NATIXIS INVESTMENT MANAGERS

Marketing Communication

MARKET REVIEW

Global Market Strategy, NIM Solutions

February 2024

In short

- The global economic backdrop showed resilience, with major economies displaying signs of stabilization.
- Equity markets rallied to new highs, supported by robust earnings and an overall positive momentum.
- Fixed income markets faced headwinds as central banks signaled a more extended tightening cycle, weighing on government bond performance while benefiting less rate-sensitive credit sectors.

Macroeconomic developments

The US economy showcased resilience in early 2024, though some signs of moderation emerged. January data indicated softening in retail sales and industrial production, but GDP estimates for Q1 2024 still tracked at a decent pace (close to 2.0%, annual rate). The ISM Manufacturing PMI slipped to 47.8 in February, contracting for a 4th straight month. However, the labour market remained tight, with the unemployment rate holding at 3.7% year-over-year. Inflation continued cooling, with the headline rate dropping to 3.1% in January, aided by easing commodity prices. However, core PCE index has declined modestly by 0.1pp to 2.8% year-over-year. The Fed reiterated its "higher for longer" stance, though markets pared back rate cut expectations, pricing in only three cuts in 2024.

Economic indicators in the eurozone pointed to stabilization after a challenging 2023. The Composite PMI improved in February but stayed below 50, suggesting contraction. However, core retail sales rebounded 3.2% year-over-year in January. Inflation decelerated further, with the headline rate falling to 2.6% and core inflation dropping to 3.1% in February, supported by declining energy costs. The UK entered a technical recession in Q4 2023 Despite the contraction, core retail sales rose in January, and the Composite PMI, which looks at both the services and manufacturing sector, expanded at a faster pace in February. However, headline and core inflation remained elevated at 4% and 5.1%, respectively, in January. The BoE left rates unchanged but hinted at further tightening if inflationary pressures persisted.

China's economic backdrop improved, with retail sales and industrial production beating expectations in January. The manufacturing NBS PMI crossed into expansionary territory at 50.2 in February for the first time since March 2023. However, inflation remained subdued, with the headline rate in deflationary territory at -0.8% year-over-year in January. Beijing reinforced its commitment to stability, cutting banks' reserve ratios by 25bps and unveiling supportive measures for the property sector and stock markets.

Japan slipped into a technical recession in the second half of 2023, with Q4 GDP contracting 0.1% quarter-on-quarter, with domestic demand sliding for a third consecutive quarter and all domestic demand components marking quarterly declines in Q4.23. On the other hand, solid net exports helped to offset the weak domestic demand, with both exports and imports of goods and services posting strong gains, up 2.6% quarter-over-quarter and 1.7%, respectively. However, labour market data has remained robust with December's employment survey signalling still-robust hiring, and domestic-oriented sentiment surveys remain elevated.

Market reaction

The MSCI World index surged 4.2% in February, with major indices like the S&P 500, Euro Stoxx 600, and Nikkei 225 hitting fresh highs. US earnings for Q4 2023 surprised positively, supporting the rally. However, the Nikkei 225 reached a new all-time high in February for the first time in over 30 years, supported by an improving economic outlook and a weaker yen, which benefited export-oriented companies. Emerging markets outperformed, with the MSCI EM Index up 4.8%, led by an 8.6% gain in Chinese stocks after short selling stocks was prohibited and the government took measures to encourage buyers. Sector performance broadened, though growth stocks maintained their lead. The energy sector (a value-biased sector by definition) was the sole positive performer amid rising oil prices.

