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Market Snapshot

Published 19 April 2024

The “higher for longer” mantra has returned and expectations of US interest rate cuts have been pushed further out, hitting equity markets. Retail sales data has added to the case that US interest rates will stay “higher for longer” in the US. UK inflation in March fell by less than expected and hopes of a rate cut have been pushed back here too. However, Bank of England governor Andrew Bailey said that the UK was “on track” to quell inflation as he predicted a sharp fall in price rises in April when the data is released.

Over the week, the blue-chip FTSE 100 index was -2.2% by mid-session on Thursday, with the more UK-focused FTSE 250 trading -2.3%.

Economics

The strength of the US consumer appears to have bolstered the case for the Federal Reserve (Fed) to delay its interest rate cuts. Data from March revealed an unexpected surge in retail sales, adding to the recent stronger-than-expected employment data and persistent inflation readings. Retail sales rose by 0.7% month on month (m/m) in March, compared with consensus expectations of 0.4%. When large-ticket auto sales are excluded, the figure was even stronger – up 1.1% m/m, compared with a consensus of 0.5%. The US consumer is the main driver of the economy, and the Fed wants to see a slowdown before it eases monetary policy. However, recent data has shown a pick-up in activity, which has led markets to price in fewer rate cuts this year than they previously expected.

Indeed, the day after the retail sales data two senior Fed officials hinted that rates would now stay “higher for longer”. Fed chair Jerome Powell said: “The recent data have clearly not given us greater confidence and instead indicate that it’s likely to take longer than expected to achieve that confidence”. In a separate speech, Philip N Jefferson, the Fed’s vice chair, also said the central bank should be prepared to delay rate cuts if inflation remains hot. “While we have seen considerable progress in lowering inflation, the job of sustainably restoring 2% inflation is not yet done.”

Britain’s inflation rate slowed by less than expected in March, sparking some concern that a first interest rate cut by the Bank of England could be further off than previously thought. British consumer prices rose by an annual 3.2%, down from a 3.4% increase in February and its lowest in two and a half years. However, the market consensus expected a fall to 3.1%. Investors reduced their bets on BoE rate cuts and sterling rose.

> **BoE governor Andrew Bailey said that the UK was “on track” to quell inflation.**

Britain’s labour market has lost a bit more of its inflationary heat, which should provide some relief to the Bank of England (BoE). The unemployment rate rose more than expected, to 4.2% from 3.9%, however, wage growth is still strong by historical standards. Regular wages excluding bonuses – which the BoE is closely monitoring – grew by 6.0% annually in the three months to February, only slightly weaker than a 6.1% rise in the November-to-January period. A sharper slowdown to 5.8% had been expected.

However, BoE governor Andrew Bailey said that the UK was “on track” to quell inflation. Speaking at a conference held by the Institute of International Finance he said: “I expect the next month’s data will show quite a strong drop because of the impact of changes in energy pricing.” He said that the inflation outlook in the US and Europe is different and there was a stronger likelihood of an uptick in inflation in the US.

The Chinese economy has got off to a good start to the year, mainly thanks to robust growth in high-tech manufacturing. Gross domestic product (GDP) grew by an annual rate of 5.3% in the first quarter, significantly higher than the consensus view of 4.6%. It also marked an acceleration from the 5.2% growth in the previous three months.

Geopolitics

Washington and London have prohibited the London Metal Exchange (LME), Chicago Mercantile Exchange (CME) and other metal exchanges from accepting new aluminium, copper and nickel produced by Russia. The two countries also barred the import of the metals into the US and UK. Existing stocks of Russian metal on global exchanges are exempt from the new measures. They can still be traded and withdrawn from warehouses. This is of significance in London as the share of available aluminium stocks of Russian origin in LME-registered warehouses stood at 91% in March, while the proportion of copper stood at 62%. Russian nickel in LME warehouses amounted to 36% of the total. The news has resulted in a surge in the futures price of these metals. Russia produces 6% of the world's aluminium, 4% of its copper and 11% of high purity nickel, according to Citigroup. US President Joe Biden also called for a tripling of tariffs on some steel and aluminium from China. The White House said the proposal was aimed at protecting US jobs against "unfair" competition. China has denied claims of "dumping" steel and aluminium overseas.

Australia will boost its defence spending by more than A$50bn (£25.7bn) between now and 2034 as it spends due to its commitment to Aukus, the Australia-UK-US security pact, boosting its navy and long-range missile capability. Over the next decade it plans to procure six new warships and 11 new frigates, as it aims to double its fleet of combat-ready ships.

Crude oil exports from Iran hit the highest level in six years during the first quarter of 2024, data from analytic group Vortexa revealed. The daily average over the period stood at 1.56 million barrels, almost all of which was sent to China, earning Tehran some $35bn.

The International Monetary Fund (IMF) expects Russia to grow 3.2% this year, significantly more than the UK, France and Germany. It said oil exports have "held steady" and government spending has "remained high" contributing to growth. Overall, it said the world economy had been "remarkably resilient".

Company news

Rentokil Initial issued a mixed first-quarter update, although it reported a "positive overall" start to 2024 and management maintained its full-year guidance. North America remains soft but its restructuring plan is delivering a "stabilising performance" and growth in the region is still expected to gradually improve. All other regions delivered organic growth of at least 4% and the key trading period for the business is ahead.

