NATIXIS INVESTMENT MANAGERS

Marketing Communication

MARKET REVIEW

Global Market Strategy, NIM Solutions

March 2024

Macroeconomic developments

According to the final estimates of Q4.23 US GDP growth, the economy performed stronger than earlier reported, coming 0.2 percentage points higher at a 3.4% annual rate. This upward revision was attributed primarily to strong personal consumption and improved corporate profits, particularly in nonfinancial sectors. Moreover, while still a bit above expectations, February's CPI report came in closer to consensus, as primary rents dropped after the large surprise in January. For its part, the labour market added 275,000 new jobs in February, and kept showing signs of coming better into balance with a combined reduction of 167,000 jobs to December and January's initial estimates that drove the unemployment higher to 3.9% from 3.7%. Lastly, Federal Reserve left its policy rates on hold at its March meeting while hinting at potential rate cuts later in 2024 to sustain economic momentum.

After a challenging 2023, Eurozone's economic indicators pointed to further stabilization. The services PMI improved to 51.1 from 50.2 in March while the manufacturing PMI fell to 46.1 from 46.5, with Germany still posting the lowest level. Nevertheless, national indicators point out that the economic environment is not as deteriorated as the manufacturing PMI indices suggest. The IFO business climate index in Germany rose to 87.8 in March, up from 85.7 the month before and above the consensus for 85.9, as both the expectations and the current assessment index advanced. The headline inflation rate in the Eurozone fell further in March to 2.4% year-over-year from 2.6% and core inflation dropped to 2.9% from 3.1% in February, supported by declining energy costs. The European Central Bank (ECB) lefts its policy rates unchanged at its March meeting and President Christine Lagarde suggested that the central bank is more likely to cut rates in June than in April, saying policymakers will have much more information in hand by then especially on the wage front. The central bank has decided lower the spread between its deposit rate and its main refinancing rate to 0.15% from 0.5% beginning on 18 September signalling a return to more conventional monetary policy practices. The deposit rate will thereby become the new official policy rate and reflect the intended policy stance. We also note that the Swiss National Bank (SNB) became the first developed market central bank to begin its cutting cycle, reducing its target rate by 0.25% to 1.5% and citing upside risks to the CHF due to weakening external growth dynamics.

China held its 2024 National People's Congress, where policy makers announced a 2024 GDP growth target of around 5%, but investors remained concerned on China's growth prospects in the absence of any meaningful fiscal stimulus. Furthermore, China's economic backdrop has been improving recently with retail sales and industrial production beating expectations in February. On a similar note, both manufacturing and services Caixin PMI surveys advanced further into expansionary territory in March, with activity in the manufacturing sector coming in at its highest level for 13 months. Moreover, after four consecutive months in deflationary territory, the headline inflation rebounded to 0.7% year-over-year in February and the core figure jumped to 1.2% from 0.4% the month before. For its part, the People's Bank of China (PBoC) stepped up its supportive measures and cut its 5-year loan prime rate for the first time since June 2023.

Finally, the Bank of Japan (BoJ) raised interest rates for the first time in 17 years on the back of strong wage growth within Japanese labour unions and an inflation that has been running above target for over a year. The policy rate was brough to the [0.0% -0.1%] range, marking the last central bank to end its negative interest rate policy, which had been in place since 2016. The central bank also ceased its yield curve control policy and will gradually reduce its purchases of equity exchange traded funds (ETFs) and real estate investment trusts (REITs).

Market reaction

Global equities markets had their fifth-consecutive month of gains, with the MSCI World Index surging 3.2% in March and with indices like the S&P 500, Euro Stoxx 50, and Nikkei 225 again hitting new all-time highs. Markets looked through the signs suggesting stickier inflation, and instead preferred to focus on expectations for continued growth in corporate profits, especially in the US, and on the broader dovish tone from central banks. Sector performance in March was broad based with every sector posting a positive return led by energy and materials stocks, while consumer discretionary and staples sectors lagged. Moreover, emerging markets lagged, with the MSCI EM Index up 2.5%, led by Taiwan and South Korean stocks but held back by those of Brazil.

