



Global markets outlook

April 2024

General overview

The 'everything rally'

MULTI ASSET	1mo	3mo	YTD	1YR	3YR	5YR
Gold (USD)	8.3%	7.4%	7.4%	12.0%	8.5%	10.2%
Oil Index (USD)	7.3%	18.3%	18.3%	20.2%	24.4%	-0.8%
GSCI Commodities (USD)	4.9%	12.9%	12.9%	11.8%	21.4%	8.7%
MSCI World (UH, EUR)	3.4%	11.4%	11.4%	25.9%	11.7%	12.9%
MSCI World local currency	3.4%	10.1%	10.1%	26.2%	10.0%	12.6%
MSCI World (H, EUR)	3.3%	9.9%	9.9%	24.3%	8.3%	10.8%
Emerging Markets (LC)	3.0%	4.5%	4.5%	10.6%	-2.4%	4.4%
Global real estate (UH, EUR)	3.0%	4.3%	4.3%	13.3%	4.5%	2.0%
Emerging Markets (UH, EUR)	2.7%	4.7%	4.7%	8.8%	-2.3%	3.0%
EMD hard currency (UH, EUR)	1.9%	3.6%	3.6%	9.3%	0.7%	1.4%
Global high yield (H, EUR)	1.5%	2.2%	2.2%	11.1%	0.1%	1.5%
Global inflation-linked bonds (H, EUR)	1.2%	-0.9%	-0.9%	-1.7%	-4.2%	-1.2%
Global investment grade bonds (H, EUR)	1.1%	-0.3%	-0.3%	3.8%	-3.3%	-0.4%
Global Gov Bonds (H, EUR)	0.7%	-0.8%	-0.8%	0.3%	-3.9%	-1.6%
Cash (EUR)	0.3%	1.0%	1.0%	3.8%	1.3%	0.6%
EMD local currency (UH, EUR)	0.1%	0.1%	0.1%	4.6%	1.7%	1.4%

Source: Robeco, Bloomberg

2 All market data to 29 March 2024 unless mentioned otherwise

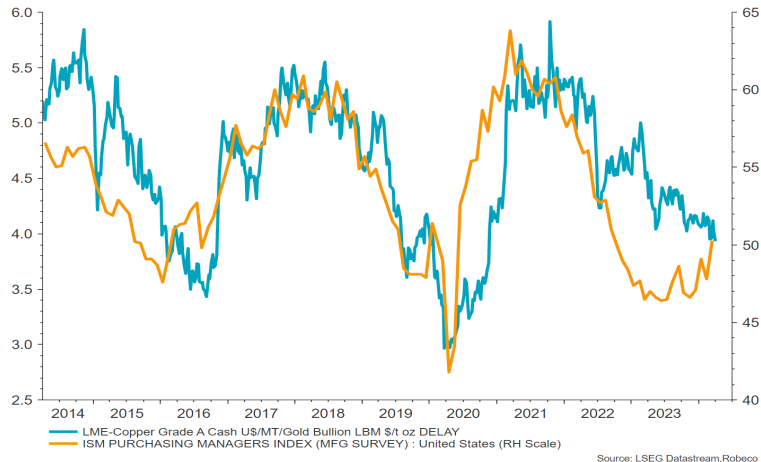
Q1 2024 saw consecutive quarterly gains in equity markets of over 10% for the first time in 10 years. The 'everything rally' extended to government bonds in March, which is counterintuitive to an accelerating economy (a manufacturing sector showing signs of life), many markets hitting all-time highs, and the risk-on rally.

Commodities were the standout performer as demand remained strong and supply issues multiplied through OPEC cuts and transport risks. Another anomaly has been gold hitting an all-time high (in recent mercantilist history), decoupling from its negative correlation with real interest rates and a risk-loving environment. We believe the gold price is being driven by central bank demand to de-dollarize their balance sheets and provide protection against weaponisation of the US dollar through potential sanctions and tariffs if Donald Trump wins the presidential election. As a confirmatory bias, the price of bitcoin continues to hit new highs, which we think this is effectively the same trade.

