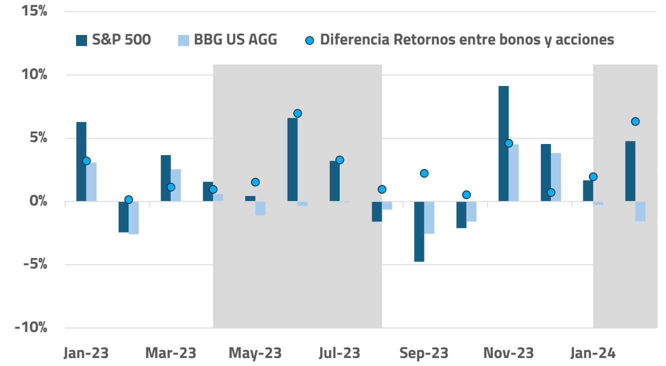
MARCH 2024

It's all about Artificial Intelligence

U.S. stocks had a great February, with the S&P500 up 5%. It was in stark contrast to the bond market, which suffered as a result of the sharp rise in the 10-year treasury bond rate. This went from 3.90% at the end of January to the current 4.30%, resulting in a loss in the bond price of 2.2%. Disparate returns between bonds and stocks have not been the norm in recent times, with positive correlations dominating.

Stocks decoiple from bonds

S&P 500 and BBG US Aggregate monthly returns



Source: Bloomberg, Latin Securities

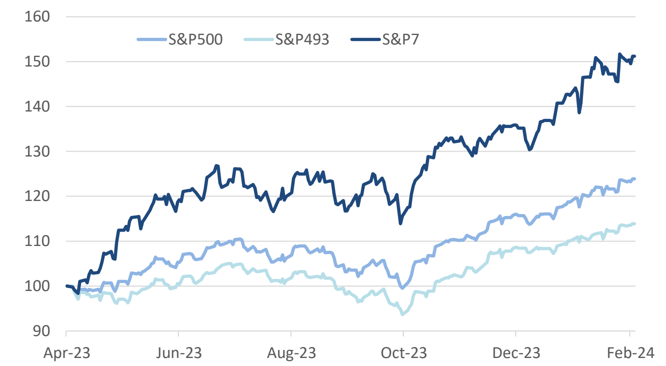
Stock performance was dominated solely by strong corporate earnings growth, particularly those of the magnificent seven, showing that enthusiasm for artificial intelligence is still well and alive. Contrary to other opportunities, the stock market ignored the flurry of economic news showing a still booming economy and suggesting that the Fed may not cut rates this year. Concerns that dominated the last two years, such as high stock valuations, the possibility of a recession, or accelerating inflation have, for the moment, taken a back seat.

Corporate earnings provide positive surprises

Corporate earnings have been the highlight of the month. The just-concluded reporting season yielded results above expectations. Year-over-year growth in the fourth quarter was 8%, well above the 1% forecasted at the beginning of the season. The " Magnificent 7 " (Microsoft, Apple, Alphabet, Amazon, Meta, Nvidia, and Tesla) stood out once again, surpassing expectations by just over 10%. In the fourth quarter, their earnings increased on average by 56% year-over-year, while those of the rest of the S&P 500 index fell by 1%.

The Magnificent 7 continue to pull ahead

S&P500 vs Magnificent 7



Source: Bloomberg

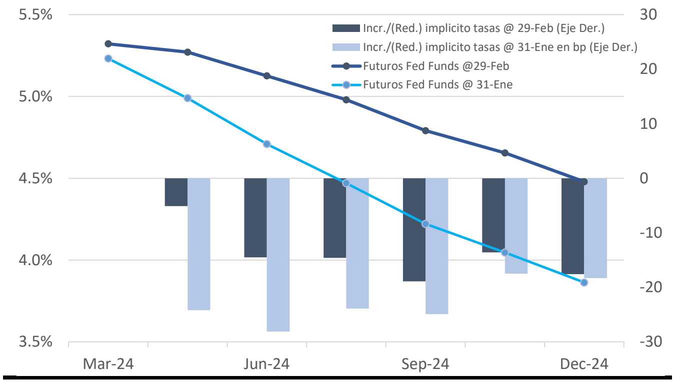
The outlook for the S&P 500 companies remains optimistic, with expected earnings growth of over 10%, which should provide strong support for stocks. This is not surprising in the context of solid economic growth as expected in 2024.

Will the Fed be encouraged to lower rates?

Economic data released in February cast doubt on the feasibility of lowering interest rates during 2024. Inflation is rebounding, unemployment remains very low, wages continue to grow above inflation, and economic activity is still growing at high levels. As a result, first the Fed after its last meeting, and then its members in their recent public statements, expressed that the conditions have not yet been met to start cutting rates. There would be no justification for rate cuts in an economic environment that still appears very healthy, especially when the market has practically ruled out a recession in the near future. Even less so, when it could fuel speculation of political motivations to favor the candidate of the ruling party in the upcoming presidential elections.

