

Chief Investment Office

Weekly Market Commentary

For professional advisers only



In Summary

- Nvidia's robust financial performance catalysed a surge in the US equity market
- Market concentration concerns persist, as gains are predominantly driven by large-cap stocks, while small-cap stocks lagged
- Central banks maintain a hawkish stance, influencing bond markets to further reduce the likelihood of imminent rate cuts

Last week saw a surge of excitement in the artificial intelligence (AI) sector, driven by Nvidia's financial results that outstripped market forecasts and fuelled a rally in global stock markets. The S&P 500 Index gained 1.66%, setting new record highs and momentarily surpassing the 5,100 level. The group of mega-cap stocks, known as the 'Magnificent 7', enjoyed a significant 2.58% increase, with Nvidia's remarkable 8.54% surge leading the charge. Conversely, the Russell 2000 Index, which tracks smaller companies, experienced a 0.79% decrease, underscoring the persistent divergence in market performance between large-caps and small-caps.

Nvidia's robust earnings not only bolstered its market value by over US\$275 billion but also indicated that accelerated computing and general AI have reached a tipping point. Nonetheless, the concentration of market gains in a handful of companies—nearly half attributed to just a few within the S&P 500—has sparked concerns about the reliance on the AI growth narrative. Additionally, although the S&P 500 earnings revisions for 2024 are outperforming historical trends, with analysts projecting low double-digit growth, this growth is predominantly propelled by the 'Magnificent 7'. This contrasts with the downward earnings and margin revisions for the remaining 493 companies in the index, exacerbating concerns about market concentration. Despite this narrow market leadership, major investment banks have increased their S&P 500 price targets for 2024, pointing to better prospects for US economic growth and consistent profit margins.

Central bank statements continue to hint at a potential shift in policy, yet officials maintain their call for patience and additional inflation data. The strong performance of the stock market last week, along with hawkish central bank language, prompted investors to scale back their rate cut forecasts. Expectations for US Federal Reserve rate cuts by December have been reduced to -80 basis points, only half of what was anticipated in mid-January. At the same time, US mortgage rates have risen above 7% for the first time since December, and the commercial real estate market is facing heightened scrutiny due to reports of bad property loans surpassing bank reserves at large banks. The week also saw a negative market response to lacklustre earnings reports from several major banks, including Wells Fargo in the US and HSBC in the UK.



Economic indicators (week beginning 19 February 2024)

Day	Data Release	Consensus	Prior	Actual
Tuesday	Canada CPI YoY Jan	3.2%	3.4%	2.9%
	Canada CPI NSA MoM Jan	0.4%	-0.3%	0.0%
	United States Leading Index Jan	-0.3%	-0.1%	-0.4%
Wednesday	United States MBA Mortgage Applications 42401	--	-2.3%	-10.6%
Thursday	United States Initial Jobless Claims 42767	218k	212k	201k
	France HCOB France Manufacturing PMI Feb P	43.5	43.1	46.8
	Italy CPI EU Harmonized YoY Jan F	0.9%	0.9%	0.9%
	France HCOB France Services PMI Feb P	45.6	45.4	48.0
	Japan Jibun Bank Japan PMI Mfg Feb P	--	48.0	47.2
	Germany HCOB Germany Manufacturing PMI Feb P	46.0	45.5	42.3
	United Kingdom S&P Global UK Manufacturing PMI Feb P	47.5	47.0	47.1
	United States S&P Global US Manufacturing PMI Feb P	50.5	50.7	51.5
	France HCOB France Composite PMI Feb P	45.0	44.6	47.7
United States Existing Home Sales Jan	3.97m	3.78m	4.0m	
Friday	Germany IFO Business Climate Feb	85.5	85.2	85.5
	Germany IFO Expectations Feb	84.0	83.5	84.1

Source: Bloomberg, data accessed 26 February 2024.

