Monthly market review – February highlights

To 29 February 2024

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February highlights

- Equities rose due to good economic data and strong quarterly results from US technology giants
- Bonds fell as strong economic data means that it may be longer than expected before central banks can cut rates
- Annual inflation continued to fall in major economies, and US employment was surprisingly robust

Equities

Global equities rose in February, as investors were encouraged by strong economic data and good quarterly results from US technology giants. Equity indices rose in the US, UK, Europe, Japan and emerging markets. The MSCI World Index returned 4.28% in February (total return in US dollars).

Equity markets continued their ascent in February, with several major indices reaching all-time highs in the month. In the US, investors took comfort from upbeat economic data and good corporate results. In particular, the earnings season has been positive for the technology sector, particularly chip makers and companies involved in artificial intelligence. Both the technology-oriented NASDAQ Composite Index and the broad S&P 500 Index hit record highs in February. The dollar also strengthened over the month.

European stocks rose, on the whole, although the continent's macroeconomic backdrop was weaker. Corporate results have been disappointing, with around half of those companies which announced results missing analysts' figures. Most countries' indices rose, including Italy, Germany, France and Switzerland, although Spain fell in the month. UK shares eked out a gain in aggregate over the month, with economic data showing signs of improvement. The mid-cap FTSE 250 Index lagged the blue-chip FTSE 100 Index. Japan rose in February, as the Nikkei 225 Index hit an all-time high, surpassing its previous peak from 1989. Emerging-market stocks ended higher in aggregate. In particular, China performed strongly, which was believed to be due to state-run institutions buying equities. This buoyed wider emerging Asian indices. However, indices in Latin America were mixed over the month.

Commodities rose in aggregate in February. Oil increased in the month due to continued Middle East tensions and as the OPEC+ group of oil-producing nations was rumoured to be considering a production cut in the second quarter of 2024. Gas prices fell, however, as demand was weaker due to a warmer February. Precious metals also fell in the month.

Bonds and economics

Government bond yields rose again in February, meaning prices fell, as analysts' hopes of imminent rate cuts look overly optimistic. The UK held interest rates, and annual inflation continued to fall across major economies. Corporate bonds slightly outperformed sovereign debt in the month.

The Bank of England (BoE) was the only major central bank to meet in February and held rates unchanged. Growth data for the final quarter of 2023 showed the UK fell into recession, with GDP contracting by 0.3%, although BoE officials said data has shown an improvement in 2024. The Consumer Price Index inflation reading for January showed prices rising by 4.0% year on year, while annual core inflation was recorded at 5.1%; both figures were below analysts' estimates. Market prices suggest the first BoE rate cut might come in June.

The European Central Bank is expected to keep rates unchanged in its March meeting. According to a preliminary estimate, annual consumer price inflation came in at 2.6% in February, below January's 2.8% but slightly above analysts' estimates. Eurozone GDP growth, according to a second estimate, was flat in the fourth quarter, narrowly avoiding a technical recession. Germany's economy contracted in the quarter, and recent labour market data has shown softer readings, with rising unemployment. Rates are also expected to remain steady in the US in March. January's annual Personal Consumption Expenditures Price Index dropped to 2.4% as expected, from 2.6% in December. The core reading fell slightly from 2.9% in December to 2.8% in January, also as expected. Employment has been strong, as the US economy added 353,000 jobs in January, almost double analysts' forecasts. Investors sold government debt, pushing yields higher, although riskier corporate debt outperformed.

Real Estate

According to the MSCI Monthly Index, total returns for January (the latest data available) were 0.2%, up from -0.4% in December. The hotel and living sectors were the strongest over the month, returning 0.5% and 0.4%, respectively. Meanwhile, the office and industrial sectors lagged slightly, with returns of -0.3% and 0.3%, respectively.

Investment activity remains subdued in the UK, with £2.5 billion transacted in January. Cross-border investors are the most prominent source of capital, accounting for around 70% of buyer activity over the year to date. The hotel and living sectors have been the most active in terms of investment volumes. The living sector remains a key focus for investors, as a fundamental lack of supply and strong demand support robust levels of rental value growth. Institutional investors account for approximately 2% of the UK's private rented sector. With small-scale landlords largely leaving the market, there is a clear opportunity for institutional investors to grow market share in a sector with strong underlying fundamentals.

The office sector continues to underperform the wider market. As has been the trend post-Covid-19, there has been a continued flight to best-in-class quality, particularly assets with strong sustainability credentials and amenities. Not only are differences apparent by asset quality, but there are also noticeable disparities by market and region. In London, the vacancy rate for offices in the West End is only marginally above the long-term average. However, in the City and Docklands, the vacancy rate is almost double the long-term average. We expect headline rents for best-in-class office space to move higher from here, as a lack of suitable product and continued strong demand place further upward pressure on rents. Any office stock that falls outside this definition will see further pressure on rents and yields.