ROBECO
The Investment Engineers

Global markets outlook

March 2024

For professional investors

Sustainable Investing Expertise by
ROBECOSAM

General overview

Emerging equity markets boosted by Chinese domestic support

MULTI ASSET	1mo	3mo	YTD	1YR	3YR	5YR
Emerging Markets (UH, EUR)	5.2%	4.7%	2.0%	6.6%	-2.6%	2.9%
Emerging Markets (LC)	5.1%	4.6%	1.4%	9.7%	-3.6%	4.0%
MSCI World (UH, EUR)	4.6%	11.6%	7.7%	22.5%	12.9%	12.8%
MSCI World local currency	4.6%	10.9%	6.5%	25.1%	10.3%	12.2%
MSCI World (H, EUR)	4.5%	10.6%	6.3%	23.1%	8.6%	10.4%
Oil Index (USD)	3.7%	4.0%	10.2%	10.3%	20.0%	-1.3%
Global real estate (UH, EUR)	3.2%	8.4%	1.3%	4.8%	6.0%	2.5%
GSCI Commodities (USD)	1.3%	2.7%	7.6%	2.9%	19.9%	8.3%
Global high yield (H, EUR)	0.8%	4.4%	0.8%	9.8%	-0.5%	1.3%
EMD hard currency (UH, EUR)	0.7%	4.8%	1.7%	6.3%	0.6%	1.6%
Cash (EUR)	0.3%	1.0%	0.7%	3.7%	1.2%	0.6%
EMD local currency (UH, EUR)	0.1%	2.5%	0.0%	6.0%	1.7%	1.5%
Gold (USD)	-0.2%	0.2%	-0.9%	11.3%	5.3%	8.1%
Global inflation-linked bonds (H, EUR)	-0.6%	1.4%	-2.1%	0.2%	-4.3%	-0.9%
Global Gov Bonds (H, EUR)	-0.9%	1.5%	-1.5%	2.0%	-4.2%	-1.4%
Global investment grade bonds (H, EUR)	-1.2%	2.2%	-1.4%	4.5%	-4.0%	-0.2%

Source: Robeco, Bloomberg

Robust global data and corporate earnings were better than expected, further pushing out expectations for interest rate cuts, creating a divergence of fortunes between equity and bond investors. Relatively strong earnings helped to support the equity market, with growth-focused companies leading the way. In particular, five of the 'Magnificent Seven' US stocks reported results that were in line with or above analyst expectations.

Within equities, emerging markets were up nearly 5%, thanks to a strong rebound in China. This was supported by further interventions from the government, including a cut to the 5-year loan prime rate. It remains to be seen if this is a 'dead cat bounce', or whether investors think enough support have been given to warrant a turnaround in sentiment.

Bond markets were impacted by a higher-than-expected US headline inflation figure of 3.1% and better-than-expected Q4 US GDP reading. This reduced the prospect of near-term rate cuts, with the market moving from predicting six cuts at the end of 2023 to three cuts today. The pain was felt most acutely in the more rate-sensitive parts of the bond market, such as government bonds and investment grade credits.