Drastic change in expectations

Rate futures - February 29 vs. January 31



Source: Bloomberg

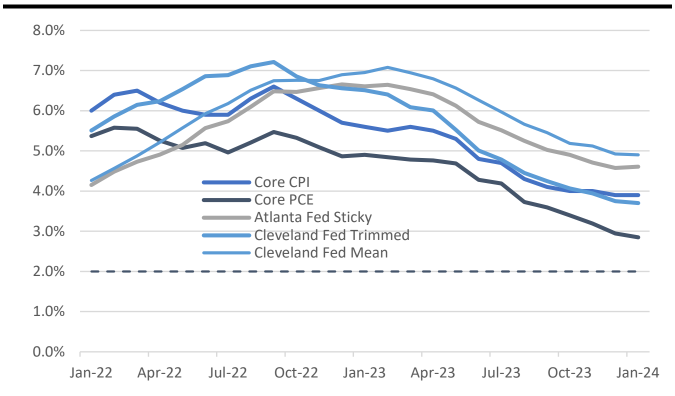
More importantly, the market has dramatically changed its view on interest rates. In just a few days, the number of estimated 25bp cuts for 2024 collapsed from 5-6 to 3, bringing it in line with Fed forecasts for the first time in a very long time. It has also pushed back the estimate of the first rate cut to June from the previous March forecast.

Inflationary rebound

The release of U.S. inflation in January came as a negative surprise. Consumer inflation (CPI) was 3.1% YoY, when analysts expected a slowdown to 2.9%. Consumer spending inflation (PCE), the Fed's preferred measure, came in at 2.4% YoY on the headline measure, and 2.8% YoY on the core (excluding energy and food), apparently moving closer to the Fed's 2% target. However, annualized inflation for the last month and three months has been rising, probably one of the main reasons why the Fed remained cautious.

The decrease in inflation has stalled

Return fundamentals (Jan/22 – Feb/24)



Source: Bloomberg

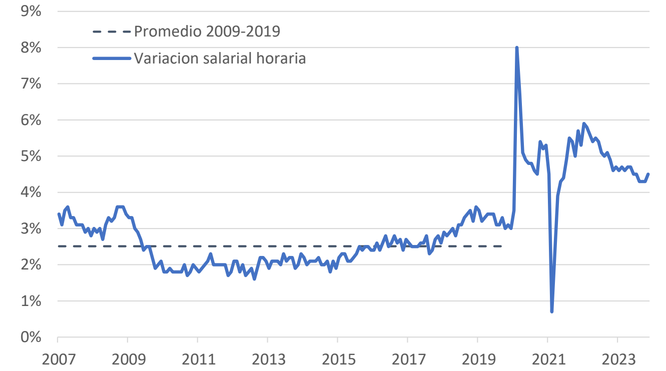
The recent slowdown in both CPI and several other alternative measures of inflation has stalled in recent months. Headline CPI remains between 3-4% YoY since the middle of last year and the core version - which excludes energy and food - around 4% YoY. The Atlanta Fed's "sticky" measures and others like them from the Cleveland Fed are hovering between 4% and 5.5%.

The labor market continues to be strong

In February, the strength of the labor data was as surprising as that of inflation. A total of 353,000 new jobs were created, almost doubling analysts' estimates. The average for the last three months was 40% higher than the previous three months. In contrast to what had been occurring, the revisions for the previous months were positive rather than negative. As a result, the unemployment rate remains at 3.7%. In addition, unemployment claims remain slightly below pre-pandemic levels. And job openings remain 50% above pre-pandemic levels, with 9 million open positions.

Wages continues to grow very fast

US Wage Growth (YoY)



Source: Bloomberg

On the other hand, wages continue to grow well above inflation. In January they grew at a rate of 4.5% YoY, up from 4.3% in December and November. This explains why, in the last quarter, personal spending was the main determinant of economic growth.

The economy remains robust

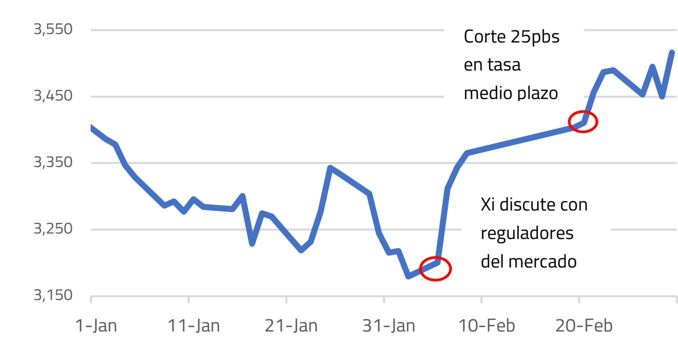
High economic growth continues to provide the Fed with arguments to maintain an aggressive monetary policy, with rates above reported inflation. The second preliminary estimate of GDP in 2023 showed growth of 2.5% YoY. For 2024, a slight slowdown to 2% YoY is expected, in line with the 10-year average. In addition, manufacturing activity has recovered in recent months. On the other hand, the Conference Board's leading index no longer points to a recession in 2024. There are almost no analysts left who expect a recession in 2024.