Economic indicators (week beginning 26 February 2024)

Day	Data Release	Consensus	Prior
Monday	Japan Natl CPI YoY Jan	1.9%	2.6%
	United States New Home Sales Jan	684k	664k
Tuesday	United States Conf. Board Consumer Confidence Feb	115.0	114.8
	United States Durable Goods Orders Jan P	-5.0%	0.0%
Wednesday	Japan Industrial Production MoM Jan P	-6.8%	1.4%
	Italy Manufacturing Confidence Feb	88.7	88.3
	United States GDP Annualized QoQ 4Q S	3.3%	3.3%
	United States MBA Mortgage Applications 44958	--	-10.6%
	Italy Consumer Confidence Index Feb	97.0	96.4
	United States Wholesale Inventories MoM Jan P	0.2%	0.4%
Thursday	United States Initial Jobless Claims 45323	210k	201k
	Japan Jobless Rate Jan	2.4%	2.4%
	France CPI YoY Feb P	2.8%	3.1%
	Germany CPI YoY Feb P	2.6%	2.9%
	Germany CPI MoM Feb P	0.5%	0.2%
	Japan Job-To-Applicant Ratio Jan	1.27	1.27
	Australia Retail Sales MoM Jan	1.5%	-2.7%
	Canada Quarterly GDP Annualized 4Q	0.8%	-1.1%
	United States Personal Income Jan	0.4%	0.3%
	United States Personal Spending Jan	0.2%	0.7%
	United Kingdom Mortgage Approvals Jan	52.0k	50.5k
	Germany Unemployment Change (000's) Feb	5.0k	-2.0k
	France GDP QoQ 4Q F	0.0%	0.0%
	Canada GDP MoM Dec	0.2%	0.2%
United States MNI Chicago PMI Feb	48.0	46.0	
Friday	France HCOB France Manufacturing PMI Feb F	46.8	46.8
	United States ISM Manufacturing Feb	49.5	49.1
	Italy CPI EU Harmonized YoY Feb P	1.0%	0.9%
	China Manufacturing PMI Feb	49.1	49.2
	United States U. of Mich. Sentiment Feb F	79.6	79.6
	China Caixin China PMI Mfg Feb	50.7	50.8
	Japan Jibun Bank Japan PMI Mfg Feb F	--	47.2
	Italy HCOB Italy Manufacturing PMI Feb	49.1	48.5
	Germany HCOB Germany Manufacturing PMI Feb F	42.3	42.3
	United Kingdom S&P Global UK Manufacturing PMI Feb F	47.1	47.1
	Canada S&P Global Canada Manufacturing PMI Feb	--	48.3
	United States S&P Global US Manufacturing PMI Feb F	51.5	51.5
	Italy CPI EU Harmonized MoM Feb P	0.2%	-1.1%
	United Kingdom Nationwide House PX MoM Feb	0.3%	0.7%
	United Kingdom Nationwide House Px NSA YoY Feb	0.7%	-0.2%
France PPI MoM Jan	--	0.1%	

Source: Bloomberg, data accessed 26 February 2024.

Asset market performance

Index	Value	As at Friday close		YTD	
		CR	TR	CR	TR
MSCI UK GBP	2211	-0.05%	0.16%	-0.19%	0.26%
MSCI USA USD	4850	1.56%	1.57%	6.54%	6.69%
MSCI Europe ex UK EUR	201	1.43%	1.43%	4.66%	4.77%
MSCI AC Asia ex JPN USD	529	1.27%	1.33%	-0.02%	0.09%
MSCI Japan JPY	1647	1.36%	1.36%	13.73%	13.74%
MSCI Emerging Markets USD	1028	1.19%	1.23%	0.45%	0.57%
Barclays Sterling Gilts GBP	225		0.55%		-3.81%
GOLD USD	2035	1.08%		1.34%	
WTI Oil USD	76	-3.41%		6.76%	
MSCI PIMFA Income		0.45%	0.51%	1.06%	1.37%
MSCI PIMFA Balanced		0.45%	0.51%	1.60%	1.87%
MSCI PIMFA Growth		0.47%	0.53%	2.81%	3.04%

Source: Bloomberg, MSCI; please see important information, data accessed 26 February 2024.

YTD denotes year to date, TR denotes total return and CR denotes capital return.



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