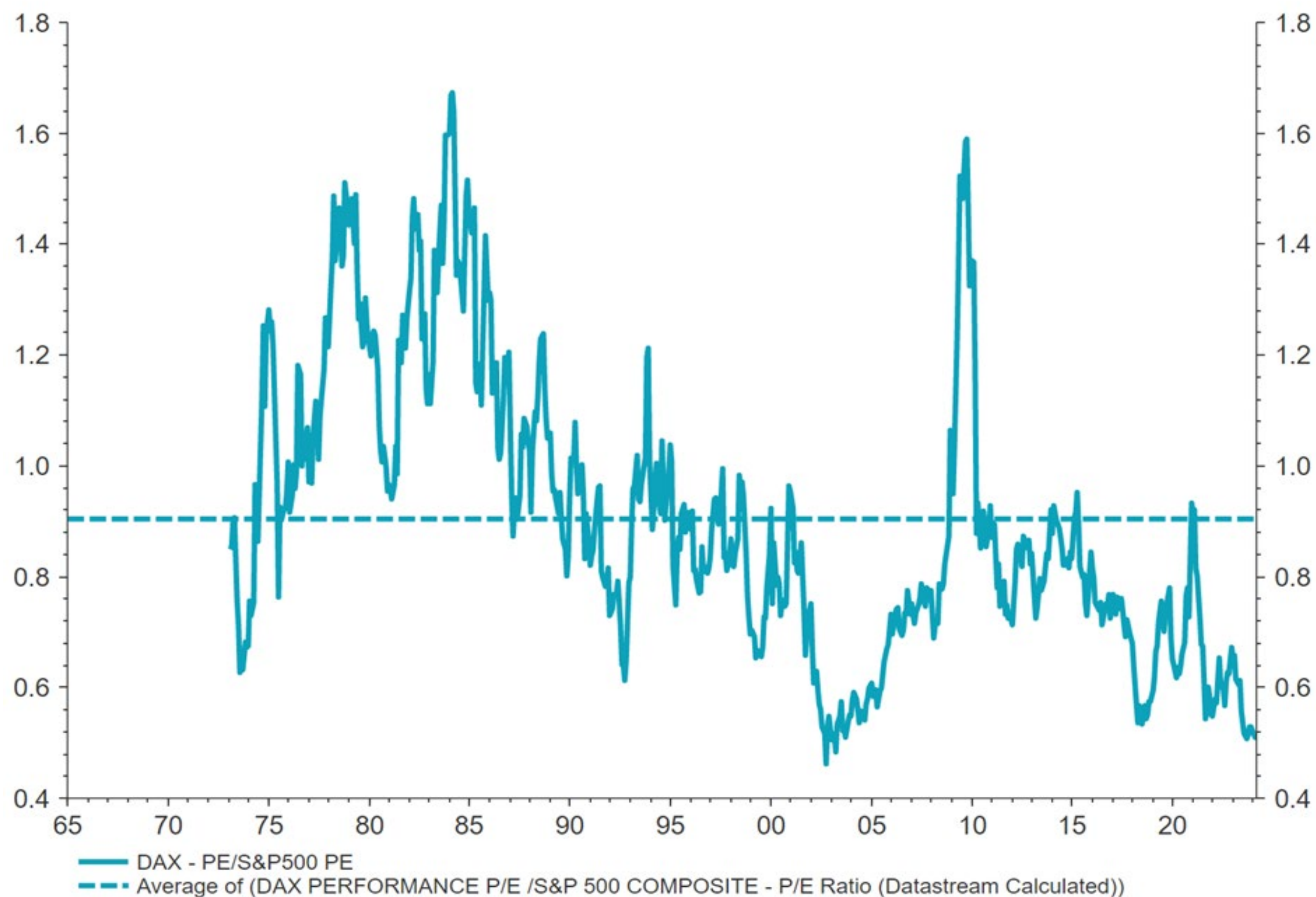
Elsewhere, commodities were positive in the month, with oil rising, though the overall index was dragged down by a fall in gas and agricultural prices. European natural gas dropped over 17%, extending its losing streak to four months

The US dollar benefitted from the 'higher for longer' rates outlook, rising for the second month as US exceptionalism continues.

Theme of the month:

Europe: Beautiful stagnation, challenging recovery?

