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Monthly Review and Outlook

January 2024

Review

- **Global equity (share) performance was mixed** in January. **Developed markets broadly rose** while **emerging markets fell**.
- **Government bond prices fell**, meaning bond yields rose.
- **Oil prices rose** amid ongoing conflict in the Middle East and disruption to shipping.

Company shares

- **UK equities fell.** Large energy and basic materials companies performed particularly weakly overall, along with financials companies. Technology, healthcare, and essential and non-essential consumer goods companies generally performed relatively strongly.
- **US shares rose**, supported by some strong company earnings figures and resilient economic data. Communication services and information technology companies performed particularly strongly overall, but real estate and materials companies were generally among the weakest performers.
- **Eurozone shares rose slightly**, led by information technology and communication services companies. Utilities and real estate companies generally performed relatively weakly as hopes for imminent rate cuts were dashed.
- **Japanese shares rose strongly.** The Tokyo Stock Exchange revealed the list of companies that responded to their request for forthcoming management plans. Investors saw this as an important step towards improving Japan's corporate openness.
- **Asian equities (excluding Japan) fell** as investors scaled back their expectations for swift interest rates cuts and amid ongoing concerns about weaker economic growth in China. China, Hong Kong and South Korea were the weakest markets in the MSCI Asia (excluding Japan) index. India and the Philippines rose modestly.
- Emerging market equities declined in US dollar terms, while developed markets performed positively. **China again contributed to the negative performance** amid news of further US sanctions on Chinese technology companies.

Bonds

- In January, global government bond markets saw a partial reversal of the positive performance from the end of 2023. Prices fell across all main government bond markets, meaning that bond yields rose. The yield on UK government bonds with 10-year expiry dates rose from 3.54 percent to 3.80 percent. German 10-year government bond yields also moved higher, from 2.03 percent at the end of December to 2.16 percent. And the yield on 10-year US Treasuries rose from 3.87 percent to 3.95 percent.

- **High-quality (investment grade) corporate bonds had very slight negative returns** as investor expectations for short-term rate cuts waned. But they performed more strongly than government bonds, although these also fell only slightly. Riskier, **high yield bonds rose slightly**, with eurozone high yield bonds performing more strongly than US high yield and investment grade bonds.

Commodities

The Bloomberg Commodity index, a benchmark for investment in global commodities, rose slightly in January. Strong rises in energy prices were offset by weaker prices in agriculture, industrial metals and precious metals. Gold and silver prices both declined.

Outlook

Valuations of some different types of assets now look relatively high following the strong rally in markets towards the end of 2023. The outlook we currently favour is for a non-recessionary economic slowdown in the US. But we believe this view is shared by investors in equities and government bonds, so we have a neutral stance on these types of investments.

Asset overview

Our general view of assets in the coming months is summarised as follows. These are our in-house views as at the end of January 2024.

Equities	🟡	We continue to expect a non-recessionary economic slowdown in the US, but we believe this has largely been priced into markets. So our stance remains neutral.
Government bonds	🟡	We remain neutral despite falls in government bond prices. We don't expect prices to rise again unless there's a further deterioration in economic conditions.
Corporate bonds	🔴	We have moved to a negative stance, noting that corporate bond prices have fallen less strongly than government bonds.
Commodities	🟢	We remain neutral on most commodities, as modest growth in demand for commodities is matched by strong supply. But we are now positive on gold, due partly to demand from central banks and the Chinese domestic market.

	Legend
🟢	Positive outlook
🔴	Negative outlook
🟡	Neutral outlook

Source: Schroder Investment Management and Schroders Personal Wealth, 7 February 2024

Important information