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Weekly

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Leaping over leap days

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I joined the financial industry on 29 February 2016, precisely eight years ago at the time of writing, and on a leap day! When you are a fresh financial engineering graduate like I was, you think everything moves according to formulas and all you need to beat financial markets is a bit of stochastic calculus and a couple of MATLAB libraries. I guess ingenuity and overconfidence are some of the things that make youth so much fun.

Back in 2016, global economies were recovering from the 2008 financial crisis, experiencing moderate growth and low inflation. Most central banks around the world were continuing the accommodative monetary policies that were established in the aftermath of the crisis (ECB and BoJ in particular, with their ultra-low rates and asset purchase programs) and the US Fed had only just started raising rates.

Inflation was subdued in many advanced economies, despite efforts to stimulate inflationary pressures, and oil prices were relatively low compared to pre-2014 levels due to oversupply concerns. Overall, I would call it an unspectacular year from a financial perspective.

Instead, it was a year of political surprises, with the UK voting to leave the EU (remember when Brexit felt like something major?) and the US voting (unexpectedly) for Donald Trump as their new president. The first led to a significant market crash and doomed the British Pound to a new normal around multi-decade lows, whilst the second ended up being market friendly; with optimism about potential fiscal stimulus measures, deregulation, and tax reforms.

Rolling forward to the next leap day, 29 February 2020, we were at the start of the COVID-19 pandemic, hopefully a once-in-a-lifetime event that froze the world for a few months and forced a drastic and, in some instances, permanent change to the way we go about our lives. In the space of four weeks, global equity markets fell by about 34% and governments and central banks stepped in with a bout of monetary and fiscal interventions to help global economies out of the crisis, effectively nullifying (and more) all efforts at lowering public debt levels and increasing interest rates that had been done over the previous few years. Certainly, that did help asset prices, but it set the basis for the inflationary wave and subsequent monetary tightening cycle of 2022-23, the sharpest and strongest that the world has seen since the late 70s and early 80s. This, at least, was in fact a spectacular time for financial markets.

As of today, markets have normalised, inflation is falling back to long-term averages, interest rates are expected to come down to more comfortable levels, most economies are in decent conditions and consumer sentiment is good. We do have our good share of questions: the future of China; the durability of this equity rally we're witnessing; the impact of artificial intelligence on earnings; the maturity of the credit cycle; the path of multi-asset investing etc… but as much as the world is always throwing (financial) curveballs at you, I do feel more relaxed than four years ago. At least, now I can again hug my friends without a face mask!

So, what have I learnt over the past eight years you may ask? That the less you know, the more you think you know. That sometimes things can take a U-turn without you even realising, and other times things won't change, no matter how much you expect them to. That technology can both be an enabler and an obstacle to business practices. That central bankers have behavioural biases as much as everybody else. That Brownian motions are better suited at modelling physics than equity returns, and that MATLAB is unnecessarily expensive, R or Python are better value for money. And that at the next leap day I will probably be writing about some new market dynamic that at the same time has echoes of the past.

"The less you know, the more you think you know."

Market Review - week ending 1 March 2024

- Global equities rose 0.9%
- Donald Trump continues to dominate ahead of Super Tuesday
- Brent crude rose 2.4% to $83.5 a barrel after OPEC+ agreed to extend current supply curbs through June
- Gold rose 2.3% to $2082.9 per ounce

US

- US equities rose 1.0%. With the top 500 indices having 16 positive weeks out of 18, something not seen since 1971. If this carries on for another week it will be the first time since 1964. A remarkable and relentless period of performance
- US GDP quarter-on-quarter for Q4 was 3.2% (vs 3.3% expected)
- US Manufacturing PMI for February was 52.2 (vs 51.5 expected)
- Donald Trump swept three more Republican presidential nominating contests, putting him on track to have the nomination locked down by mid-month. Nikki Haley got her first primary win in DC. The race now shifts to Super Tuesday on March 5, when 15 states hold GOP primaries
- The US Supreme Court has taken the unprecedented claim that Donald Trump has absolute immunity from prosecution in the criminal case over his efforts to overturn the 2020 election results, throwing into jeopardy whether it goes to trial before this year's elections
- US PCE (Personal Consumption Expenditures), the Federal Reserve’s preferred measure of inflation, came in line with expectations at 2.4% year-on-year

UK

- UK equities fell 0.1%
- UK Manufacturing PMI for February was 47.5 (vs 47.1 expected)

Europe

- European equities rose 0.2%
- German CPI Month-on-month for February was 0.4% (vs 0.5% expected)
- European CPI year-on-year for February was 2.6% (vs 2.5% expected)

