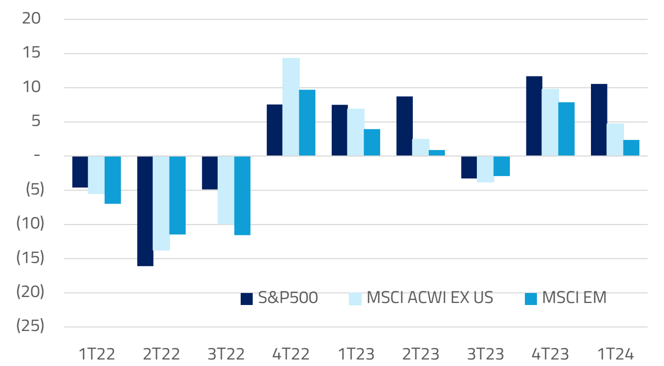
The Fed has fewer certainties

For the second consecutive quarter, U.S. stocks rose by over 10%, driven by strong economic growth, solid corporate earnings, and a Federal Reserve still tolerant of the incipient signs of inflationary resurgence. Consequently, the futures market has drastically reduced the number of expected rate cuts for this year, aligning with the Fed's forecasts after a long time. Additionally, the recent uptick in commodity prices threatens to make the Fed's job more challenging in the coming months. Bond prices have reflected this uncertainty with a downward and volatile trend. The evolution of employment, one of the main drivers of the economy, has shown robustness in recent months and will be key in determining the continuity of the current boom and the Fed's movements in the near future.

The year began with the same bullish trend that ended in 2023. For the second consecutive quarter, U.S. stocks rose by over 10%. Developed markets outside the United States had returns close to 5%, primarily due to their weaker economic growth. Emerging markets were even weaker, growing only 2-3%, heavily influenced by the low returns of the Chinese market, which represents a quarter of the index.

The S&P continues to lead the gains

Quarterly returns of major stock markets (%)



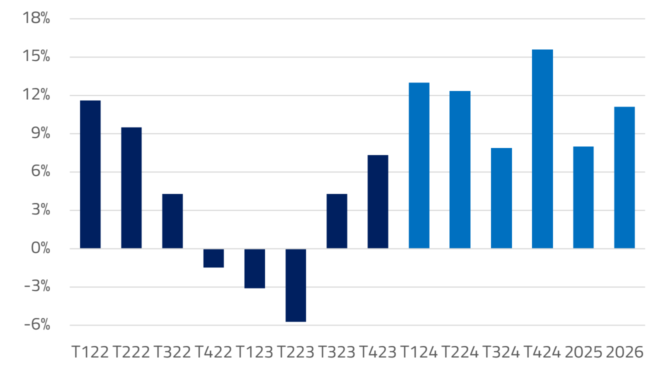
Source: Bloomberg

The behavior of stocks was influenced by the strong growth in corporate earnings, particularly those of the so-called 'Big Seven' (Microsoft, Apple, Alphabet, Amazon, Meta, Nvidia, and Tesla), large technology companies heavily involved in artificial intelligence.

The fourth-quarter earnings reporting season, which concluded in March, yielded results above expectations. Year-on-year growth of 8% was well above the 1% forecasted at the beginning of the season. The earnings of the Big Seven stood out, increasing by an average of 56% year-on-year, while the rest of the S&P 500 saw a 1% decline.

Strong earnings growth in the United States

Growth in S&P 500 corporate earnings (y/y)



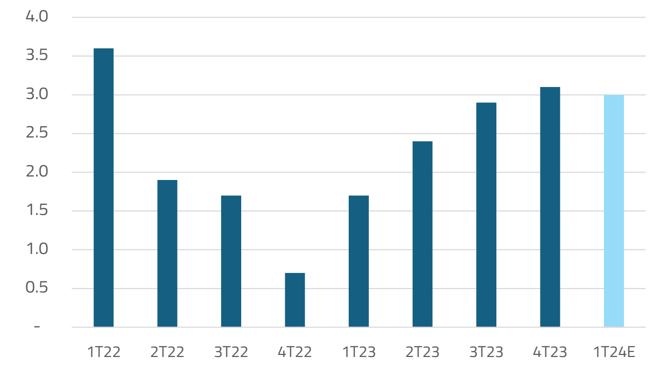
Source: Yardeni Research

The outlook for S&P 500 companies is optimistic, with expected earnings growth for 2024 exceeding 10%.