Chinese stocks react to stimulus

Despite continued economic fragility, the stock market rebounded following the announcement of stimulus measures and President Xi Jinping's intervention to revitalize the stock market. The CSI 300 index rose 9% for the month, recording the best monthly performance since January 2023.

Chinese stocks emerge from the slump

CSI 300 Index



Source: Bloomberg

The economy remains in a deflationary environment. Consumer prices have fallen in the last four months, influenced by a weaker-than-expected economic recovery, declines in food and energy prices, and a prolonged housing recession.

In addition, the housing market, historically an important driver of confidence and the economy, remains under pressure. Consumers remain cautious, even during the Chinese New Year, traditionally a period of strong consumption, when tourism spending has been sluggish.

The market was enthused by the news that Xi Jinping would meet with the Securities Regulatory Commission and take steps to shore up the stock market. This was followed by the announcement of a ban on asset lending (prohibiting short selling) and news that a local sovereign wealth fund was investing in exchange listed funds. In addition, in an effort to stabilize the real estate sector, the mortgage rate was cut by 25 basis points, the largest cut in history and the first since June 2023.

It is still premature to assess how sustainable all these measures may be. The last time stocks soared in this way was following measures to revive the economy after the pandemic, although their impact failed to be sustained over time.

US Stocks	1M	YTD
DJIA	2.5%	3.8%
Nasdaq Composite	6.2%	7.3%
S&P 500	5.3%	7.1%
Russell 2000	5.7%	1.5%
Russell1000 Value	3.7%	3.8%
Russell 1000 Growth	6.8%	9.5%
Russell 1000	5.4%	6.9%

February was a great month for US stocks, mainly for growth stocks and small-cap stocks, buoyed by corporate earnings.

Developed Markets (USD)	1M	YTD
MSCI ACWI	4.3%	4.9%
MSCI ACWI ex-US	2.5%	1.5%
MSCI World	4.2%	5.5%
MSCI World ex-US	1.7%	2.1%
Japan: Nikkei 225	5.8%	10.1%
Stoxx Europe 600	1.6%	1.4%
Germany: DAX	4.5%	3.3%

Japan was once again the star of the developed markets, despite higher-than-expected inflation for the month. The rest of the markets followed the optimism of the U.S. market.

Emerging Markets (USD)	1M	YTD
MSCI EM	4.8%	-0.1%
China: Shanghai Comp.	9.1%	1.2%
Hong Kong: Hang Seng	6.5%	-3.4%
India: S&P BSE Sensex	1.3%	0.9%
Brazil: Bovespa	0.7%	-6.0%
MSCI: México	-2.5%	-3.9%
Argentina: Merval	-3.5%	-0.7%
Chile: Santiago IPSA	3.6%	-5.4%

Emerging markets performed similarly to U.S. equities, mainly driven by China's recovery. China remains the main component of MSCI Emerging Markets despite a lower weighting due to its poor performance over the past three years.

US Treasury Bonds	1M	YTD
US Treasury 2 Yr	41	37
US Treasury 5 Yr	41	40
US Treasury 10 Yr	34	37
US Treasury 30 Yr	21	35

Yields on US Treasury bonds increased across the yield curve, driven by reports of higher inflation, a robust labor market, and a resilient economy.

Fixed Income (USD)	1M	YTD
US HY	0.3%	0.3%
US IG	-1.4%	-1.7%
US GLOBAL	-1.2%	-1.4%
GLOBAL HY	0.3%	0.3%
GLOBAL IG	-1.3%	-2.6%
EM HY	2.1%	1.9%
EM IG	-0.6%	-1.4%
EM Global	0.4%	-0.2%

The rise in rates negatively affected high-quality credit fixed income indices. The low spread levels in corporate bonds make them more sensitive to rate movements.

Currencies	1M	YTD
DXY	0.9%	2.8%
Euro	-0.1%	-2.1%
Yen	-2.0%	-6.0%
Libra	-0.5%	-0.8%
Yuan	-0.3%	-1.2%
Real	-0.3%	-2.3%
MSCI Emerging Mkts Currency	0.2%	-0.7%

The increase in interest rates strengthened the dollar against major currencies, due to expectations of higher interest rates.

Commodities	1M	YTD
BBG Commodity Index	-1.5%	-1.1%
BBG Agriculture Index	-4.8%	-6.2%
Oil	2.3%	8.5%
Gas	-11.4%	-26.0%
Oro	0.2%	-0.9%
Plata	-1.2%	-4.7%
Cobre	-1.8%	-1.4%
Soja	-7.7%	-12.8%
Trigo	-3.0%	-8.0%
Maíz	-7.3%	-11.8%
Algodón	19.2%	25.4%
Ganado	3.7%	5.9%

The strength of the dollar has hurt commodities, reaching their lowest levels since 2021. Despite the strength of the US economy, the rest of the world does not present encouraging growth. The United Kingdom and Japan entered a technical recession at the end of last year, and China continues to face problems, weakening demand for commodities. Additionally, the winter has been milder than usual in the northern hemisphere, negatively impacting natural gas prices.

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