HYMANS ROBERTSON
INVESTMENT SERVICES

Hymans Robertson Investment Services (HRIS)

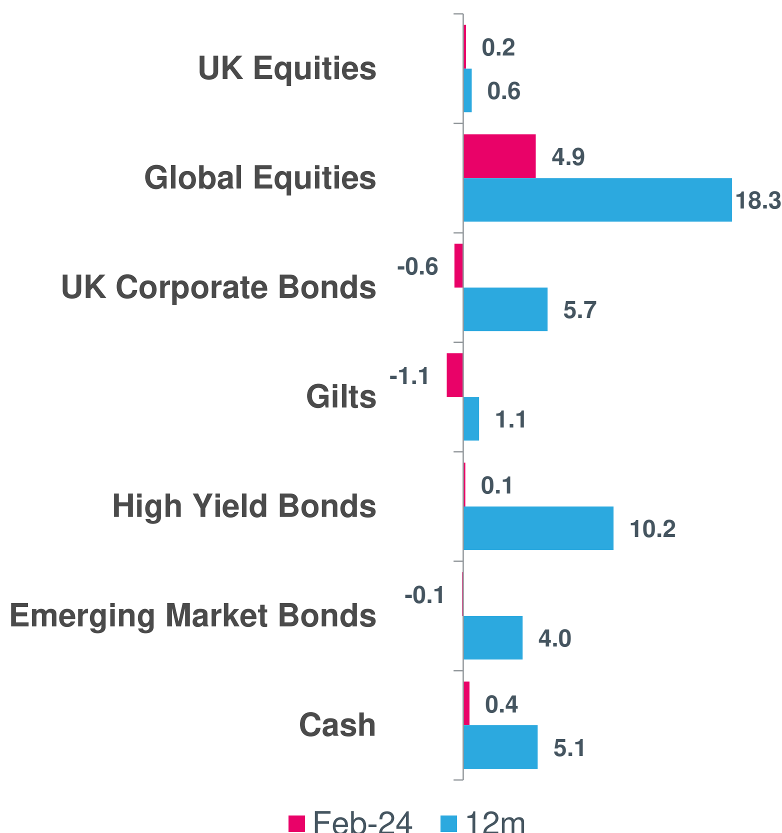
Market Digest

February 2024

Monthly Highlights

- February saw a divergence in equity and bond performance as economic strength in the US pushed expectations for interest rate cuts to later in the year. Meanwhile, the UK officially entered recession (we discuss this further in our article "Supporting your clients through a UK recession").
- Strong corporate earnings in the US from the likes of Nvidia helped to support equity markets.
- Given these market conditions, portfolios typically generated a positive return over the month, with higher risk portfolios outperforming lower risk ones over the month.
- Almost all asset classes generated strong returns over the 12-month period.

Asset class returns (%)



Source: Morningstar. Figures to 29 February 2024. Returns in sterling terms except High Yield Bonds which are hedged. EM bonds are 50% local currency denominated and 50% US dollar denominated bonds.

Market summary

- Our model portfolios are typically invested in a combination of the asset classes shown in the left-hand chart.
- February saw mixed results for investors as the equity market rally pushed higher, but bond prices in general fell.
- The US economy continued to show signs of strength, as evidenced by strong jobs and Purchasing Managers Index (PMI) data. Corporate earnings also beat expectations, especially chip maker Nvidia, whose earnings release boosted optimism around an artificial intelligence led rally.
- Global equities produced a strong return over the month, with US stocks leading the way. Emerging markets also performed strongly, driven by a Chinese rebound, while Japanese equities, supported by a weaker yen, continued their good run.
- The UK officially entered recession, as data showed that GDP contracted for a second consecutive quarter in Q4 23. The UK stock market continued its lacklustre start to the year.
- Stronger wage growth in the UK hinted at more persistent inflation. Investors therefore pushed back their expectations for when rate cuts may begin, leading to an increase in bond yields and a decrease in bond prices. Corporate bonds, which typically have less interest rate sensitivity than government bonds, held up better. High-yield bonds outperformed, as appetite for riskier debt increased.
- At a portfolio level, equities outperformed bonds meaning higher risk portfolios outperformed lower risk ones over the month.

Outlook and topical market themes

- The March Budget failed to impact financial markets. The British ISA has good intentions, but more details are required. Investors must ensure the extra tax break does not come at the cost of diversification.
- Japan's Nikkei equity index reached a new high, surpassing its 1989 peak. This acts as a useful reminder that it can take a (very) long time to recover from asset bubbles!