Price growth last year was concentrated in a handful of technology stocks, and therefore was relatively immune to economic fluctuations. The situation could change in 2024 and encompass more sectors, as the economy has grown rapidly in recent quarters, mainly driven by increased consumption. Year-on-year GDP growth has risen from 1.7% y/y in 1Q23 to 3.1% y/y in 4Q23. Additionally, despite consensus estimates suggesting that the economy would weaken in 2024, initial estimates suggest that first-quarter growth would be around 2.5% q/q.

The economy is growing strongly

Growth of GDP in the United States (% y/y)

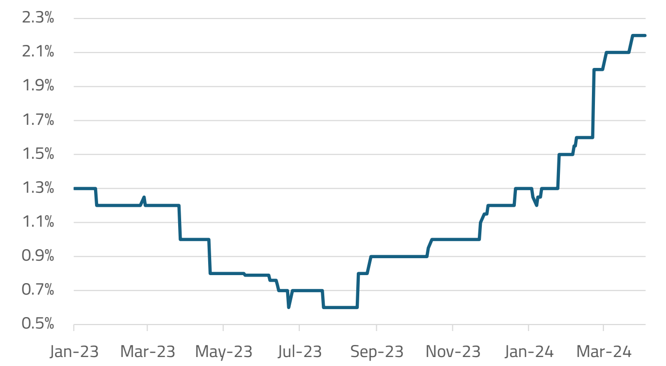


Source: Bloomberg

Analysts have become increasingly optimistic in recent months regarding 2024, significantly raising their estimates, which started at 0.6% in mid-2023 and are now close to 2.2%.

Growing optimism regarding the EEUU economy

Evolution of GDP growth estimates for 2024 in the United States



Source: Bloomberg

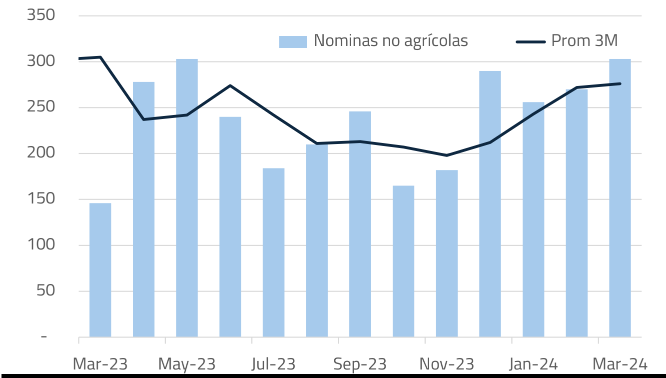
One of the main drivers of the economy in the United States is consumption, which accounted for two-thirds of the economic growth in the fourth quarter. Despite the sharp increases in interest rates in 2022-23, the labor market continues to grow steadily. Job creation in the first quarter was 30% higher than in the fourth quarter of last year.

As a result, unemployment remains at 3.8%, which, while higher than the low of 3.4% reached in January 2023, shows an extremely tight labor market. In fact, the latest data shows a demand for 9 million jobs against only 6.4 million unemployed people, a historically high ratio.

This imbalance has translated into strong wage growth. In March, wages grew by 4.1% year-on-year, which, although represents a slowdown from the 4.5% in January, continues to be well above inflation.

Employment remains strong

Job creation in the United States (thousands)



Source: Bloomberg

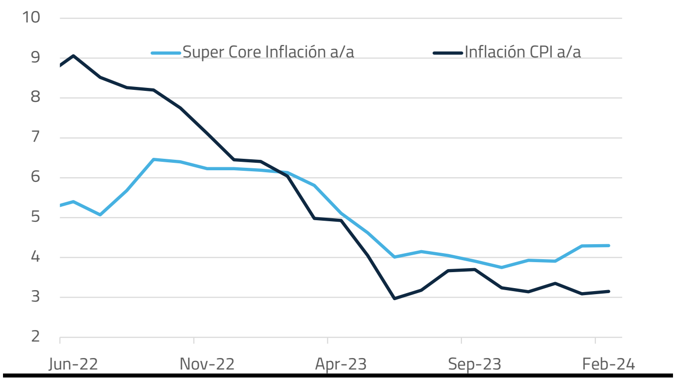
This level of wage increases makes it very difficult to lower inflation, which has stalled since mid-2023. It is concerning that so-called "super core" inflation, prices of services excluding those related to housing, in which wages are a significant component, is accelerating. In February, it reached 4.3%, up from 3.9% in December, well above the overall inflation rate.

Core inflation, which excludes energy and food, is also rising. The three-month annualized average grew to 4.2% in February from 2.6% in August, more than doubling the Fed's target of 2%.

Additionally, energy and other industrial commodities have been rising sharply in recent months. While the former is not part of core inflation, they eventually impact it in the long run.

