

Bond markets generally declined as investors adjusted their expectations for interest rate cuts in the months ahead. At the end of 2023, investors had priced in six rate cuts in the U.S., which has since been revised down to three as inflation remains above the Fed's 2% target. European Central Bank officials have indicated that the rate path for 2024 remains uncertain.

In foreign exchange markets, the U.S. dollar rose against the euro, the yen and most other currencies, largely reflecting the relative strength of the U.S. economy. The U.S. Dollar Index climbed 3.2% in the quarter.

Fixed income index returns (%)	**Mar 2024**	**1Q 2024**	**2023**
Bloomberg U.S. Aggregate	0.9	–0.8	5.5
Bloomberg Global Aggregate	0.6	–2.1	5.7
Bloomberg U.S. Corp IG	1.3	–0.4	8.5
Bloomberg U.S. Corp HY	1.2	1.5	13.4
JPM EMBI Global Diversified	2.1	2.0	11.1
JPM GBI-EM Global Diversified	–0.0	–2.1	12.7

Exchange rates (% change vs. USD)	**Mar 2024**	**1Q 2024**	**2023**
Euro	–0.2	–2.2	3.5
Japanese yen	–1.1	–6.8	–6.4
British pound	–0.1	–0.9	6.0
Canadian dollar	0.2	–2.6	2.8
Australian dollar	0.2	–4.4	0.6
Swiss franc	–2.2	–6.6	9.9

Source: RIMES. Returns are in USD.

Investments are not FDIC-insured, nor are they deposits of or guaranteed by a bank or any other entity, so they may lose value.

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North America

U.S. equities rose steadily as investors remained optimistic about the economic outlook and potential interest rate cuts expected later in the year. The S&P 500 Index closed at record highs on 22 days on its way to a 10.6% gain. The Nasdaq Composite also reached its first record high since 2021, reflecting strong returns for technology stocks. The communication services, energy and financials sectors also posted strong gains in a broad-based rally.

The Federal Reserve left rates unchanged for the fifth consecutive meeting. The central bank indicated it could cut its benchmark interest rate three times in 2024, citing strong economic growth and manageable inflation. U.S. gross domestic product rose an annualized 3.4% in the fourth quarter – its sixth straight quarter of growth. In February, the consumer price index rose 3.2% from the previous year.

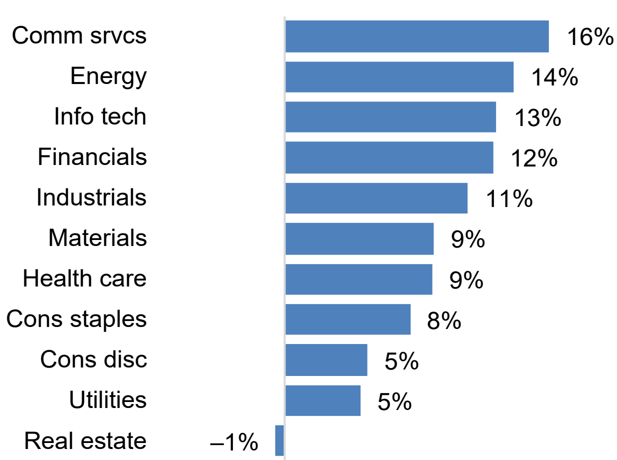
A strong labor market and persistent consumer spending continued to bolster the economy, but there were indications of slowing growth. U.S. employers added 275,000 jobs in February, although the unemployment rate ticked up to 3.9%, its highest level in two years. U.S. retail sales rose 0.6% in February compared to the previous month, slightly below expectations.

Nvidia shares soared 82%, fueled by ongoing enthusiasm for stocks poised to benefit from the artificial intelligence boom. The chipmaker reported its sales had more than tripled in its fiscal fourth quarter compared to the previous year. Shares of computer manufacturer Super Micro Computer surged 255%, which followed a 246% increase in 2023. Among the top detractors, Apple shares fell 11% due to declining iPhone sales in China and Tesla shares plummeted 29%.

Energy was one of the top sectors, gaining 14%, as West Texas Intermediate crude oil prices rose. Shares of companies that own and operate power plants also advanced, including Vistra and Constellation Energy. Rising electricity demand from the growth of artificial intelligence and data centers has led some businesses to seek nuclear power as an alternative source of energy.

