Week in review

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In this week's update, Kevin Quinn discusses:

- US labour market and Purchasing Manager Indices point to continued growth
- Eurozone inflation drops while unemployment steady
- Oil price rise as Middle East tensions rise
- Reasons behind the rise in the price of gold

Latest update from markets (to 04.04.24)

	1 week	YTD
Global shares	-1.8%	8.6%
US shares	-2.6%	10.4%
European shares	-0.4%	7.5%
European government bonds	-0.3%	-0.9%
Global commodities	2.2%	5.6%
Magnificent 7	-1.4%	18.3%

Source: Bloomberg, 05.04.24. All returns expressed in euros.

The long and short

Investing requires a long-term focus but shorter term events can take most of our attention. In this series of updates, we place current events into a longer term perspective.

The long...

All that glistens...

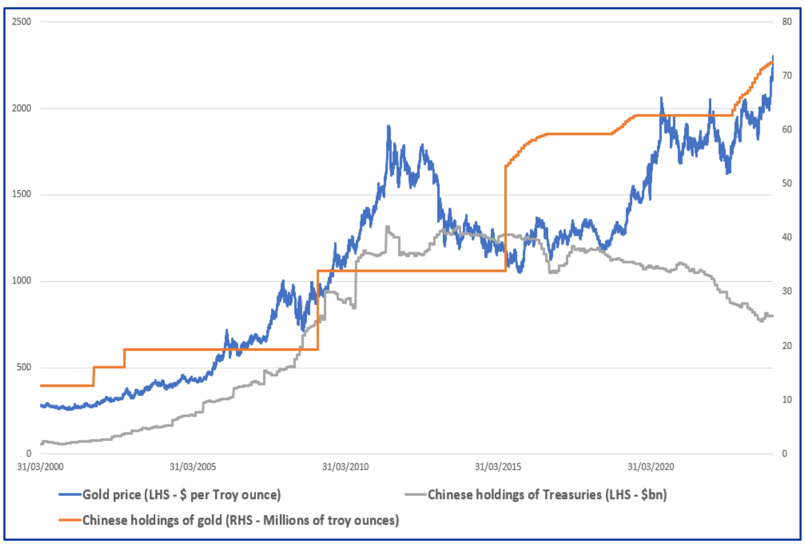
Sometimes we can get a glimpse into long-term geopolitical matters through the prism of markets. One recent example of this has been the rise in value of gold. Usually seen an asset that performs well in adverse market conditions, gold has risen to an all-time high in the past month just as risk appetites are rising.

What has been happening?

There have been multiple drivers behind the rise in the price of gold.

1. With expectations that the US Federal Reserve will begin cutting rates this year and with risks in the Middle East at multi-year highs, gold is being seen as both a trade that reflects interest rate expectations and a safe-haven.

Figure 1: Gold price & Chinese holdings of gold/US Treasury since 2000



Source: Bloomberg 04.04.24

2. One of the other drivers has been the reduction in US Treasury (government bonds) holdings, which is driving yields* on these bonds down, and an increase in the holdings of gold by the Chinese central bank. This is a reflection of China's desire to diversify its balance sheet away from US dollars. This is shown in the chart above with the grey and orange lines showing Chinese selling of US Treasury and purchasing of gold, respectively. Furthermore while retail investors in the west shy away from gold, their Chinese counterparts are also buyers, driving the price of gold up (the blue line in Figure 1).

This scenario (rising US yields and rising gold at the same time) has been a rare event. It has happened on a couple of short-lived occasions in 2005/06 and again in 2010 but it didn't last long.

* Yield refers to the earnings generated on an investment, expressed as a percentage of either the current value of the security or the face value of the security.

Source: Bloomberg 04.04.24

The short...

Market news

US Purchasing Manager Indices (PMIs), a measure of economic activity, saw services levels come in lower than expected this week, though still expanding. Manufacturing levels beat expectations and also expanded for the first time since September 2022.

US labour market remains robust with job openings marginally up for February at 8.76 million, and an increase in hiring. Private sector payrolls grew more than expected according to the ADP Research Institute survey this week.

US 10 year bond yields rose during the week, reaching close to 4.4% per annum (p.a.)., the highest level since November 2024. This reflected continued strength in the US economy.

US Federal Reserve Governor Powell, in remarks at Stanford University, indicated that the Fed has time to decide when to cut rates depending on incoming data. The market is interpreting this to mean no change to current expectations for a June cut, although there has been a slight move outwards beyond June in timing of rate cuts.

Eurozone inflation fell to 2.4% in March (versus. 2.6% expected), down from previous month's 2.6%. Core annual inflation, which excludes food and energy, fell to 2.9% (vs. 3.0% expected), the lowest since February 2022.

Eurozone unemployment held at 6.5% in February (vs. 6.4% expected), unchanged from January's and still historically low.

Eurozone PMI's rose for March, coming in ahead of expectations, indicating expansion and reaching the highest level since May 2023. The service component came in ahead of expectations while manufacturing remains in contraction.

Oil price rose to as high as $91 a barrel on foot of increased tension in the Middle East this week, the highest level since October 2024. Crude oil has now surged 18% this year. The immediate cause is Iran's leadership warning that Israel would be punished following an attack on the Iranian Consulate in Damascus, which has increased fears of a wider regional conflict.

Source: Bloomberg 04.04.24

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Table 1: 5 year historic performances

	2019	2020	2021	2022	2023
Global equities	29.0%	6.7%	27.5%	-13.0%	18.1%
US equities	33.9%	8.7%	38.2%	-13.0%	22.2%
European equities	28.0%	-1.4%	25.8%	-9.9%	16.6%
Emerging market equities	21.8%	9.1%	4.9%	-14.9%	6.6%
Global bonds	5.4%	4.9%	-2.6%	-15.1%	4.5%
US government bonds	11.4%	8.3%	-2.0%	-12.5%	5.8%
European government bonds	6.9%	4.3%	-3.7%	-18.4%	7.2%
Emerging market debt	14.5%	-3.4%	6.4%	-9.8%	5.4%
Broad commodities	7.9%	-13.1%	37.0%	20.7%	-10.9%
US corporate bonds	11.2%	7.8%	-1.9%	-17.1%	5.8%
European corporate bonds	6.3%	2.4%	-1.2%	-14.0%	8.4%
Japanese equities	21.6%	4.1%	10.0%	-10.5%	15.5%
Gold	18.1%	25.1%	-5.1%	0.2%	14.1%

Source: Bloomberg 05.04.24. All returns expressed in euros.

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