T. Rowe Price

Global markets monthly update

In the Loop
April 2024

Key Insights

- The U.S. led many major developed equity markets lower in April, as signs of persistent inflation in the U.S. and rising tensions in the Middle East weighed on sentiment.
- Bond markets also struggled as long-term yields rose sharply in response to inflation fears.
- Emerging markets fared better, helped by a rebound in Chinese shares on hopes for more stimulus for the country's struggling property sector.

Highlighted regions

- U.S.
- Europe
- Japan
- China
- Other Key Markets

U.S.

Equities were broadly lower in April on signs that progress in reducing inflation had stalled, raising concerns that interest rates would remain "higher for longer." It was the first monthly drop for the S&P 500 Index in six months, while small-cap stocks—as measured by the Russell 2000 Index—fared worst and moved back into negative territory for the year-to-date period. The broadening trend in the first quarter's rally also reversed somewhat, with an equal-weighted version of the S&P 500 falling more than its more familiar, capitalization-weighted counterpart. Every sector in the S&P 500 recorded losses, except for the small utilities segment.

Bond markets also struggled as the yield on the benchmark 10-year U.S. Treasury note hit its highest level since October. High yield segments outperformed, however, helped by their higher coupons. In general, new issuance of corporate debt was met with healthy demand.

Earnings surprise on upside—but so does inflation

April brought the release of many first-quarter earnings reports, which came in modestly above expectations. As the end of the month neared, analysts polled by FactSet were expecting overall earnings for the S&P 500 to have grown by 3.5% versus the year before, a tick above expectations before the start of earnings reporting season. "Both the percentage of S&P 500 companies reporting positive earnings surprises and the magnitude of earnings surprises are above their 10-year averages," FactSet noted.

Investors seemed to keep their focus on economic data and the reaction from Federal Reserve policymakers, however. The market began its decline on April 10, following news that headline consumer price inflation remained exactly steady in March, at 0.36%, in contrast to hopes for a small decline. More concerning may have been a material increase in so-called supercore inflation, which tracks services prices excluding energy and housing costs that policymakers have acknowledged are a lagging indicator of overall inflation trends. Supercore inflation jumped 0.7% in March and 4.8% over the past 12 months, substantially higher than expectations and its biggest increase in 10 months.

The market's decline accelerated the following week on reports showing unexpected strength in the economy, presenting a further reason for the Fed to postpone any cut in interest rates. In particular, the Commerce Department reported that retail sales rose 0.7% in March, well above consensus expectations of around 0.3%, while February's gain was revised upward to 0.9%. Higher gas prices were partly at work (the data are not adjusted for inflation), but the strength was broad-based and included healthy gains in discretionary categories, such as restaurants and bars and online retailers.

Stagflation worries emerge

Evidence that the economy might not be as strong as many believed arrived later in the month, but it appeared to do little to assuage interest rate concerns. S&P Global reported that its gauge of U.S. manufacturing activity fell back into contraction territory (below 50.0) in April at 49.9, well below consensus estimates of around 52.0. S&P's gauge of services sector activity, while still indicating expansion, also missed expectations, at 50.9 versus 52.0.

The last day of the month saw a final steep decline as investors weighed a slew of data that raised worries about stagflation—or a slowing economy alongside rising prices. The Labor Department reported that employment costs rose 1.2% in the first quarter—or at an annual pace of nearly 5%—which was above expectations and the fastest pace in a year. A separate report showed home prices rising in February at their fastest rate in eight months.

Meanwhile, a gauge of business activity in the Chicago area fell to its lowest level since November 2022, and the Conference Board's measure of consumer confidence declined in April to its lowest point in nearly two years. Rising tensions in the Middle East, particularly the exchange of strikes between Iran and Israel, also seemed to weigh on sentiment as the month came to an end.

Europe

The pan-European STOXX Europe 600 Index ended lower in April, snapping a five-month winning streak amid an escalation of Middle East tensions, mixed corporate earnings, and uncertainty over the outlook for interest rates. Major indexes in Germany, Italy, and France also fell. The UK's FTSE 100 Index, however, was buoyed by strength in mining and energy names, which make up a larger part of the index.

European government bond yields hit their highest levels this year. Strong U.S. economic data increased expectations that the Federal Reserve would keep interest rates higher for longer, which could force other central banks to follow suit. The yield on the 10-year German government bond briefly spiked above 2.6%.

ECB points to June rate cut, but hawks cautious on further easing

The European Central Bank (ECB) left its key deposit rate at a record high of 4.0% but said that if the June inflation update "were to increase its confidence that inflation is converging to the target in a sustained manner, it would be appropriate to reduce the current level of monetary policy restriction." Nevertheless, the policy path after June appeared less certain, with hawkish comments from some policymakers casting doubt on subsequent rate reductions. German Bundesbank President Joachim Nagel said the ECB's monetary policy decision in June "would not necessarily be followed by a series of rate cuts," given the current macroeconomic and geopolitical uncertainty. Executive Board member Isabel Schnabel highlighted that services inflation was the biggest concern. "There is a consensus emerging that we may be facing a quite bumpy last mile," she said. Hawks also argued that the ECB might find it difficult to diverge significantly from the Fed because of the potential impact on the euro exchange rate.