A bargain? DAX shows a 50% discount versus the S&P 500 on P/Es



Source: Refinitiv Datastream, Robeco

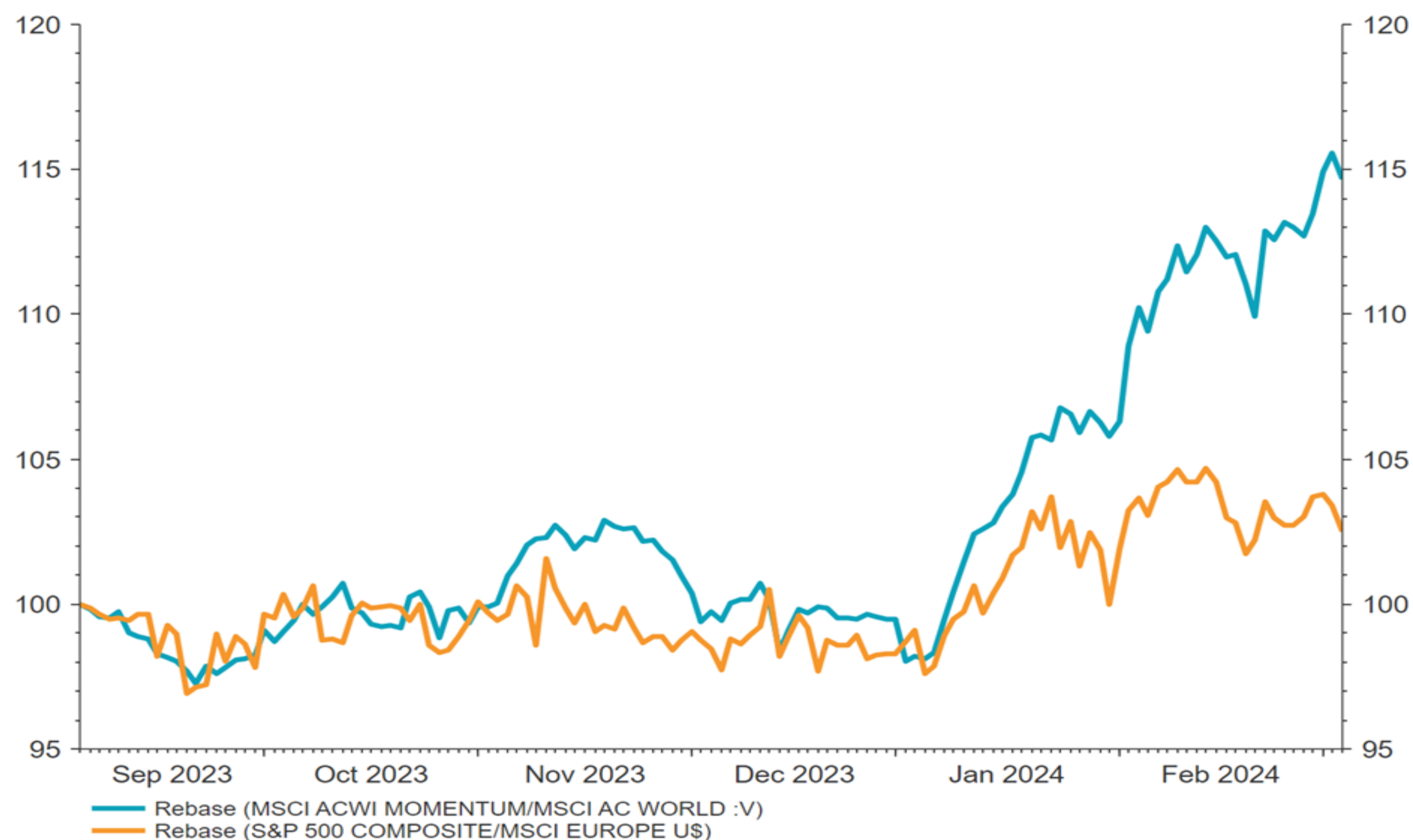
The Eurozone is, as European Central Bank (ECB) council member Klaas Knot remarked in an interview, still enjoying a rare ''stagnation at full employment". This constellation has allowed the ECB to exercise patience while awaiting the outcome of the Spring wage negotiation rounds without needing to embark on emergency rate cuts that often coincide with sharp stock market downturns.

Clearly, stock markets have been appreciating this 'beautiful stagnation', with Eurozone stock markets rising by 11.6% over the last three months to the end of February. Yet, Europe has still been underperforming the US and Japan over this period.

However, a few bright spots have recently emerged that could favor Europe again; from the valuation angle, historical discounts versus the global benchmarks have appeared. From a business cycle perspective, a nascent recovery in the global manufacturing cycle could particularly benefit Europe and unlock value.

