Monthly market review – March highlights

To 31 March 2024

March highlights

- Investors bought global equities and precious metals in March, as several markets hit fresh highs
- Japan's central bank raised interest rates for the first time since 2007
- Central banks in the US, Europe and UK all kept rates unchanged but opened the door for cuts in the near term

Equities

Global equities rose in March, as investors saw interest-rate cuts on the horizon. Equity indices rose in Europe, the UK, the US, Japan and emerging markets. The MSCI World Index returned 3.27% in March (total return in US dollars).

March was a strong month for stocks, with good returns from most major global markets. Central banks remained a focal point, with investors' optimism for rate cuts in the near future fuelling appetite for risk; as a result, several indices hit fresh all-time highs. Regionally, Europe was one of the strongest markets in March. Mediterranean markets, including Spain and Italy, performed well, with good consumer and business sentiment data. Germany, France and Switzerland also rose but to a lesser degree. The UK was strong, as the blue-chip FTSE 100 Index narrowly outperformed the mid-cap FTSE 250 Index. Higher commodity prices and good economic news from China helped London-listed miners. In the US, March was the fifth consecutive month of share-price rises, with a fresh all-time high for the S&P 500 Index. While investors continued to buy chipmakers and companies involved in artificial intelligence, the broad index outperformed the technology-orientated NASDAQ Composite Index. Pacific markets rose, particularly in Japan, where the central bank raised interest rates for the first time since 2007. In emerging markets, Asian stocks performed well, underpinned by strong retail sales and industrial production data from China. India and Latin American stocks rose, although Brazil was one of the few markets to fall in March.

Commodities rose in aggregate in March. Gold and other precious metals gained in the month, as investors saw falling interest rates on the horizon. Gold hit a fresh all-time high, closing the month above $2,200 per troy ounce. Ongoing instability in the Middle East led to higher oil prices, although natural gas prices fell due to weaker demand, particularly from the US.

Bonds and economics

The Bank of Japan ended its negative interest-rate policy with a hike in March. Corporate and government bond yields fell in the month, meaning bond prices rose, as analysts saw signs of forthcoming rate cuts in the US, the UK and Europe.

The Bank of Japan raised interest rates in March, its first hike in 17 years. Declaring its goal of 2% inflation as 'within sight', the bank raised its policy rate from -0.1% to between 0% and 0.1%. The central bank also ended its yield-curve control policy, which had sought to control long-term bond yields. It also stopped its purchases of equity market-linked exchange traded funds and Japanese real estate investment trusts.

Elsewhere, central banks mostly held rates. Early in the month, the European Central Bank kept its main policy rates unchanged. The bank's inflation report projected prices rising by 2.3% in 2024, down from 2.7%, and economic growth coming in slightly lower than previously forecasted. The US Federal Reserve (Fed) kept the target range for the fed funds rate unchanged in March. Consumer Price Inflation (CPI) came in at an annual rate of 3.2% in February, slightly above January's reading of 3.1%, with core inflation also slightly above analysts' forecasts. While Fed Chair Jerome Powell's rhetoric was cautious, the latest 'dot plot' data showed that most of the Fed's policymakers still believe three rate cuts of 0.25% are appropriate in 2024. Labour market projections were also optimistic, suggesting a lower unemployment rate than previously forecast. Meanwhile, the Bank of England kept rates unchanged, as February's CPI release recorded an annual rate of 3.4%, down from 4.0% in January. Government and corporate bond prices largely rose in the month, with riskier credit outperforming higher-rated issues.

Real Estate

According to the MSCI Monthly Index, total returns for February (the latest data available) were 0.1%, down from 0.2% in January. The retail and industrial sectors were the strongest over the month, with both returning 0.4%. Meanwhile, the office and hotel sectors lagged, with returns of -0.7% and -0.1%, respectively.

The investment market remains subdued. Although investment volumes over the first quarter of 2024 have fallen 34% year on year, activity could pick up quite rapidly as conditions become more favourable over the second half of 2024. UK investment volumes in the year to date have totalled £9 billion; the living sector is growing in popularity due to robust fundamentals and contributes 26% of this total, while the surprisingly resilient hotel sector is the next largest contributor at 20%. A combination of poor-quality stock and sizeable bid-ask spreads, along with optimism for future macroeconomic improvements, have collectively contributed to the recent subdued level of investment transactions. This is expected to continue over the first half of 2024, as most investors who are not facing liquidity pressures have little motivation to sell.

Not immune to wider market pressures, the more resilient industrial and logistics sector slowed over the course of 2023 as vacancies rose. Despite incoming supply, demand fundamentals remain solid, and outperforming rental value growth is expected from this sector. Within the retail sector, there remains a key preference for retail parks, as favourable footfall trends, an incredibly constrained supply pipeline, and a sub-2% vacancy rate support the outlook for these assets. As inflation continues to fall, rising real household incomes should provide some support for retail sales moving through 2024.

Elsewhere, investor interest in the living sector remains robust, buoyed by the favourable supply/demand dynamics exhibited across all sub-sectors.