Service inflation is high

Service inflation excluding housing ('Super Core') vs. CPI (%)

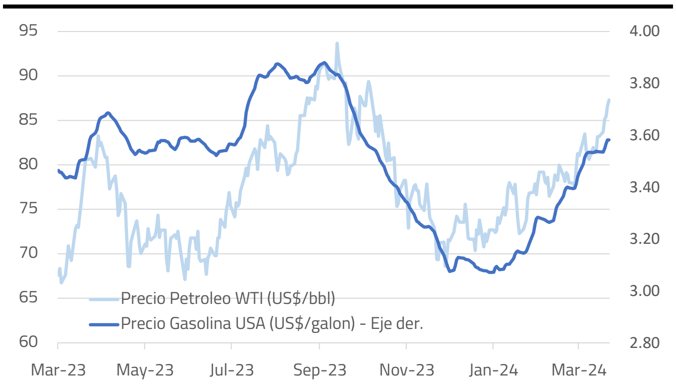


Source: Bloomberg

The price of Brent crude oil increased by 14% in the first quarter. In February, the price of fuels in the United States, closely correlated with oil, was the component of inflation that grew the most. The price of oil was pushed by higher global economic growth (largely influenced by the United States), an increase in geopolitical conflicts in the Middle East, and a nascent awakening of the Chinese economy.

Oil experiencing strong recovery

Price of Brent and Gasoline in the United States



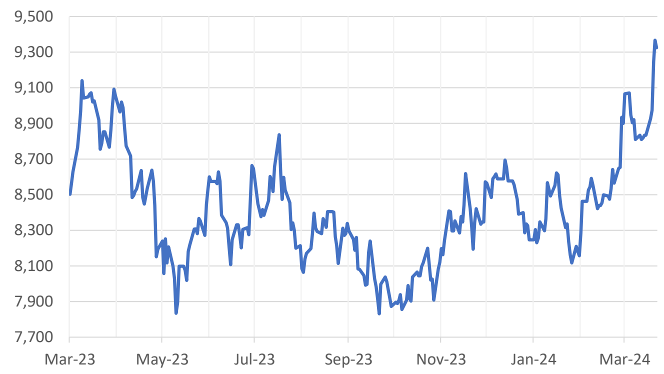
Source: Bloomberg

Indeed, China's March manufacturing PMI signaled the first expansion in 6 months, hinting at a potential recovery in the country's primary productive sector. Stocks reacted positively to this trend, rising 2% in the first quarter, recovering from the steep decline of almost 10% in January.

Other commodities have also rebounded in recent weeks. The "Doctor Copper," so named because it often serves as a barometer of the global economy, has risen 9% since the beginning of the year and 15% since mid-third quarter last year. Therefore, it's not surprising that the manufacturing sector in the United States has also awakened after a long recession, remaining in expansion territory for three months (above 50).

Doctor Copper signals a global economic recovery

Price of copper (US$/ton)



Source: Bloomberg

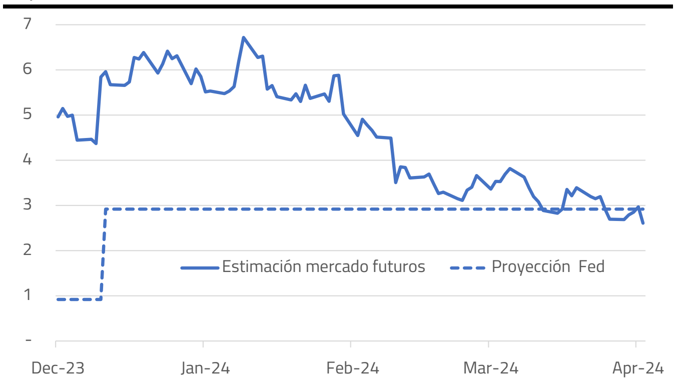
The combination of stronger-than-expected growth alongside inflation that seems resistant to decline is leading to a shift in the market narrative from a scenario of a "soft landing" to one without a landing. In the coming weeks, the market anxiously awaits the Fed's reaction to this potential new paradigm shift.

The Fed has expressed on several occasions that its decisions will be data-driven. However, in December, the market became optimistic after Fed Chair Jay Powell said they would cut rates long before inflation reaches the 2% target. In February, doubts resurfaced after the slowdown in inflation stalled. Powell stated that he still lacked enough confidence that inflation had been definitively defeated and gave strong signals that there would be no rate cuts in March.

These doubts were reflected in a substantial drop in the number of expected rate cuts by the market. While at one point in December the market expected 7 cuts for this year, currently they do not exceed three. Furthermore, until very recently, futures markets reflected a very high probability that the first cut would be in June. However, in recent days, that probability has dropped to around 50%.