Theme of the month

Momentum stocks have beaten Value stocks by 15 % in the YTD



Source: Refinitiv Datastream, Robeco

Despite valuations and macroeconomic surprises improving in the Eurozone, we remain cautious on Eurozone equities in the near term.

First, while there are signs that the current equity market is broadening as macroeconomic data keeps surprising to the upside, the value-tilted segments of the market are still underperforming. Looking at factor styles, the latest bull run in equities is predominantly momentum driven. The nature of this equity market rally is therefore not conducive to seeing structural outperformance of Europe versus the rest of world, or specifically in the US, as European companies are more value tilted whereas US stocks have a higher correlation with the momentum factor. With economic growth outside the US still relatively scarce, US growth-orientated companies that deliver superior cashflow generation command a higher premium in the global stock market, and enjoy stronger momentum.

Second, the global manufacturing cycle has been in recession since September 2022, but there are now nascent signs of an upswing. Inventory-to-sales ratios in the US have normalized, and the export growth of pro-cyclical exporters

Theme of the month

European equities have already priced in a recovery in manufacturing

Source: Refinitiv Datastream, Robeco

The export growth of pro-cyclical exporters like Taiwan and South Korea has accelerated recently. Producer confidence numbers in the manufacturing sector have surprised to the upside lately, and have shown decelerating slowdown in economic activity, or even pointed towards outright expansion. The JP Morgan Global manufacturing PMI increased to 50.3 in February. Yet, while these developments are promising for a continent with a strong manufacturing base like Europe, markets have already taken a leap of faith. For instance, the MSCI Europe is currently trading at levels more consistent with the IFO expectations confidence indicator of around 100, a value typically observed around business cycle peaks. The reading at the end of February was 81.6.

Third, the currently subdued IFO business climate expectations signal that profitability will likely remain under pressure in the coming quarters. German producer prices are still negative year-on-year and profit margin proxies (producer prices minus wage growth) have stabilized at low levels. Looking at a measure of slack, German manufacturing currently underutilizes its productive capacity by 3% compared to historical averages, whereas the US is still showing an above historical average capacity utilization rate. This also explains weakening producer prices and subdued corporate pricing power on the continent.