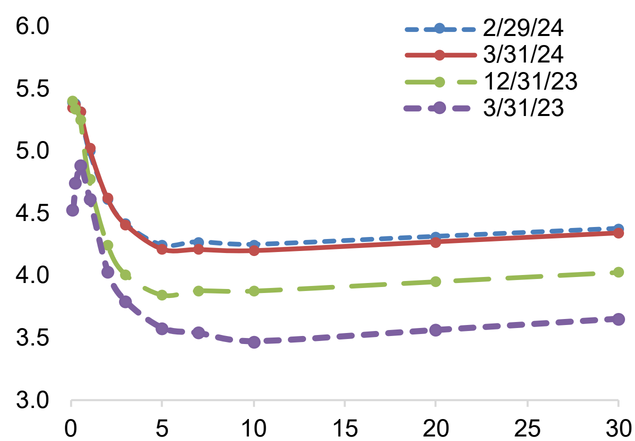
U.S. bonds fell. The Bloomberg U.S. Aggregate Index declined by 0.8% as markets lowered their expectations for U.S. rate cuts. The U.S. 10-year Treasury yield increased by 32 basis points (bps) to 4.20%, while the two-year yield rose 37 bps to 4.62%. Within U.S. credit markets, investment-grade bonds (BBB/Baa and above) fell marginally and high-yield bonds, as measured by the Bloomberg U.S. Corporate High Yield 2% Issuer Capped Index, rose 1.5%.

S&P 500 total returns (1Q 2024)



Source: RIMES

U.S. Treasury yield curve



Source: Bloomberg. The x-axis represents Treasury maturities (years). The y-axis represents the U.S. Treasury yield (%).

Returns are in USD unless otherwise noted.
Past results are not predictive of results in future periods.

Europe

European stocks advanced amid improving corporate earnings, falling inflation and flat economic growth in the 20-member eurozone. Market gains were tempered by comments from European Central Bank (ECB) officials indicating they are uncertain about the path of interest rate cuts in the months ahead. Overall, the MSCI Europe Index gained 5%.

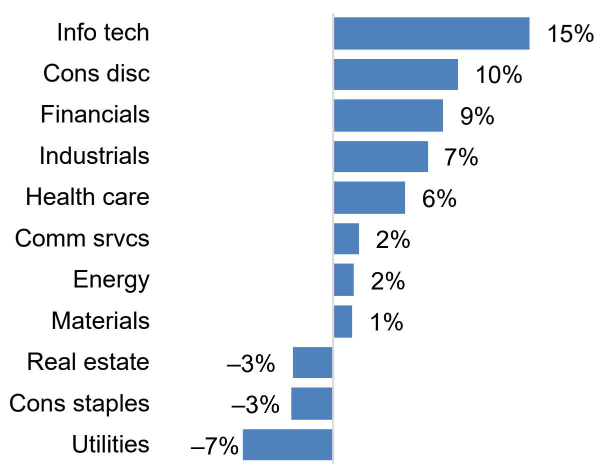
The eurozone economy expanded 0.1% in the fourth quarter, narrowly avoiding a technical recession. Germany's economy continued to contract as elevated energy prices dampened manufacturing activity. Eurozone inflation fell to 2.6% in February, raising investor hopes for multiple rate cuts this year. While not discounting that possibility, ECB President Christine Lagarde said the central bank "cannot pre-commit to a particular rate path, however tempting that is."

Information technology stocks led markets higher, gaining 15%. Investor enthusiasm for the rapid growth of artificial intelligence platforms lifted stocks with connections to AI technology. Shares of ASML rose more than 28% as the Dutch semiconductor equipment company reported solid profits and strong demand for its high-end chipmaking equipment. In the health care sector, shares of Novo Nordisk rallied on the rising popularity of its diabetes and anti-obesity drugs.

Consumer discretionary stocks also posted impressive gains, rising nearly 10%. Shares of LVMH soared as the world's largest maker of luxury goods reported record-high annual revenue of €86.2 billion, well above the prior year. Utilities and real estate stocks declined, slipping 7% and 3%, respectively, as rate-sensitive sectors came under pressure. Consumer staples stocks also fared poorly. Shares of Nestlé, the world's largest food company, lost 8%.