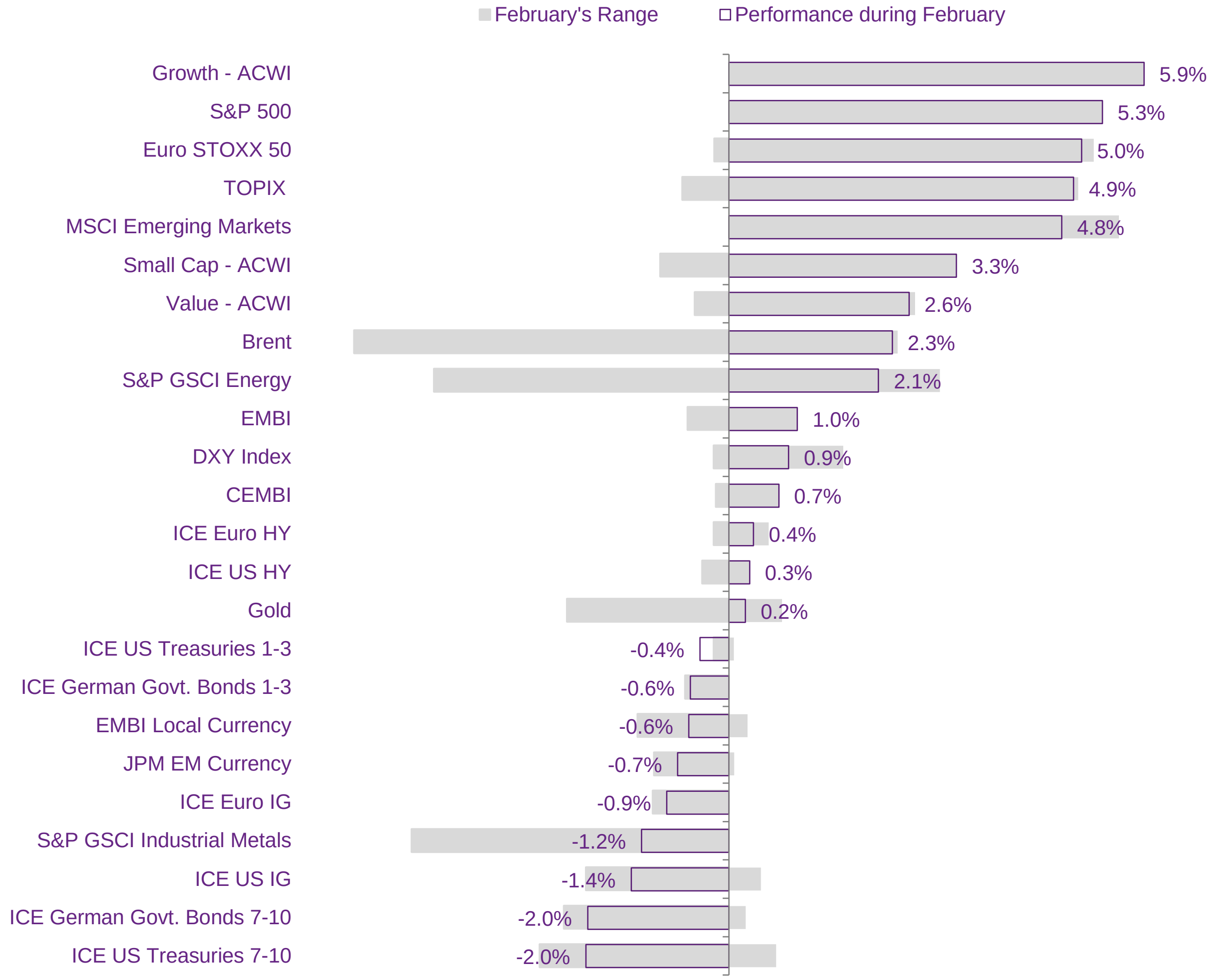
Bond markets faced headwinds as investors pushed out rate cut expectations. The Bloomberg Global Aggregate Index lost 1.3% in February, with US Treasuries down 1.3% as the 10-year yield reached new cycle highs above 4.2%. UK Gilts underperformed, falling 3.6% year-to-date, as wage growth remained elevated. Euro-area government bonds also declined but outperformed US and UK counterparts. In credit markets, high-yield bonds outpaced investment-grade issues due to their lower duration sensitivity.

