February 2024 | Monthly update

Omnis Managed Portfolio Service

Markets are adjusting to expectations that interest rates may not begin to fall until later in the year.

Market-moving events

Rates may stay higher for longer. Towards the end 2023, markets were optimistic that interest rates would probably begin to fall by late spring or early summer. Central banks have been warning against these expectations since the start of 2024. In response, investors have had to reassess their positions and accept that the first rate cuts may be delayed.

China's markets have perked up. Weak economic growth, disinflation and a real estate slump contributed to China's stock market underperforming last year. Things have picked up in January after the central bank announced a series of stimulus measures. Many analysts expect these to continue over the next few months and revive waning consumer confidence.

Economic data has been mixed. The latest UK inflation figures have been higher than expected, wage growth has slowed and retail sales fallen. Meanwhile, the US economy grew by 2.5% in 2023, up from 1.9% in 2022. This data suggests central banks will need more time to assess the health of their economies before making any decisions about interest rates.

Investment highlights

Returns have varied. Stock markets delivered mixed returns over January and bonds fell in value. Japanese equities led the way by delivering a return of over 8%. Inflation in Japan is falling again but the Bank of Japan seems set on raising interest rates. US and European stock markets ended the month in positive territory whereas the UK and China fell.

Sentiment is shifting. Markets are now reassessing last year's optimistic views on rate hikes despite expectations that most regions will avoid a recession with a soft landing. Central banks have been keen to temper market optimism, and investors will be waiting to see how weak economic data has to get before they signal a decrease in interest rates.

A cautious outlook. We are maintaining our overweight allocation to bonds and modest underweight to equities. Our outlook is cautious – an economic downturn is possible and an increase in inflation would be a headwind. Our central case is falling inflation, a peak in interest rates and a soft economic landing, but with a larger than normal risk of a deeper recession.

Asset allocation

Red = underweight
Amber = neutral weighting
Green = overweight

If you'd like more detail on our asset allocation views then please visit our online dashboard.

equities

Negative = UK, US + Europe
Neutral = Japan + emerging markets
Positive = Asia

bonds

Negative = corporate bonds
Positive = gilts, global bonds + strategic bonds

alternatives + cash

Negative = absolute return bonds + diversified returns
Positive = short-dated bonds + cash

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