Budget fails to make big impact on markets

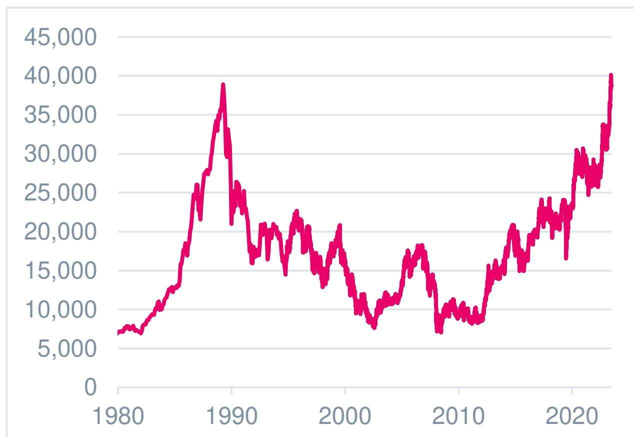
The March Budget's immediate impact on financial markets has been limited. A 2% cut to National Insurance grabbed most of the headlines but the thing that may have caught the attention of investors is the proposal of a 'British ISA' – an additional £5,000 ISA allowance to be invested in UK assets. On the face of it, any additional tax breaks that incentivises investment is a good thing. However, there is a risk that investors will allocate a larger than optimal exposure to UK assets. Portfolios should be diversified globally to help manage risks. It is yet to be determined how the government will define UK assets eligible for inclusion in a British ISA. For example, there are plenty of foreign companies that are listed on the London Stock Exchange and therefore are included in the FTSE 100 index. Finally, the impact this will have on British companies is likely to be small. Only 15% of people already use their existing £20,000 ISA limit.

Japan is partying like its 1989

In February, the Nikkei 225, a Japanese stock market index, finally surpassed its record high from 1989, reportedly bringing Japanese trading floors to applause. So far this year, Japanese equities have picked up where they left off from in 2023 and have rallied over 17% year-to-date. The fact that it has taken 34 years to recover from a huge asset bubble reflects both how detached valautions were from reality in the 1980s but also the stagnation that the Japanese economy has experienced in the decades since. Japanese equities have been supported by a number of factors recently, including 1) The weak yen has boosted the export-heavy market 2) A regulatory drive to improve corporate governance and financial efficiency is seen to be shareholder friendly and 3) investors that want Asian exposure are pivoting away from China towards Japan.

It's fair to say Japan had a spectacular fall from grace when it comes to market share. Japanese equities peaked at 40% of the global market in 1989 but now makes up just 6% today. Conversely, the US was 29% in the 80s but now makes up over 60% of the global market. The lesson for investors is that there can be significant structural shifts in markets over the years. Just because the US dominates today doesn't gurantee it will in another 30 years time. All of which is a reminder of the importance of taking a forward-looking approach, which takes into account a broad range of potential economic scenarions, when it comes to building truly diversfied investment portfolios.

Chart of the month – Japan's Nikkei index surpasses 1989 peak



Source: Morningstar

The chart shows the index value for the Nikkei 225, a stock market index comprised of Japanese companies. The index has finally surpassed its 1989 peak after 34 years, although this excludes returns from dividends.

This is a cautionary tale not to get caught up in bubbles, even when the FOMO (Fear Of Missing Out) is high.

Jack Richards
Investment Manager

Risk warning

This communication is issued and approved by Hymans Robertson Investment Services LLP. It is based on its understanding of events at the time of the relevant preparation and analysis. The information and opinions contained in this document are provided by HRIS and are subject to change without notice and should not be relied upon when making investment decisions. The value of your investments and the income from them may go down as well as up and neither is guaranteed. Investors could get back less than they invested. Past performance is not a reliable indicator of future results. Changes in exchange rates may have an adverse effect on the value of an investment. Changes in interest rates may also impact the value of fixed income investments. The value of your investment may be impacted if the issuers of underlying fixed income holdings default, or market perceptions of their credit risk change. There are additional risks associated with investments in emerging or developing markets. The information in this document does not constitute advice, nor a recommendation, and investment decisions should not be made on the basis of it. The material provided should not be released or otherwise disclosed to any third party without prior consent from HRIS.

Hymans Robertson Investment Services LLP is authorised and regulated by the Financial Conduct Authority. One London Wall, London, EC2Y 5EA, telephone number 020 7082 6000. You can find it on the FCA register at https://register.fca.org.uk/s/ under firm reference number 927111.

Hymans Robertson uses FSC approved paper.