Eurozone economy picks up from recession; core inflation slows

Eurozone gross domestic product surprised to the upside, expanding 0.3% in the first quarter after contracting 0.1% in the final three months of 2023. The latter estimate was a downward revision from 0.0%, meaning that the region's economy fell into a technical recession in the second half of last year. Annual consumer price growth was steady in April at 2.4%, but core inflation—which excludes energy and food prices—slowed to 2.7% from 2.9%.

BoE officials confident inflation is receding, but markets see later rate cut

Higher oil prices and somewhat sticky underlying inflation data prompted financial markets to push out expectations for a first cut in UK interest rates from June to sometime in the fall. In contrast, Bank of England (BoE) Governor David Bailey and Deputy Governor Dave Ramsden sounded more upbeat. "In the UK, we're disinflating at what I call full employment," Bailey said at the International Monetary Fund's annual meeting. "I see, you know, strong evidence now that that process is working its way through." However, several BoE officials expressed concerns about strong wage growth and the persistence of services inflation, which, at 6.0%, was still elevated in March.

Japan

As many market participants converged around the view that Japanese authorities had intervened around the turn of the month in the foreign exchange markets to prop up the yen, Japanese stocks generated a negative return in April, with the MSCI Japan Index down 1.1% in local currency terms. Changes in the Bank of Japan's (BoJ's) accounts suggested that such an intervention had taken place. Its effects appeared short-lived, however, with the yen continuing to hover around 34-year lows—the Japanese currency depreciated over the month to JPY 157.8 against the USD, from JPY 151.3 at the end of March. Over the past three years, weakness in the yen has provided a significant boost to Japan's exporters—companies that tend to derive a major share of their earnings from overseas.

Bank of Japan leaves monetary policy unchanged

The BoJ refrained from making changes to its monetary policy at its April meeting, leaving its policy rate unchanged at an

accommodative level of 0% to 0.1%, which was perceived as broadly dovish by investors. BoJ Governor Kazuo Ueda hinted that confidence to raise interest rates further is set to increase in the second half of this financial year, however. The yield on the 10-year Japanese government bond rose to 0.87% from 0.72% at the end of the prior month.

In March, the central bank lifted interest rates from negative territory for the first time in over seven years—a consensus view appears to have emerged that two more rate hikes within the space of a 12-month period are likely. Nevertheless, Japan's monetary policy remains among the most accommodative in the world, and financial conditions are expected to remain accommodative as well, for the time being.

Amid signs of easing price pressures, tourism could support services inflation

On the economic data front, Japan's core consumer price index (CPI) was 2.6% higher year on year in March, slightly lower than had been expected and down from a revised 2.8% in February. In turn, the Tokyo-area core CPI, a leading indicator of nationwide trends, rose 1.6% year on year in April, short of consensus expectations and down from 2.4% in March. While the latest inflation prints suggested that price pressures could be easing somewhat, solid growth in Japan's inbound tourism in March, driven by an increase in visitors from South Korea and China, is likely to support services inflation.

Japan's exports rose 7.3% year on year in March, slightly slower than the 7.8% gain registered in February. The data print nevertheless marked the fourth consecutive month of growth in exports, attributable to the boost provided to Japan's exporters by historic weakness in the yen. Signs of a pickup in Chinese demand was also a boon.

China

Chinese stocks rose as the government stepped up support measures to bolster the country's equity market amid a prolonged real estate crisis. The MSCI China Index gained 6.6% while the China A Onshore Index added 2.08%, both in U.S. dollar terms.

China's gross domestic product expanded a better-than-expected 5.3% in the first quarter from a year ago, accelerating slightly from the 5.2% growth in last year's fourth quarter. On a quarterly basis, the economy grew 1.6%, rising from the fourth quarter's 1.4% expansion. Other data provided a mixed snapshot of the economy, however. Industrial production and retail sales each grew less than expected in March. Fixed asset investment rose more than expected in the first quarter from a year ago, although property investment shrank 9.5% year on year.

The official manufacturing Purchasing Managers' Index (PMI) rose to an above-consensus 50.8 in March, up from 49.1 in February, marking the first expansion since September last year. The nonmanufacturing PMI increased to a better-than-expected 53 from 51.4 in February. Separately, the private Caixin/S&P Global survey of manufacturing activity edged up to 52.7 in March, in line with expectations and marking its 15th month of expansion.