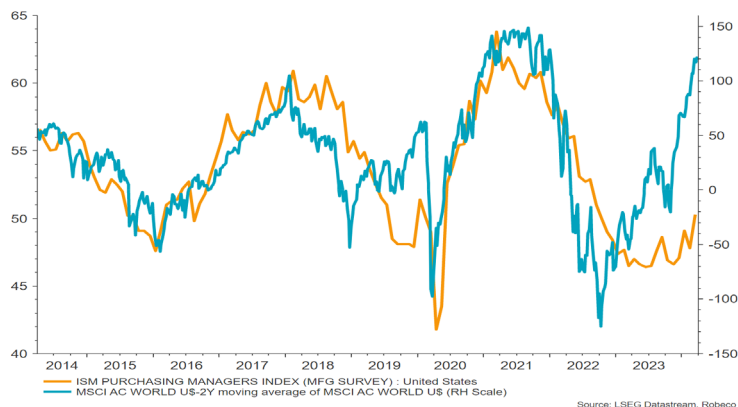
The market consensus is for 'no landing' in the US and broad economic improvement in the rest of the world, and while we have some sympathy for this outlook given the data, monetary conditions cannot be tight if economies are accelerating. We are in the camp that the outlook is less rosy than is priced in, but we have to respect the momentum.

Theme of the month

Spring is in the air for commodities, awaiting summer vibes



Commodity markets have not been pricing a full recovery in manufacturing ...



In contrast to global equities..

Source: LSEG Datastream, Robeco

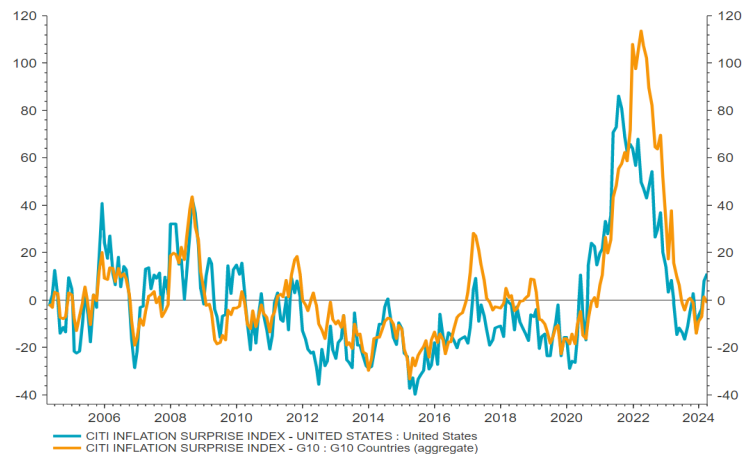
Commodities are set to rise in popularity, as market fundamentals reach an inflection point for this volatile but always interesting asset class. There are three reasons for this. First, the global manufacturing cycle has awoken from its long slumber, with commodities now offering the best risk/reward return potential from a cross-asset perspective. Second, we have been calling for an end to immaculate disinflation in 2024. We see growing evidence of stalling disinflation, as inflation has recently surprised to the upside in the US, which raises the appeal of commodities as an inflation hedge. Third, we expect the bottom-up narrative to improve, as supply-side pressures remain present in various commodity markets, with physical tightness likely to emerge in the medium term.

The signs of a recovering global manufacturing cycle are getting more promising, with the global manufacturing PMI in February rising above 50, heralding an end to a 16-month industrial recession. Leading indicators for manufacturing purchasing managers' confidence, such as South Korean semiconductor exports or Taiwanese exports, already suggested in mid-2023 that a trough in manufacturing activity was drawing closer. Last month saw the closely watched US ISM also rise above 50, the level that signals expansion.