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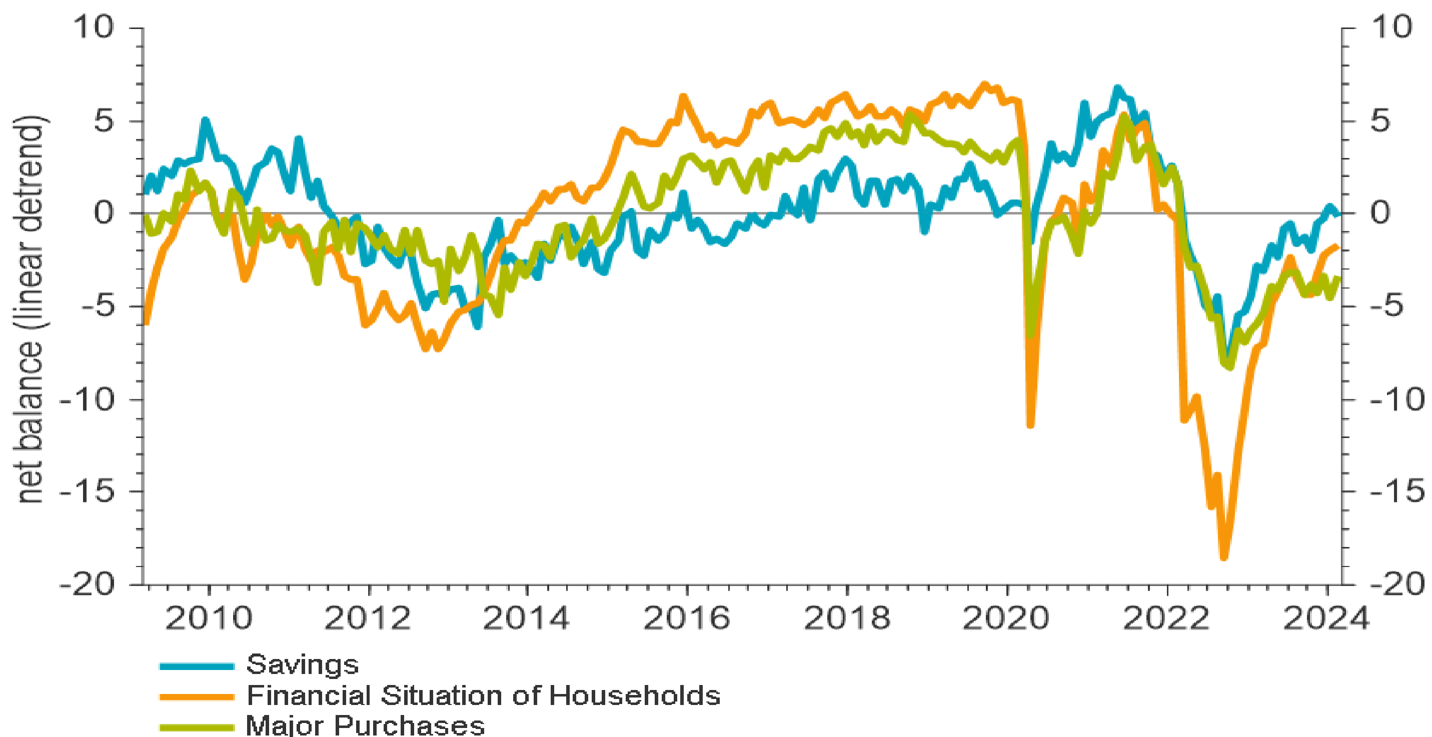
Economy