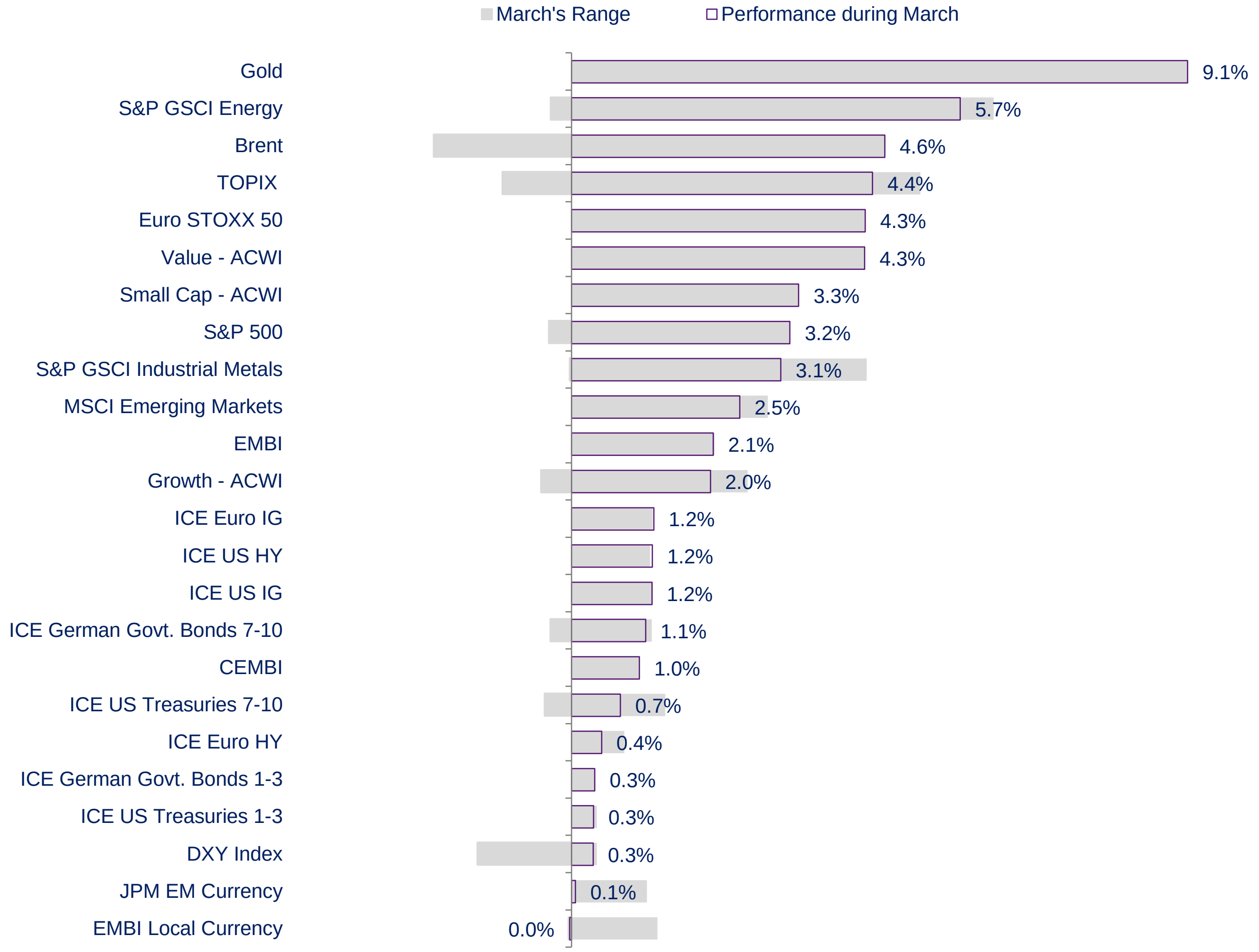
Following their increase in February when investors pushed out rate cut expectations, global sovereign yields ticked downwards in March. The Bloomberg Global Aggregate Index increased 0.3%, with Treasuries up 0.3% as the US 10-year yield fell 5bps to 4.20%, Bunds up 0.3% as yields fell 11bps to 2.30%. We note that the 10-year yields in Italian BTPs and UK Gilts fell the most, dropping 16bps (to 3.68%) and 19bps (to 3.93%), respectively. Moreover, credit spreads tightened across regions and qualities in March, except that of EU high yield. Conversely, Euro investment grade performance lead the space, followed by US high yield. We note EM hard currency debt solid performance in a month where the US dollar showed no particular strength against EM currencies.