The US dollar strengthened 0.7% in February, supported by resilient domestic growth. Commodity performance was mixed, with the Bloomberg Commodity Index down 1.5% as gas and agricultural prices fell. However, oil prices rose, with Brent crude gaining 2.3% amid supply concerns in the Middle East. Gold was relatively flat, edging up 0.2%.

Sources: Bloomberg & NIM Solutions. Data as of February 29, 2024.

Cross Asset Total Performance in Local Currency

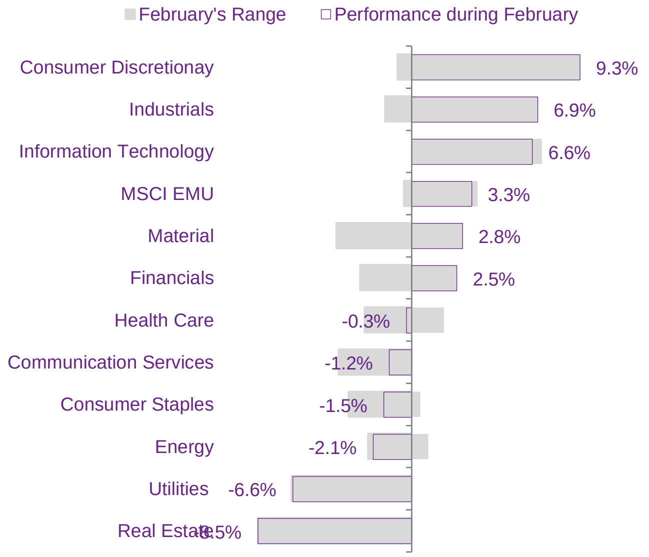
Past performance information presented is not indicative of future performance.



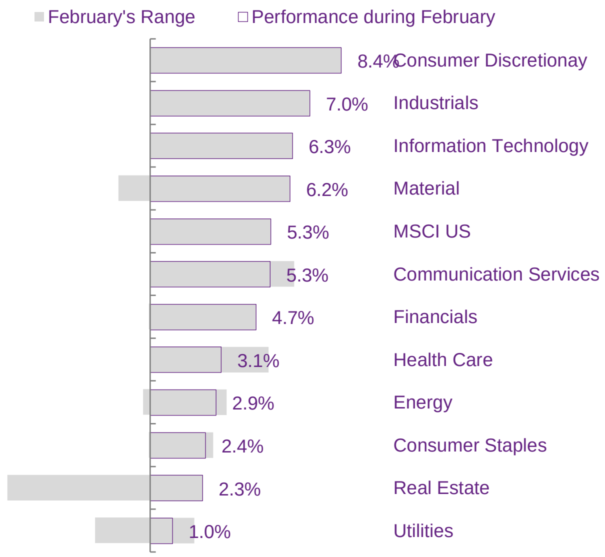
Sector Total Performance in Local Currency

Past performance information presented is not indicative of future performance.

MSCI EMU



MSCI US

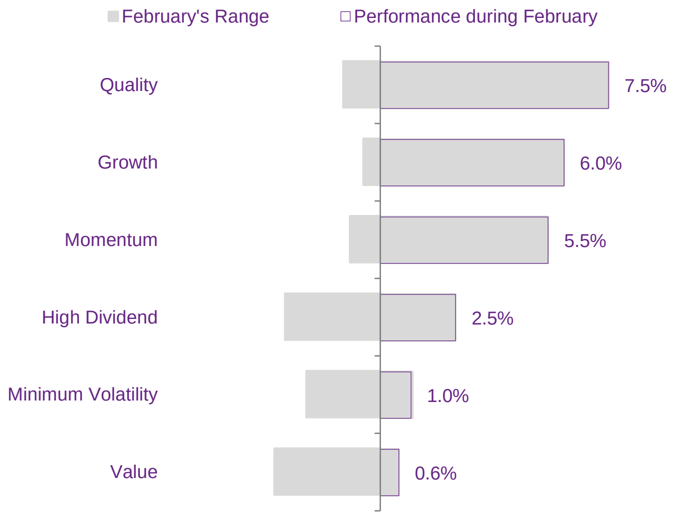


Source: Bloomberg & NIM Solutions. Data as of February 29, 2024.