The European outlook is improving but key economic drivers are still subdued



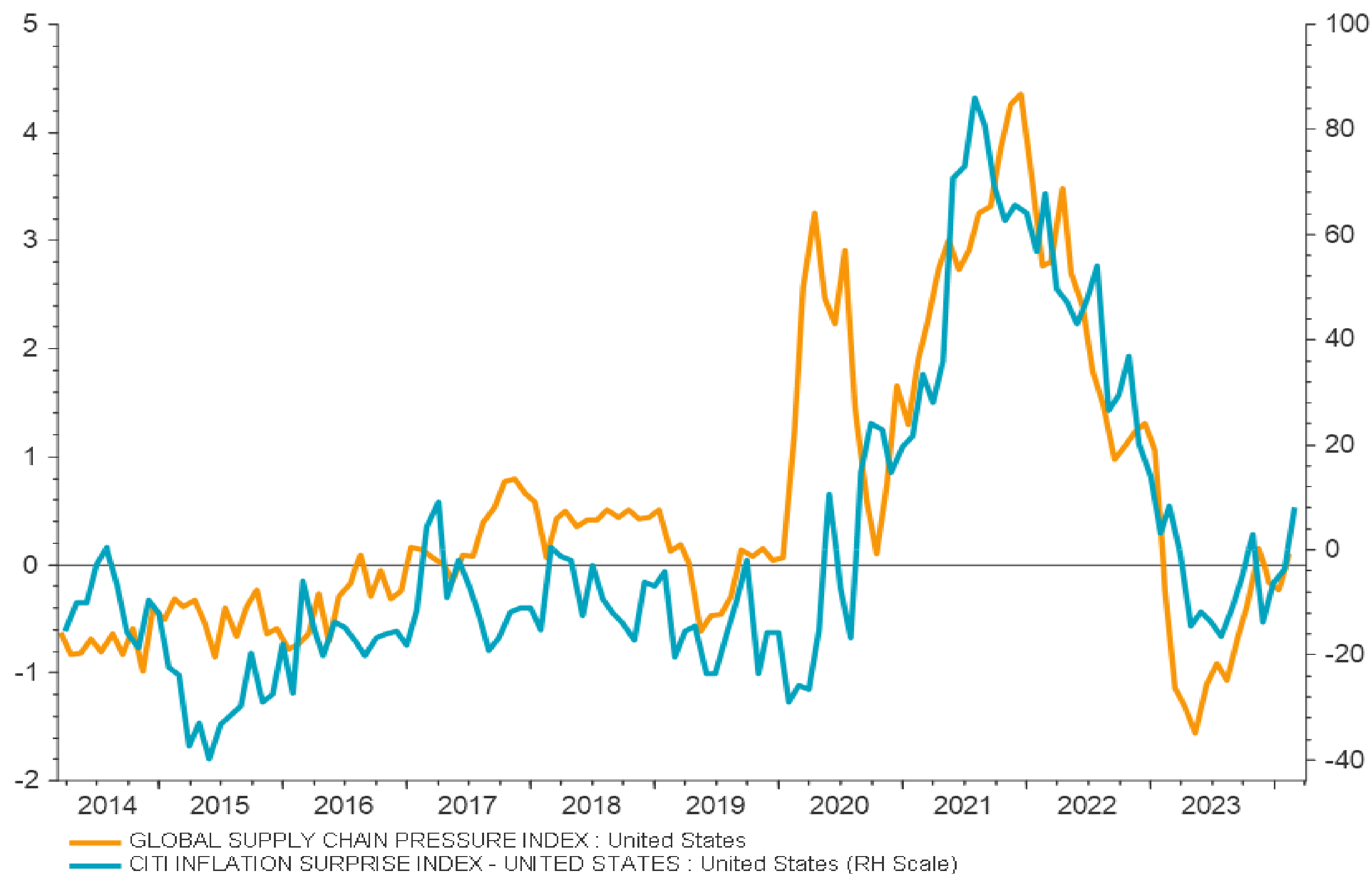
Source: Refinitiv Datastream, Robeco

The mood among economists is getting better, driven by macroeconomic surprises that are further improving from already positive levels in most developed markets. Also, macro news from China has stabilized, after the Chinese National Policy Congress decided to aim for 5% real GDP growth this year, with further policy stimulus steps on the fiscal side largely in line with market expectations. The Global Manufacturing PMI finally hinted at expansion in the manufacturing sector after consistently signalling a manufacturing recession since September 2022. Thus, re-accelerating growth is becoming the new consensus macro theme.

Yet, the picture remains bifurcated. While there are nascent signs of a bottom in global manufacturing activity, services activity seems more resilient. China still struggles with overcapacity in its manufacturing sector, and deflationary pressures are rising rather than abating as the real estate sector is in deleveraging mode. The February CPI reading declined to -0.8%. In Europe, the producer confidence among German manufacturers has stabilized at a low level. The IFO business climate index rose to 85.5 points in February from 85.2, with manufacturing signalling a continuing decline in order backlogs.

Economy

In the US, inflation has started to surprise to the upside again



Source: Refinitiv Datastream, Robeco

Central banks have been successfully pushing back against imminent rate cuts. The market has priced only three rate cuts from the Fed for 2024, down from five only a month ago. The upward surprise in the January US CPI, coming in above expectations at 3.1%, provided ammunition for a rethink. Meanwhile, at its 7 March press conference, the ECB signalled that an April rate cut was unlikely as it would not be until June that the central bank has "a lot" more data on crucial variables like wage rounds, unit labour costs and price setting behaviour by corporates. While Eurozone negotiated wage growth moderated somewhat in Q4, at 4.5% it may still be too high for comfort for some hawks in the Governing Council.

While the disinflationary trend is broadening across the CPI items, the uptick in the monthly rate of change in services inflation in the Eurozone is of particular concern for the ECB as it defies this trend. The HICP services index rose by 0.8% in February (m-o-m). As services are the most labour-intensive segment of the economy, an increased pass-through of higher wages could slow disinflation. The re-accelerating growth theme also highlights our 2024 outlook that we likely will see the end of immaculate disinflation in 2024.

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