The DXY Index advanced 0.3% in March, strengthening the most against the CHF on the back of SNB' first rate cut. Commodity prices rose sharply, with gold up 9.1%), silver up 10.1%, brent oil up 4.6% and TTF natural gas up 9.2%. Lastly, Bitcoin's price advanced 15.3% as pent-up demand drove large inflows into the SEC's newly approved spot ETFs.

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

Cross Asset Total Performance in Local Currency

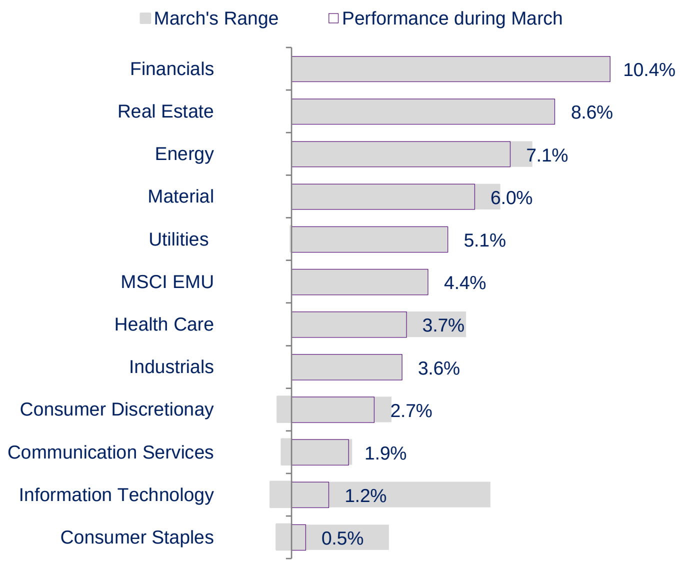
Past performance information presented is not indicative of future performance.



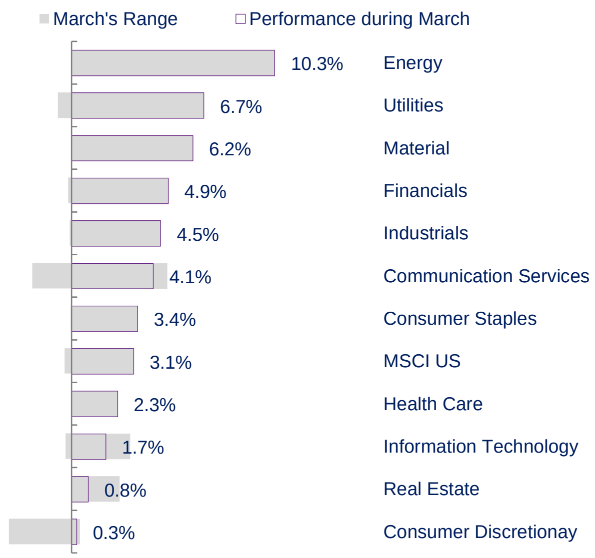
Sector Total Performance in Local Currency

Past performance information presented is not indicative of future performance.