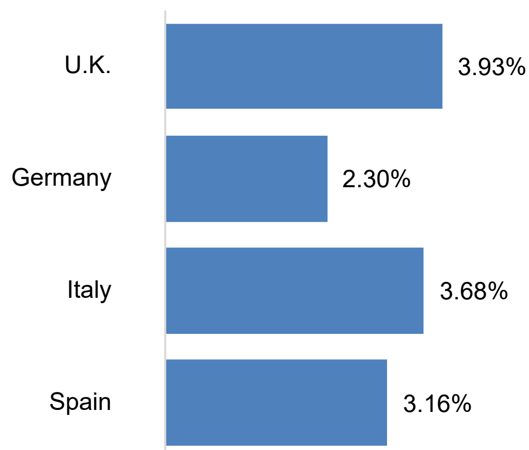
In fixed income markets, European bonds declined on signs that the ECB might keep rates higher than previously expected, even as inflation neared the central bank's 2% target. The yield on Germany's benchmark 10-year note rose 28 basis points to 2.30%. The same maturity in Spain climbed 18 basis points to 3.16%. In currency markets, the euro declined 2% against the U.S. dollar.

MSCI Europe total returns (1Q 2024)



Source: RIMES. Returns are in USD.

10-year government bond yields



Source: Bloomberg. As of 03/31/24.

Asia-Pacific

Japanese stocks surged by double digits. A weak yen gave investors a buying opportunity as corporate reforms continued to boost bullish sentiment. Nearly all sectors advanced, with financials and energy leading gains. Only consumer staples lost ground. The yen hit fresh lows against the U.S. dollar, declining 6.8%.

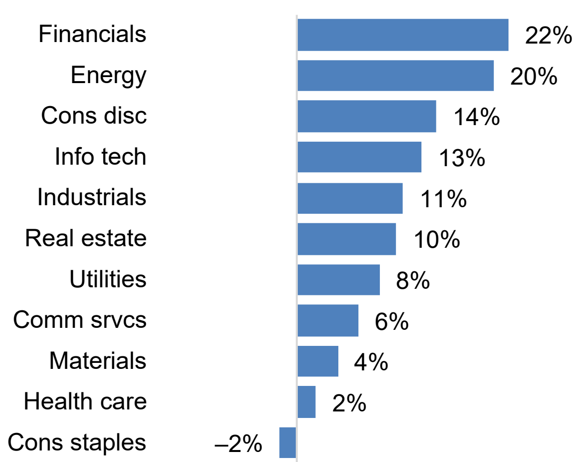
The Bank of Japan (BOJ) ended its era of negative rates. In a historic shift, the BOJ raised interest rates for the first time since 2007, reversing the negative interest rate policy it adopted in 2016. It hiked its key interest rate to a range of zero to 0.1%, up from –0.1%. The announcement followed an agreement by Japan's largest companies to raise wages by 5.28% this year. BOJ governor Kazuo Ueda signaled a dovish stance on further rate moves as inflation oscillates above the bank's 2% target. Core inflation, which excludes fresh food, rose to 2.8% in February from 2.3% in December. A weak yen and the rising cost of living have pressured household spending. The yen touched 34-year lows against the U.S. dollar, driven by expectations the interest rate differential between Japan and the U.S. will remain wide.

Japan dodged a technical recession. Economic growth was sluggish, with domestic and global demand remaining weak. The economy narrowly missed falling into a recession in the fourth quarter of 2023. The headline au Jibun Bank Japan Manufacturing Purchasing Managers' Index (PMI), an indicator of manufacturing performance, rose to 48.2 in March from 47.2 in February, the highest level since November. The reading remains below the 50.0 threshold that indicates expansion versus a contraction. Employment rose at the fastest pace since July. Elsewhere, Toyota's stock rose after the company announced an earnings upgrade. Conversely, shares of Sony fell after it announced a 26% drop in operating profit in its gaming division.