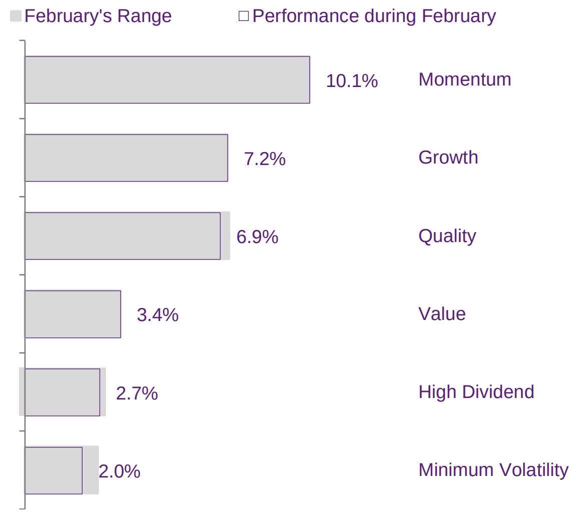
Style Total Performance in Local Currency

Past performance information presented is not indicative of future performance.

MSCI EMU



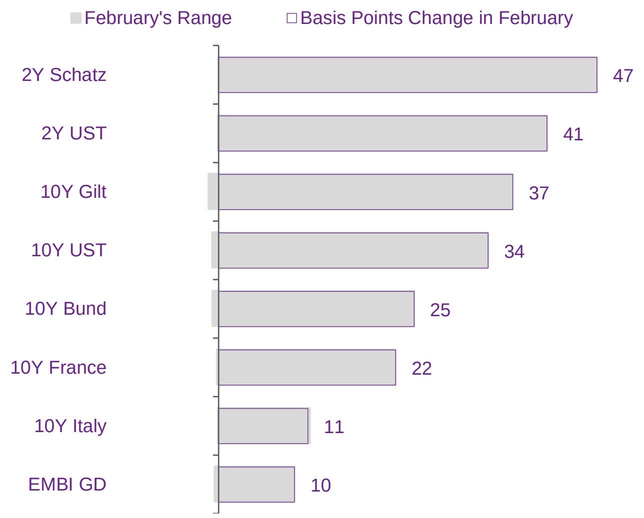
MSCI US



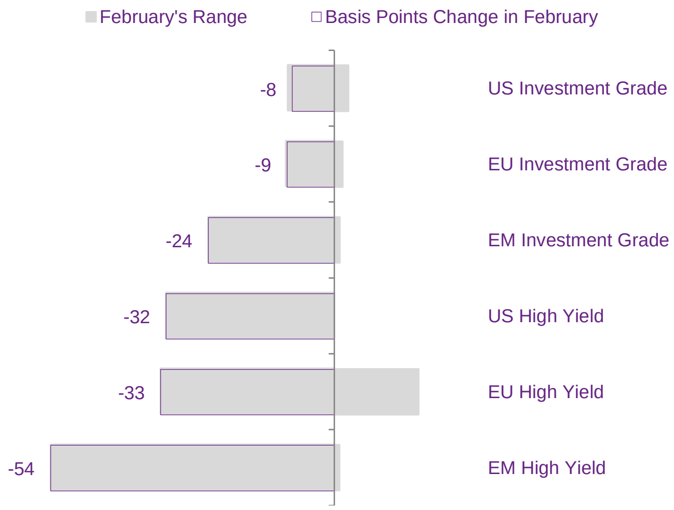
Net Yield Change

Past performance information presented is not indicative of future performance.

Bonds



Credit Spreads*



**Credit spreads are OAS and correspond to Bloomberg indices*

Source: Bloomberg & NIM Solutions. Data as of February 29, 2024.

Source: Bloomberg & NIM Solutions. Data as of February 29, 2024.