Deflationary pressures remained a drag

Weak inflation data highlighted the sluggish domestic demand weighing on China's economy. The consumer price index rose a below-consensus 0.1% in March from a year earlier, down from February's 0.7% rise, as food costs retreated following a brief increase during the Lunar New Year holiday. Core inflation rose by 0.6% but slowed from February's 1.2% increase. Meanwhile, the Producer price index fell 2.8% from a year ago, marking its 18th month of decline.

Other Key Markets

Israel: "Limited" response to first direct Iranian attack

Stocks in Israel, as measured by MSCI, returned -7.46% in April versus 0.47% for the MSCI Emerging Markets Index and -2.46% for the MSCI EAFE Index.

According to T. Rowe Price credit analysts Razan Nasser and Peter Botoucharov, Iran's missile attack on Israel at mid-month marked a significant escalation in tensions between the two countries, as this was the first time that Iran had launched a direct attack on Israel rather than using its proxies. The attack, however, appeared to have been more for show, meant to cause minimal damage. It was telegraphed well in advance and didn't use advanced weapons. In a letter to the United Nations, Iran said that it considered this matter over and will not conduct another strike unless Israel choses to retaliate.

A few days later, however, Israel carried out a reprisal strike on an Iranian air base in the city of Isfahan. The attack appeared to be limited in nature—at least according to Israeli and local Iranian news—and both sides have downplayed the retaliation, indicating little or no damage. Our analysts believe that these recent attacks were signaling actions about Iranian and Israeli military capabilities rather than an attempt to escalate the situation.

Türkiye (Turkey): Ruling party loses some support in local elections...

Stocks in Türkiye, as measured by MSCI, returned 14.31% in April versus 0.47% for the MSCI Emerging Markets Index.

On March 31, Türkiye held local elections throughout the country, the results of which surprised many investors. the opposition Republican People's Party (CHP)—which was the main loser in the May 2023 general elections—gained about

37% of the national vote and maintained control in all major cities, including the capital, Istanbul. In contrast, President Recep Tayyip Erdoğan's Justice and Development Party saw its support drop to approximately 35%.

According to Peter Botoucharov, the outcome reflected lower voter participation (77% this year versus 87% last year), as well as voters' disappointment with continuing high inflation and slowing economic growth stemming from rising interest rates. He also believes that Erdoğan's conciliatory post-election speech is noteworthy in that the president emphasized the democratic process, the need to work toward macroeconomic stabilization, and the importance of reducing inflation over the next few years, when there will be no scheduled elections.

...Prompting officials to prioritize disinflation

Around mid-month, Türkiye's central bank governor, Fatih Karahan, spoke at a Council on Foreign Relations event focusing on central bank governance in emerging markets. As reported by Bloomberg, Karahan—facing the choice between rebuilding Türkiye's foreign exchange reserves and fighting inflation—has decidedly favored the latter. He was quoted as saying, "Our...utmost priority is disinflation, and we will accumulate reserves as much as we can depending on market conditions."

Around mid-month, Turkish Labor Minister Vedat Işikhan said that the government does not intend to raise the minimum wage in July—a reversal from his stance back in January, when he pushed for a higher-than-expected minimum wage hike. According to T. Rowe Price portfolio manager and credit analyst Ulle Adamson, the proliferation of this message over time should help set disinflation expectations throughout Turkish society. Conversely, she believes that another minimum wage hike in July would have nullified any chance of inflation approaching the central bank's target by the end of the year.

Major index returns

Total returns unless noted

As of 4/30/24 Figures shown in U.S. dollars	April	YTD
U.S. Equity Indexes		
S&P 500	-4.08%	6.04%
Dow Jones Industrial Average	-4.92	0.92
Nasdaq Composite (Principal Return)	-4.41	4.31
Russell Midcap	-5.40	2.73
Russell 2000	-7.04	-2.22
Global/International Equity Indexes		
MSCI Europe	-1.73	3.56
MSCI Japan	-4.85	5.77
MSCI China	6.60	4.27
MSCI Emerging Markets	0.47	2.92
MSCI All Country World	-3.26	4.79
Bond Indexes		
Bloomberg U.S. Aggregate Bond	-2.53	-3.28
Bloomberg Global Aggregate Ex-USD Bond	-2.59	-5.72
Credit Suisse High Yield	-0.91	0.81
J.P. Morgan Emerging Markets Bond Global	-2.01	-0.64

Past performance is not a reliable indicator of future performance.
Note: Returns are for the periods ended April 30, 2024. The returns include dividends and interest income based on data supplied by third-party provider RIMES and compiled by T. Rowe Price, except for the Nasdaq Composite Index, whose return is principal only.
Sources: Standard & Poor's, LSE Group, Bloomberg Index Services Limited, MSCI, Credit Suisse, Dow Jones, and J.P. Morgan (see Additional Disclosures).

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