Australian equities rose slightly as economic growth remained muted. Gross domestic product (GDP) for the fourth quarter of 2023 came in below expectations at 0.2% compared with 0.3% growth in the previous quarter. Rising interest rates have slowed consumer spending. The Reserve Bank of Australia (RBA) left its key interest rate unchanged at 4.35% in March as it aims to tame persistent inflation. In other news, falling iron ore prices depressed stock prices for miners like BHP, Fortescue and Rio Tinto. The Australian dollar declined 4.4% against the U.S. dollar.

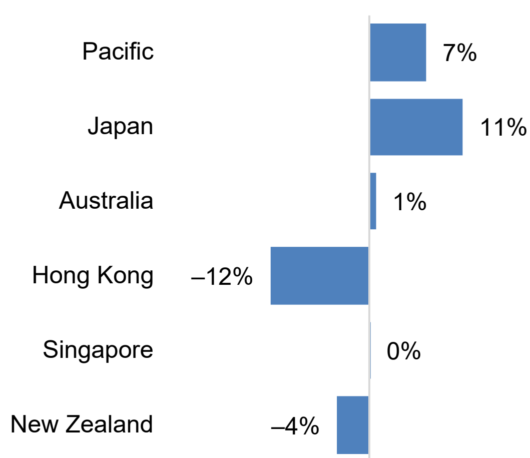
Hong Kong equities lost ground. GDP grew slower than anticipated in 2023 at a rate of 3.2%, below forecasts of 3.4% growth. The city's post-pandemic recovery continues to be impacted by elevated borrowing costs from the Fed and its close ties to China's slowing economy.

MSCI Japan total returns (1Q 2024)



Source: RIMES. Returns are in USD.

MSCI Pacific total returns (1Q 2024)



Source: RIMES. Returns are in USD.

Emerging markets

Emerging markets equities posted modest gains amid continued weakness in China's economy and signs U.S. interest rate cuts would be less than expected. Most foreign currencies fell against the dollar. Overall, the MSCI Emerging Markets Index rose 2%.

Taiwan's technology giants notched strong returns, bolstered by rising demand for semiconductors and related products used in artificial intelligence applications. TSMC, the world's largest contract chipmaker, gave an upbeat forecast for the year, helping to send its shares higher by 27%. Hon Hai Precision surged 38% on strong growth projections for its artificial intelligence server business. Chipmaker MediaTek rose 16%.

India's equity market continued to trade at record highs on strong economic growth and significant investment in the country's infrastructure. India's economy expanded 8.4% year on year in the fourth quarter. Top gainers ranged from telecommunications giant Bharti Airtel, with a gain of 19%, to ICICI Bank, which rose 10%, to Tata Motors, up 27%.

Meanwhile, Chinese equities fell for a fourth consecutive quarter. Leading decliners included China's largest e-commerce operators Alibaba and PDD, as well as electric vehicle makers Nio and Li Auto. Growth in China's economy remained sluggish amid tepid manufacturing output, weak home sales and deflationary pressures. Annual exports fell for the first time in seven years in 2023. The People's Bank of China refrained from cutting its key interest rate. However, Chinese banks cut the key mortgage reference rate in a bid to shore up the ailing property sector. The Chinese renminbi declined 2% against the dollar.

In Latin America, Brazilian stocks ended lower despite interest rate cuts. Brazil's central bank cut its benchmark rate for the sixth time since August. However, stocks fell as economic growth was stagnant for a second consecutive quarter. Miner Vale fell 20% on declining prices for iron ore. Meanwhile, the Bank of Mexico cut rates for the first time since 2021, lowering them by 25 basis points to 11%.

In debt markets, a raft of developing countries sold bonds. Saudi Arabia sold $12 billion of bonds in its largest offering since 2017. Mexico issued nearly $10 billion of notes in two separate deals, while Brazil completed a $4.5 billion offering and Poland sold approximately $4 billion of bonds.