Yet, whereas equity markets already priced a 'no landing' scenario, expecting a full recovery of the ISM Manufacturing indicator back to 60, commodity markets haven't been taking the bait. As commodity markets are spot markets that depend on spot fundamentals, an actual recovery in industrial production leaves more upside for commodities versus equities in terms of performance. Conversely, if the recovery in manufacturing proves to be false dawn, the downside risk for commodities seems more limited.

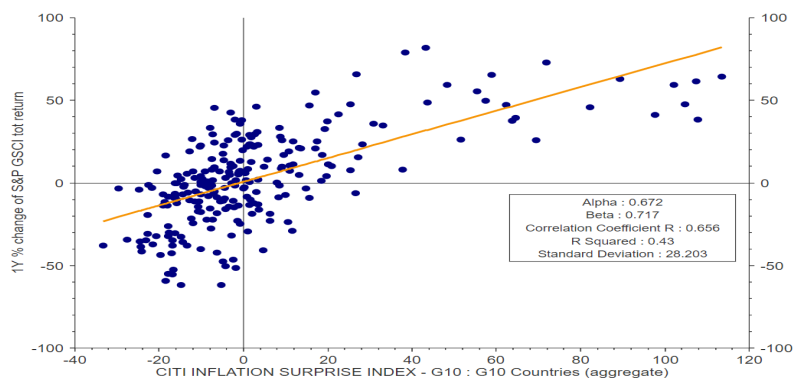
Theme of the month

Spring is in the air for commodities, awaiting summer vibes



Source: LSEG Datastream, Robeco

US inflation surprises have become positive recently



Source: LSEG Datastream, Robeco

Commodities provide protection against unexpected inflation

Source: LSEG Datastream, Robeco

Second, in our 2024 annual outlook published last November, we called for an end to ‘immaculate’ disinflation, as the last mile for central banks to bring inflation back from 3% to 2% often proves to be the toughest. In the year to date, US inflation has surprised to the upside, with the US Citi inflation surprise index again in positive territory, likely to be followed by its G10 aggregate shortly, in our view. Services inflation has surprised to the upside in the first months of the year against a backdrop of cyclically tight labor markets.

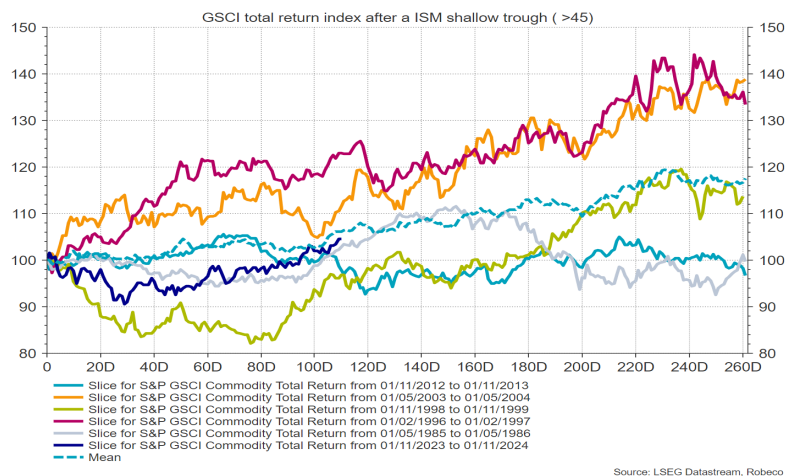
We continue to see upside risks to consensus inflation expectations for developed markets in 2024. While real wage growth is largely growing in tandem with labor productivity, real disposable income growth remained 1.5% above labor productivity as we entered 2024, thereby potentially stalling the disinflationary process in the US.

In addition, we also observe that financial conditions have eased, while money growth has troughed. Positive G10 inflation surprises typically coincide with positive commodity returns, as seen in the chart. Commodities thus show they are an effective hedge against unexpected inflation, while their current low correlation (0.32) with developed equity markets somewhat mitigates the drawdown risk in case of an equity sell-off.