The year has started "well" for **Segro** after the value of its prime industrial-property portfolio fell by a much smaller 4% at the year-end valuation following a sharp yield-driven correction in late 2022. Rental performance remains resilient with a similar amount of new rent as last year and another double-digit uplift on rent reviews and renewals. Encouragingly, Segro notes that "market data shows industrial and logistics assets are stabilising". Future growth remains underpinned by structural drivers, such as the need for data-storage space, the shift to e-commerce and the new focus on supply-chain resilience.

LVMH posted first-quarter results that were largely in line with expectations for a weaker quarter. The results were far better than those from rival Kering. First-quarter revenues rose 2%, compared with 18% growth in the equivalent period last year, following China's reopening from the Covid-19 pandemic. Sales growth in the US was marginally weaker than anticipated. Its Chief Financial Officer, Jean-Jacques Guiony, said that the group anticipates a "gradual improvement" in the US as the aspirational customer slowly returns, but this is expected to occur over several quarters, or even years. The region that defied the trend was Japan, where sales were boosted by the weak yen.

US group, **Johnson & Johnson**, reported first-quarter adjusted earnings that beat Wall Street's expectations, as sales in its medical devices business surged. Revenues for the period were largely in line with estimates. The company is benefiting from a rebound in demand for non-urgent surgeries among older adults, who deferred those procedures during the Covid-19 pandemic. The group recently agreed to pay $13.1bn for the heart device firm, Shockwave Medical – part of its push into the cardiovascular space. Both companies said the deal will make J&J a leader in four quickly growing cardiovascular technology categories.

Rio Tinto shares rose after the miner gave an upbeat assessment on prospects for China. Iron ore accounts for more than 80% of Rio's underlying operating earnings and the miner expects prices to rise as demand from China starts to recover. Management reiterated earlier guidance of iron ore shipments of 323 million to 338 million tonnes in 2024, or close to its record annual output.

Taiwan Semiconductor Manufacturing Company (TSMC) beat revenue and profit expectations in the first quarter, thanks to continued strong demand for advanced chips, particularly those used in AI applications. Revenues were up 16.5% year on year. TSMC is the world's largest contract chipmaker and counts companies such as **Nvidia** and **Apple** as its clients. Its sales guidance was better than expected and it stuck by plans to spend up to $32 billion over the course of this year.

First-quarter results from Dutch producer of chip manufacturing equipment **ASML** disappointed. Bookings fell by 61% sequentially during the first quarter, a steeper drop than investors had expected. ASML is essentially the only supplier of machines that are needed to build the most advanced chips in the world, which often cost hundreds of millions of dollars each. The company shipped 449 "lithography" machines in 2023, and its main customers include the world's top processor foundries: **TSMC**, **Samsung** and **Intel**. Its top two customers accounted for over half of its 2023 sales. Sales were down in Taiwan and South Korea, where TSMC and Samsung are based, respectively.

DS Smith agreed a £5.8bn all-share takeover offer from larger US rival **International Paper**. The US group moved in late March to gatecrash a £5.14bn all-share deal put forward by its British rival Mondi. Mondi has until 23 April to make another offer, under UK takeover rules.

Car dealer **Inchcape** announced the disposal of its UK Retail operations to Group 1 Automotive UK for £346m. The company, which operates more than 120 dealerships in the UK, said the sale allows it to become more distribution focused. This will provide higher margins in the 40 countries in which it operates.

Facilities management outsourcer **Mitie** upgraded its annual profit guidance and launched an extra £50m share buyback on the back of record revenues. Its shares hit a five-year high after the results.

Great Portland Estates announced that luxury brand Represent had agreed to open its new London flagship store at the company's Wardour Street property in Soho. Scheduled to open in early 2025, the London flagship would be Represent's largest store and would feature its collection of contemporary menswear "inspired by street culture".

Apple's smartphone shipments dropped about 10% in the first quarter of 2024, hurt by intensifying competition by Android smartphone makers, data from research firm IDC showed. Samsung had a 20.8% market share, clinching the top spot from Apple. The iPhone-maker had a strong performance in the three months to December, when it overtook Samsung as the world's number one phone maker. It's back to the second spot, with 17.3% market share, as Chinese brands such as Huawei gain market share. Xiaomi, one of China's top smartphone makers, occupied the third position with a market share of 14.1% during the first quarter.

Netflix's crackdown on password sharing is turning out to be a winner. It was a blowout quarter for the streaming service, which added 9.33 million new subscribers in the first quarter of 2024, smashing the Wall Street consensus of 4.84 million. However, the company is no longer going to release new subscriber figures and will concentrate their focus on revenue and operating margin as its primary financial metrics. Revenues were up 15% year-on-year, with its operating margin up seven percentage points to 28% – ahead of expectations – and margin guidance was raised for the full year too. Second-quarter revenue guidance was slightly below expectations, but the wave of momentum from the company's paid-sharing strategy – as it converts password borrowers into paying members – appears set to continue.

CVC Capital Partners, one of Europe's largest private-equity groups, has announced plans to raise more than €1.25bn in an initial public offering (IPO) in Amsterdam. The company, which manages €186bn of assets, including a stake in the Six Nations, has confirmed it will go ahead with the highly anticipated IPO on Amsterdam's Euronext. The company aims to raise €250m by selling new shares, while existing investors also plan to sell stock. The company is seeking a valuation of between €13bn and €15bn, according to Bloomberg.

Tesla is once more seeking to award chief executive Elon Musk the biggest pay deal in corporate American history, worth $56bn. The electrical vehicle company is asking shareholders to vote on its chief executive's record-breaking pay that was set in 2018. The deal was rejected by a US judge in January who described it as "an unfathomable sum". Earlier in the week Mr Musk announced plans to cut more than 10% of Tesla's global workforce.

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