Emerging markets debt was mixed against broad U.S. dollar (USD) strength. Dollar bonds posted a modest return, while local currency bonds (returns in USD terms) fell with South Africa and Turkey among the largest decliners. ■

1Q 2024 total returns (%)

Equity indexes (USD)	
MSCI Emerging Markets	2.4
MSCI Brazil	–7.4
MSCI China	–2.2
MSCI India	6.1
MSCI Mexico	0.5
MSCI South Africa	–6.8
MSCI Korea	1.6
MSCI Saudi Arabia	2.9
MSCI Taiwan	12.4
MSCI Thailand	–8.2

Fixed income / currency	USD debt (USD)	Local debt (USD)	Local debt (Local)	Exchange rate (vs. USD)
JPM EMBI Global Div	2.0	---	---	---
JPM GBI-EM Global Div	---	–2.1	0.7	---
Brazil	0.1	–1.7	1.3	–3.0
China	0.5	–0.1	1.8	–1.9
Indonesia	–1.3	–2.0	0.9	–2.9
Malaysia	–1.0	–1.8	1.1	–2.9
Mexico	0.9	2.7	0.8	1.9
Poland	–0.9	–1.1	0.3	–1.4
South Africa	–3.1	–5.2	–1.9	–3.4
Turkey	1.1	–8.6	0.1	–8.7

Source: RIMES

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Unless otherwise noted, all returns are in U.S. dollars and assume the reinvestment of dividends. Country stock returns are based on MSCI indexes.

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S&P Global purchasing manager indexes (PMIs) track business trends across both manufacturing and service sectors for various countries. The indexes are based on data collected from companies and follow variables such as sales, new orders, employment, inventories and prices. The au Jibun Bank Japan Composite PMI, compiled by S&P Global, provides similar information about Japan.

J.P. Morgan Emerging Markets Bond Index (EMBI) Global Diversified and related country-specific indexes track total returns for U.S. dollar-denominated debt instruments issued by emerging market sovereign and quasi-sovereign entities: Brady bonds, loans, eurobonds. J.P. Morgan Government Bond Index – Emerging Markets (GBI-EM) Global Diversified and related country-specific indexes cover the universe of regularly traded, liquid fixed-rate, domestic currency emerging market government bonds to which international investors can gain exposure.

MSCI indexes are free-float-adjusted, market-capitalization weighted indexes. Developed market index results reflect dividends net of withholding taxes. Emerging market index results reflect dividends gross of withholding taxes through December 31, 2000, and dividends net of withholding taxes thereafter. Each index is unmanaged, and its results include reinvested dividends and/or distributions but do not reflect the effect of sales charges, commissions, account fees, expenses or U.S. federal income taxes. MSCI All Country World Index (ACWI) is designed to measure results of more than 40 developed and emerging equity markets. MSCI All Country World (ACWI) ex USA Index is designed to measure equity market results in the global developed and emerging markets, excluding the United States. MSCI EAFE® (Europe, Australasia, Far East) Index is designed to measure developed equity market results, excluding the United States and Canada. MSCI Emerging Markets Index is a free-float-adjusted market-capitalization-weighted index designed to measure equity market results in more than 20 global emerging markets. Individual emerging markets listed herein represent a subset of the MSCI Emerging Markets Index. MSCI Europe Index is designed to measure developed equity market results across 15 developed countries in Europe. MSCI Pacific Index is designed to measure the equity market performance of the developed markets in the Pacific region. It consists of Japan, Australia, Hong Kong, New Zealand and Singapore. MSCI World Index is designed to measure equity market results of developed markets. The index consists of more than 20 developed-market country indexes, including the United States. MSCI Japan Index is designed to measure the performance of the large and mid cap segments of the Japanese market.

Nasdaq Composite Index is a broad-based market-capitalization-weighted index that measures all domestic and international-based common-type stocks listed on The Nasdaq Stock Market.

S&P 500 Index is a market-capitalization-weighted index based on the results of 500 widely held common stocks. This index is unmanaged, and its results include reinvested dividends and/or distributions but do not reflect the effect of sales charges, commissions, account fees, expenses or U.S. federal income taxes.

The ICE U.S. Dollar Index is a geometrically averaged calculation that measures the value of the U.S. dollar relative to a basket of foreign currencies: the euro, the yen, the British pound, the Canadian dollar, the Swedish krona and the Swiss franc. The U.S. Dollar Index, together with all rights, title and interest in and related to the U.S. Dollar Index, including all content included therein and all related intellectual property and property rights, is the exclusive property of ICE Data Indices, LLC.

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