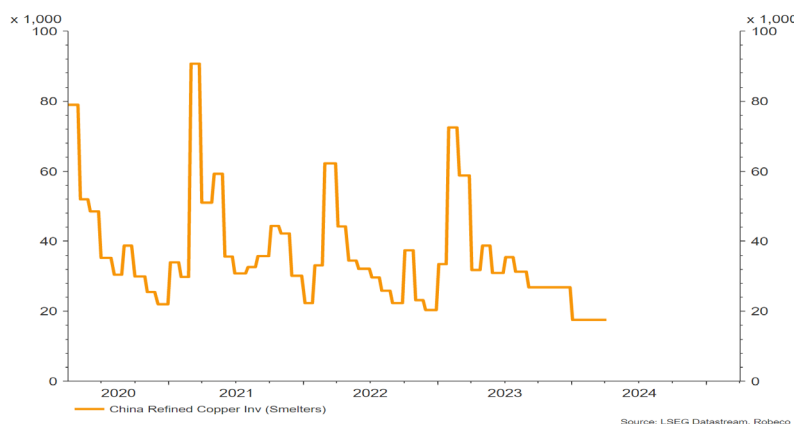
Third, the micro-fundamentals are increasingly supportive of a bullish view on commodities. Without physical tightness appearing in the next few quarters, it is difficult to envisage a sustainable rally in this asset class.

Theme of the month

Spring is in the air for commodities, awaiting summer vibes



Commodities typically rally by 20% in 12 months after shallow ISM trough



Copper inventories destocking process is over

Source: LSEG Datastream, Robeco

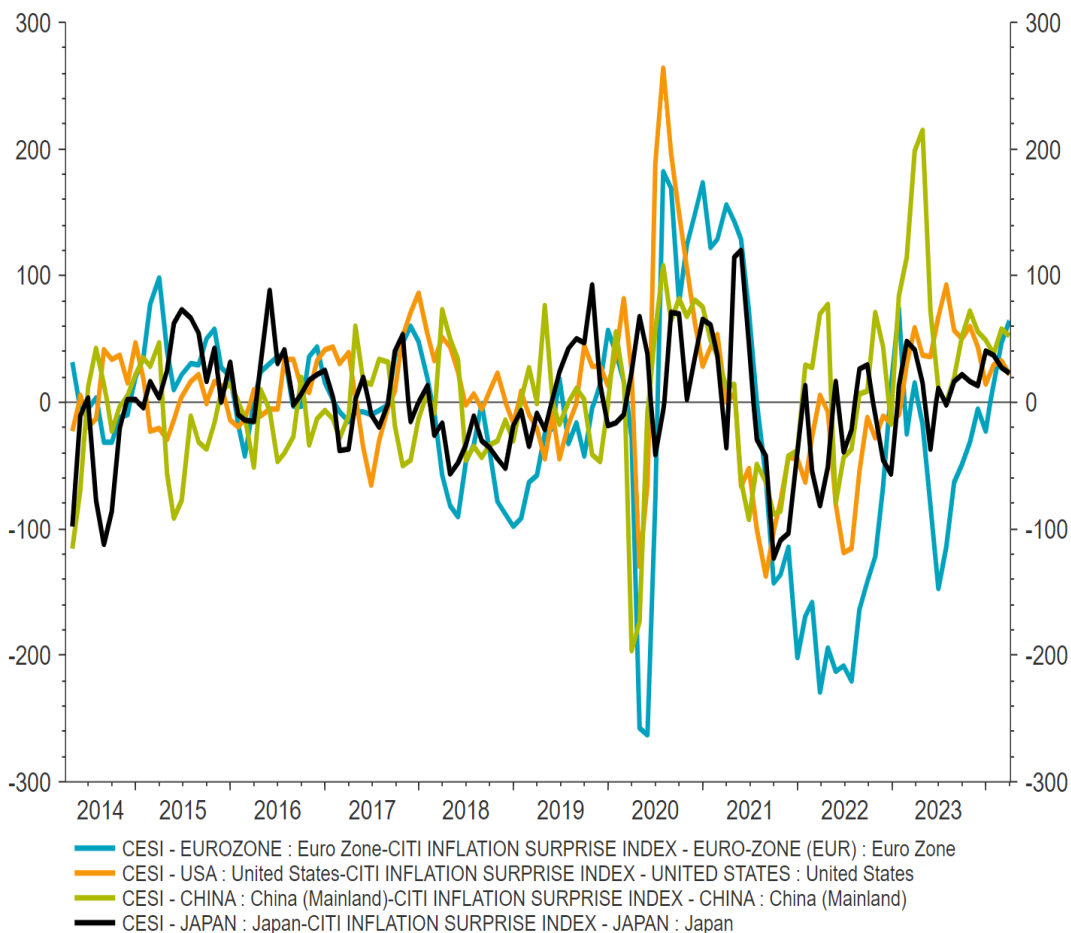
On the demand side, the destocking phase in metals like copper seems to have come to an end in China, establishing an important inflection point towards 'hand to mouth' buying. In addition, China's March NBS manufacturing PMI rose to 50.8, signaling expansion. The IEA has raised its global oil demand forecast in March by 110,000 barrels per day from February's report, citing an improved outlook from the US and increased bunkering. Yet, global oil demand could surprise to the upside when the Chinese and European manufacturing sectors also exit stagnation.