MSCI EMU



MSCI US

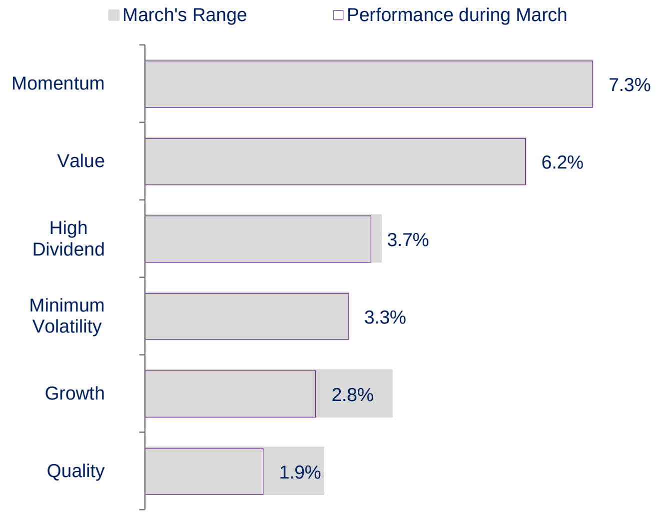


Source: Bloomberg & NIM Solutions. Data as of March 29, 2024.

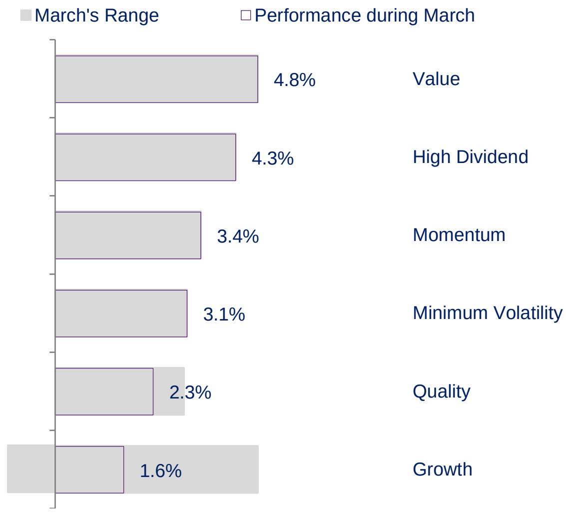
Style Total Performance in Local Currency

Past performance information presented is not indicative of future performance.

MSCI EMU



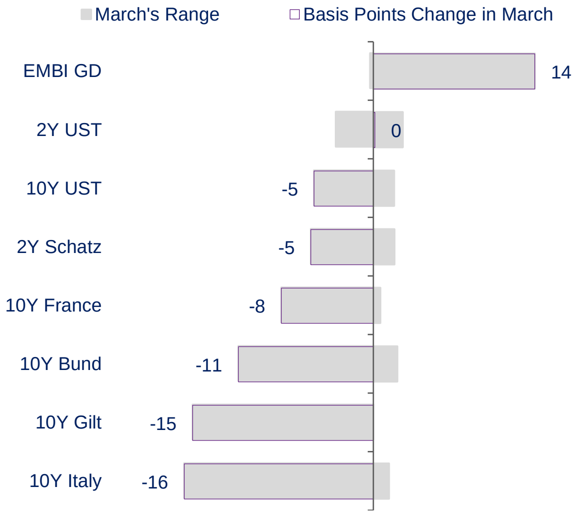
MSCI US



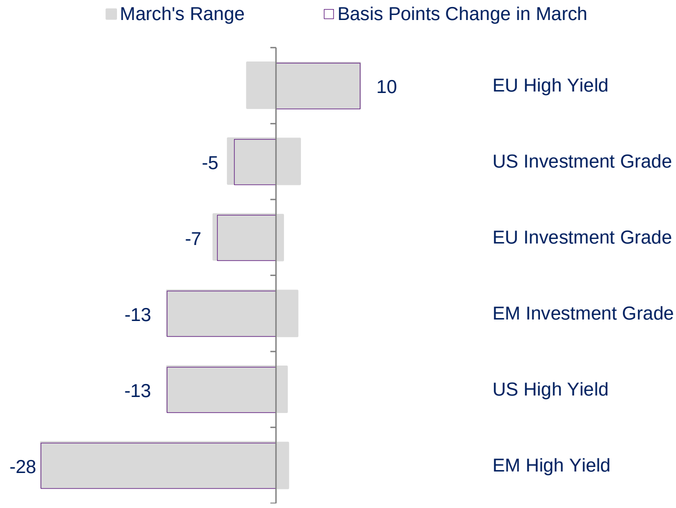
Net Yield Change

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 March 29, 2024.