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Market summary

Review of February 2024

While global equities delivered robust gains in February, bond markets retreated as investors pared back expectations for interest-rate cuts in the face of stronger than expected inflation and economic data. Buoyed by the same resilient economic data, strong US company earnings numbers, and a sharp bounce in Chinese equities following the latest raft of policy initiatives, global equities delivered 4.1%. China was the top-performing regional equity market. Its return of 9.5% boosted Asian and emerging markets. Meanwhile, US Treasuries gave up 0.5% in the face of persistent US inflation while UK gilts declined 1.4%.

Equity markets

Despite US inflation remaining higher than expected, with five of the Magnificent Seven reporting earnings, and exceptional share-price gains for the likes of Meta and Nvidia, major US equity indices continued to register new all-time highs. US equities gained 5% in a month when 75% of US companies to report earnings, beat analysts' expectations. Consumer discretionary and industrial stocks led the market while defensive sectors trailed.

Europe's equity markets trailed developed markets but still returned 3%. Along the way, European market indices passed new record highs, surpassing those set more than two years ago. The renewed excitement toward AI stocks helped to lift Europe's technology stocks late in the period. Consumer discretionary and industrial stocks also outperformed while more interest-rate sensitive areas, such as real estate and utilities, trailed.

UK equities eked out a 0.1% gain in the face of a technical recession after UK GDP shrank 0.3% in the last quarter of 2023 (to deliver two consecutive quarters of decline). Meanwhile, UK inflation remaining steady at 4%, and strong wage growth, deterred hopes of interest-rate cuts while analysts cut their UK profit forecasts. Industrial, financial, and consumer discretionary stocks made modest gains while consumer staples, real estate, and materials stocks declined.

Chinese equities bounced back from five-year lows to deliver 9.5%, thanks to Chinese New Year spending, cuts to mortgage rates, curbs on short selling, and major stock purchases by state-owned entities. This boosted emerging markets, which gained 5%. Korea, Taiwan, and Saudia Arabia were among the top performers as were Peru, Chile, and Poland. India, Brazil, South Africa, Greece, and Turkey all underperformed.

Fixed income

Although annual US consumer price inflation (CPI) dropped to 3.1% in January, from 3.4% a month before, the smaller than expected decline piled more pressure on government bonds as investors re-appraised the outlook for interest-rate cuts. US Treasuries fell 0.5% while UK gilts retreated 1.4% in the face of robust UK wage growth, which likewise impacted the likelihood of interest-rate cuts. Meanwhile, UK corporate bonds declined 0.7%.

Key takeaways

- Global equities delivered robust gains in February, while bond markets retreated.
- Interest rate cut expectations were pared back in the face of stronger than expected inflation and economic data.
- China was the top-performing regional equity market in February 2024, after a poor 2023.

Source: Quilter Investors as at 29 February 2024. Total return, percentage growth in pounds sterling, rounded to one decimal place of the relevant IA sector average over period 1 February 2024 to 29 February 2024. The performance shown for global equities is represented by the IA Global sector; US equities by the IA North America sector; European equities by the IA Europe ex UK sector; UK equities by the IA UK All Companies sector; emerging markets by the IA Global Emerging Markets sector; US Treasuries by the IA USD Government Bond sector; US Treasury (GBP Hedged) Index; UK government bonds by the IA UK Gilt sector; and sterling corporate bonds by the IA £ Corporate Bond sector.

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