On the supply side, we see continued curbs on oil production from OPEC+ . For metals, mine supply from has been lackluster and continues to see downside risks due to below-trend capex, droughts, tough wage round negotiations in Latin America, and electricity outages in South Africa. Furthermore, supply risks stemming from turbulence around Israel/Iran, the November US elections and a potential Russian summer offensive in Ukraine might also raise the geopolitical risk premiums embedded in commodity prices.

All in all, the raw materials that Nvidia CEO Jensen Huang needs to keep his AI factories up and running will likely get more expensive. Spring is already in the air for commodity traders, but summer vibes have not yet arrived. There are risks that could pour cold water on the asset class. Futures positioning in commodities is elevated, and a hard landing remains a non-negligible risk on a 6-12-month horizon. As such, the recovery in global industrial activity that is needed to see physical tightness in commodity markets could prove to be flatter than expected.

Economy

Real surprise: Latest macro releases, controlled for inflation, have been better than expected



Source: LSEG Datastream, Robeco

Source: Refinitiv Datastream, Robeco

Incoming macro data in March for most developed economies kept surprising to the upside, especially for Europe. The continent shows the strongest positive momentum in macro-economic surprises to consensus expectations, corrected for inflation. While the G10 inflation surprises are still in negative territory, they have become outrightly positive in the US. The market has slowly started to recognize that a demand-led 'no landing' scenario also could bring stalling disinflation, introducing uncertainty about the timing of the rate cuts.

