FlyingColours

Portfolio & Market Update

March 2024

Introduction

March was another strong month for the markets. The equities markets continued to rally substantially, and Fixed Income reversed their recent losses, finishing the month with a positive performance. There was an increase in geopolitical tensions, which led to oil prices rising above 90 USD per barrel.

While inflation rates continue to drop compared to the previous quarter, the latest numbers were disappointing, indicating that a rate cut in June is unlikely. Markets were disappointed by the inflation path which pushed the expectation of a rate cut to later in 2024. At the same time, the US economy continued to show signs of resilience while growth for the rest of the world is subpar.

As things stand, there appears to be a divergence in terms of the rate pathway; Europe and the UK appear more likely to ease interest rates soon, while the US is maintaining a cautious approach, signalling high interest rates for a prolonged period.

Markets

March was a positive month for multi-asset portfolios as equity performance was positive and fixed income assets also performed well. US equities offered a solid positive return and Japan continued to rise. Asia and Emerging Markets also returned a positive performance.

But in sterling terms, UK equities was the best performing regional equity at 4.85%, followed by Europe and US equities with returns of 4.26% & 3.32%.

UK

The UK markets returned a strong performance of 4.85% for the FTSE100. The Bank of England's Monetary Policy Summary for March indicates that there are signs of recovery in the first half of 2024, with business surveys signalling an improving outlook for economic activity.

While the UK economy faced difficulties in the latter half of the previous year, there are indications of a turnaround, with expectations of growth and recovery in the near term.

The S&P Global UK Manufacturing Purchasing Managers' Index (PMI) was revised to 50.3 in March from a preliminary estimate of 49.91 (a score above 50 indicates an expanding market).

This marks the first expansion in the manufacturing sector since July 2022, indicating an increase in output and new orders. While unemployment was slightly up at 3.9%, the numbers suggest that the economy is slowly strengthening.

Inflation was 3.4%, which is lower than the previous reading of 4% and below economists' expectations.

Europe

The European stock markets had a positive month, returning 4.26% in March. The eurozone's manufacturing sector continued to contract, with the PMI Manufacturing index at 46.5. This is due to weak demand, even though firms were optimistic about next year.

Inflation in the Euro area has declined 2.6% year-on-year, which is slightly higher than the market expectation and the central bank's goal. Once again, the services sector was the main

FlyingColours

Portfolio & Market Update

March 2024

driver of price increases, though at a slower pace than before.

US

With the S&P 500 generating a positive return of 3.32% in sterling terms, it has continued to rally to new all-time highs in 2024.

The rally was driven by remarkably strong underlying economic fundamentals. S&P 500 companies have reported their second consecutive quarter of year-over-year earnings growth in the fourth quarter.

Inflation went down to 3.1% but was still higher than market predictions.

Composite PMI dropped slightly to 52.2, which is a slight decrease from the previous month due to a weaker services sector. This still demonstrates the US economy's strength which is supported by an increase in manufacturing activity.

The US has grown for the 14th month in a row, with a solid, but slowing labour market. The unemployment rate dropped from a revised 3.9% in February to 3.8%, which is higher than the low point of April 2023, but very similar to the previous reading of 3.7%.

Japan

Japan returned a strong performance of 3.27% in sterling terms for March. The composite PMI increased from 50.6 to 51.7, with the services sector being very strong and the manufacturing sector rebounding from a revised 47.2.

Despite Bank of Japan action, the stronger US economy led to an appreciation of the US dollar against major currencies, particularly the Japanese Yen. Yen depreciation is particularly good for Japanese stocks which tend to be large exporters.

Asia & Emerging Markets

EM countries had a good month in sterling terms, delivering a 2.62% return. China's equity market improved despite some economic difficulties, as industrial profits increased, and credit growth accelerated. The central government boosted the economy with fiscal stimulus, which included issuing new bonds.

Still, investors remain wary, with many foreign investors refraining from investing in the Chinese market for the long term. This resulted in Chinese equities trading with little change.

Fixed Income

March was a good month for Fixed Income in the UK. The 10-Year Yield for UK Gilts fell to 3.92%, which was lower than the previous month.

These movements in yields were caused by a drop in inflation which sparked expectations of a possible interest rate reduction by the Bank of England.

Outlook

We continue to expect inflation to fall in all regions, albeit at varying rates. Our outlook is that there is still the potential for a global economic slowdown, but a recession is unlikely in the coming months. Central banks will continue the challenging task of balancing inflation and economic growth.

At Flying Colours, we continue to monitor the economic outlook and market signals to ensure that our portfolios are positioned in the best interests of our clients.

Our portfolios are designed for long-term investment, so they are managed with this in mind. Our approach is to manage the long-term risk and not to be influenced by short-term trends which could be costly for our investors.

Our aim is to achieve carefully managed risk-adjusted returns, in line with our investment philosophy.