Rest of the World/Asia

- Global emerging market equities fell 0.3%
- Japanese equities rose 1.9%, an intra-day record on Friday
- Chinese equities fell 0.7%. China's manufacturing PMI came in at 49.1 in February, (as expected) shrinking for a fifth month as weak demand hampered growth. As the economic slowdown hits the pockets of citizens, Xi Jinping's move to shun the old playbook of unleashing broad stimulus is spurring discontent
- The top US diplomat in Hong Kong sounded the alarm over growing internet censorship in the city. US Consul General Gregory May advised that some American firms are using burner phones
- US Vice President Kamala Harris called for a temporary cease-fire between Israel and Hamas as talks drag over a deal to release hostages. Benny Gantz, a member of Benjamin Netanyahu's war cabinet, is expected to travel to the White House to discuss the path ahead

Market Performance - week ending 1 March 2024

Asset Class / Region	Currency	Cumulative returns: Week ending 1 March	Month to date	YTD 2024	12 months
Developed Markets Equities					
United States	USD	1.0%	0.8%	7.9%	31.5%
United Kingdom	GBP	-0.1%	0.7%	0.1%	1.2%
Continental Europe	EUR	0.2%	0.6%	5.0%	13.9%
Japan	JPY	1.9%	1.3%	14.5%	39.1%
Asia Pacific (ex Japan)	USD	-0.2%	0.4%	-0.1%	3.9%
Australia	AUD	1.6%	0.6%	2.6%	11.4%
Global	USD	0.9%	0.8%	6.3%	26.3%
Emerging Markets Equities					
Emerging Europe	USD	-2.2%	-0.4%	5.7%	27.3%
Emerging Asia	USD	-0.3%	0.4%	0.7%	4.8%
Emerging Latin America	USD	0.0%	0.5%	-4.5%	21.7%
BRICs	USD	-0.2%	0.8%	0.3%	1.2%
China	USD	-0.7%	0.6%	-2.5%	-17.5%
MENA countries	USD	0.2%	0.0%	4.3%	13.1%
South Africa	USD	-0.2%	0.7%	-10.4%	-7.9%
India	USD	0.6%	1.7%	3.4%	28.7%
Global emerging markets	USD	-0.3%	0.4%	0.3%	6.9%
Bonds					
US Treasuries	USD	0.5%	0.4%	-1.1%	3.3%
US Treasuries (inflation protected)	USD	0.8%	0.4%	-0.5%	3.1%
US Corporate (investment grade)	USD	0.2%	0.3%	-0.9%	7.0%
US High Yield	USD	0.2%	0.2%	0.5%	11.4%
UK Gilts	GBP	0.5%	0.2%	-3.2%	1.7%
UK Corporate (investment grade)	GBP	-0.1%	0.2%	-1.5%	6.9%
Euro Government Bonds	EUR	-0.2%	0.0%	-1.6%	5.8%
Euro Corporate (investment grade)	EUR	-0.2%	0.1%	-0.7%	7.1%
Euro High Yield	EUR	-0.1%	0.0%	1.2%	10.1%
Japanese Government	JPY	0.0%	0.1%	-0.4%	-0.9%
Australian Government	AUD	0.4%	0.0%	-0.3%	2.5%
Global Government Bonds	USD	0.3%	0.2%	-2.9%	1.7%
Global Bonds	USD	0.3%	0.2%	-2.3%	4.2%
Global Convertible Bonds	USD	0.8%	0.5%	-1.2%	5.4%
Emerging Market Bonds	USD	1.0%	0.5%	0.6%	11.4%

Asset Class / Region	Currency	Cumulative returns: Week ending 1 March	Month to date	YTD 2024	12 months
Property					
US Property Securities	USD	1.4%	1.0%	-1.3%	6.7%
Australian Property Securities	AUD	2.3%	0.9%	6.8%	14.2%
Asia Property Securities	USD	-0.7%	-0.3%	-6.1%	-8.1%
Global Property Securities	USD	0.8%	0.8%	-2.9%	4.9%
Currencies					
Euro	USD	0.1%	0.4%	-2.0%	1.6%
UK Pound Sterling	USD	-0.2%	0.3%	-0.8%	5.3%
Japanese Yen	USD	0.2%	-0.1%	-6.2%	-9.5%
Australian Dollar	USD	-0.5%	0.6%	-4.5%	-3.4%
South African Rand	USD	0.9%	0.6%	-4.3%	-5.1%
Swiss Franc	USD	-0.4%	0.0%	-5.1%	6.3%
Chinese Yuan	USD	0.0%	-0.1%	-1.3%	-4.6%
Commodities & Alternatives					
Commodities	USD	2.0%	0.5%	1.8%	-0.1%
Agricultural Commodities	USD	0.6%	-0.8%	0.5%	1.5%
Oil	USD	2.4%	-0.1%	8.5%	-0.9%
Gold	USD	2.3%	1.8%	1.0%	13.4%

Source: Bloomberg Finance L.P. Past performance is not indicative of future returns.

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