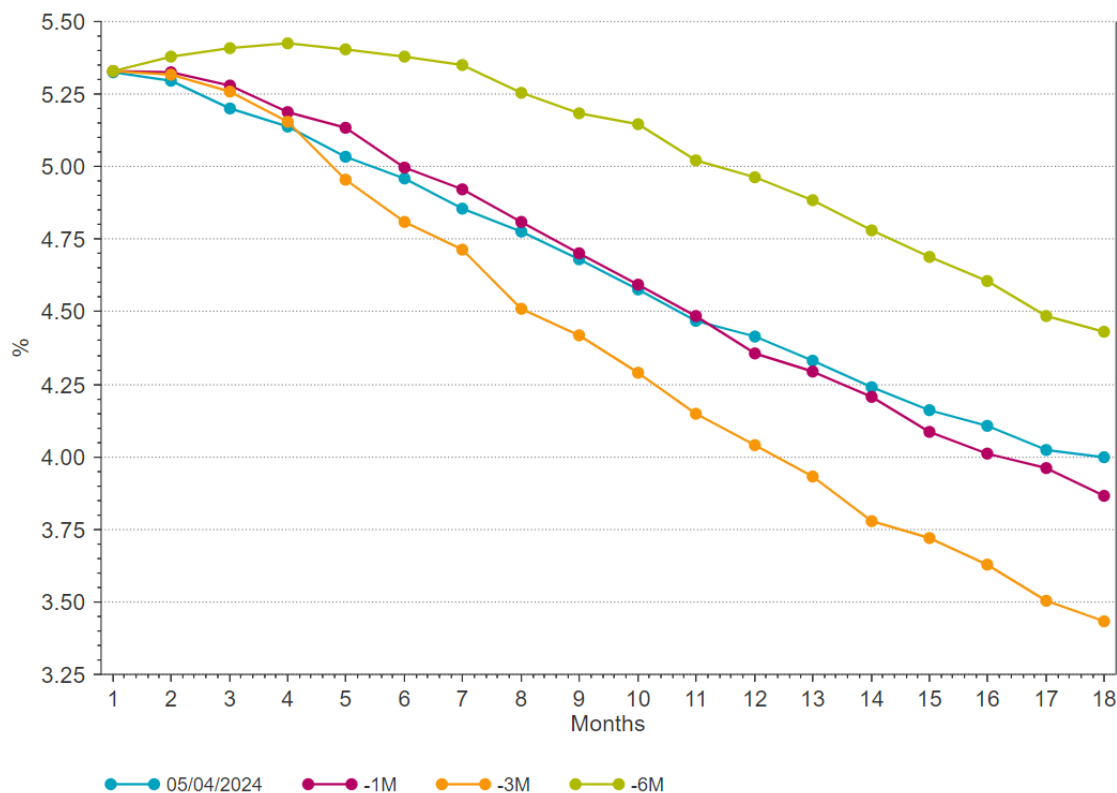
Manufacturing data from the Asia Pacific, which tend to lead the global manufacturing cycle, confirmed that a manufacturing recovery is on its way. China's official NBS manufacturing PMI moved to 50.8, signaling expansion. The Caixin PMI, which also surveys smaller to medium-sized companies, jumped to a 13-month high of 51.1. Singapore's industrial production in February surged 14.2% (month-on-month).

In Europe, the IFO index showed sentiment among German corporates improved noticeably, with the expectations component of the index turning less pessimistic. Hard data still underwhelmed, with German industrial orders in February rising 0.2% (month-on-month), less than expected. Yet, increasing bright spots on the horizon indicate that Germany is about to leave stagnation behind as we enter the second quarter.

Economy

Compared to the start of the year, a shallower cutting cycle is priced in

Fed Funds Futures



Source: LSEG Datastream, Robeco

Source: Refinitiv Datastream, Robeco

Confronted by resilient services ex-shelter inflation releases in the first two month of 2024, the odds for a Fed June cut have dropped to 70%. For the ECB, a 25 bps rate cut by June is still fully priced in. In speeches last month, ECB speakers such as Luis De Guindos and Piero Cipollone have pointed to a “very clear disinflationary process” at work in the Eurozone, with CPI March flash inflation dropping to 2.4% (year-on-year). Yet, both speakers noted the risk that nominal wage growth may exceed the sum of target inflation and underlying productivity growth for longer, leaving the potential for stalling disinflation on the continent as well. The results of Q1 wage negotiations and ECB forecasts will be decisive to see the ECB cut in June.

In addition, oil prices have become positive year-on-year, removing a disinflationary force for headline inflation in the April CPI data. A continuing commodity rally would raise the dilemma for the ECB. Wage growth differentials, which are the key core inflation drivers at this point in time, also show that US wage growth is cooling versus Europe, likely disincentivizing the ECB to move ahead of the Fed. As such, the market could be wrong-footed here.

While the upside risk of a ‘no landing’ has clearly increased for the next few quarters, the risk of a US technical recession occurring due to the lagged impact of past tightening is still significant further out. Leading indicators for US unemployment clearly point towards to it rising on a 6-12-month horizon, with lower job security likely inhibiting US consumption growth later on. The turbulence to be expected around the November US elections could also influence US consumer sentiment, lowering the willingness to spend.

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