The market aligned with the Fed

Expected rate cuts: Futures market vs Fed



Source: Bloomberg

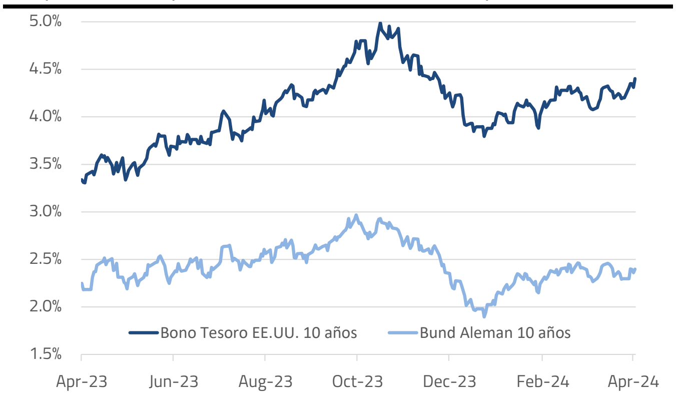
In recent weeks, Powell's statements have been fairly nonchalant, despite March inflation being higher than expected and the recent increase in commodity prices. His apparent calmness is likely due to his confidence that, at current levels, rates remain above inflation, and therefore, he may believe that at some point the economy and inflation should moderate. However, the recent rebound in oil, copper, and various other industrial commodity prices raises concerns about whether we might be entering a second phase of the inflationary process that began in 2021.

The Fed is not the only central bank delaying rate cuts. Despite inflation in Europe slowing down, the European Central Bank (ECB) has not acted, even though inflation in the Eurozone is lower and the labor market less robust. There are speculations that this passivity is due to the ECB waiting for the United States to make the first move to prevent a further decline in the Euro. However, for now, the market continues to expect the first ECB rate cut in June. March's 2.4% year-on-year inflation and the confirmation of a recession in Germany provided more confidence in these forecasts.

One unintended consequence of increased economic activity and the stagnation and/or rebound of inflation in the United States was a rise in long-term rates. U.S. Treasury bond rates at 10 years rose just over 30 basis points during the quarter, dragging most bond indices down. For example, the Bloomberg Aggregate lost 1.6%. However, High Yield indices, which usually show a high correlation with the stock market, rose by 1%. The spreads of these bonds are at historically low levels.

The 10-year rates increased during the quarter

10-year Treasury bond rates - U.S. and Germany



Source: Bloomberg, Latin Securities

The economic strength demonstrated in the first quarter, coupled with higher inflation and high levels of U.S. Treasury debt issuance, suggest that rates could remain high for longer than expected towards the end of last year. This scenario would make fixed income appreciation more difficult, although it would improve prospects for commodities and energy-related and materials-producing stocks. The evolution of the labor market will be crucial to confirm whether we are indeed entering a new inflationary phase.

Monthly Outlook - March 2024

In March, the bullish trend in the stock markets that began in October continued, with most developed markets rising 3%-4%. The main catalysts for these increases were the strong corporate earnings reported for the fourth quarter and the Fed's almost indifferent attitude towards inflation data above expectations in January and February.

Inflation in the United States unexpectedly accelerated in February for the second consecutive month. The Consumer Price Index (CPI) increased by 3.2% y/y, slightly exceeding expectations, while the Producer Price Index (PPI), which anticipates the CPI, grew by 0.6% m/m, double the expected rate. The market's reaction to the CPI was not as negative because service inflation excluding housing, while still high, grew m/m at half the pace of January (0.4% vs. 0.8% m/m). However, the PPI was not well-received, causing two consecutive days of declines in the stock markets.

Despite the unfavorable inflation data, the Fed remained calm, keeping rates unchanged at its March meeting. Additionally, it maintained the projection of 3 rate cuts for this year, instead of 2 as expected by some analysts. Powell stated that inflation is gradually moving towards the 2% target, despite the "obstacles". Quarterly projections showed inflation and economic growth expectations for 2024 slightly above previous estimates. On the other hand, five members reduced the number of expected rate cuts compared to December. The market celebrated the Fed's zen mode by reaching historic highs after two weeks of declines.

Powell said he is not far from having enough confidence to begin lowering rates this year. Markets bet that this would take place in June. However, there are doubts about how many cuts there would be. The market is betting on slightly less than three 25bp cuts each, although if the first were in June, the start of the American electoral process would make any move between June and November difficult without one side or the other accusing the Fed of favoring a particular candidate.

The booming labor market is one of the main reasons behind persistent inflation. The recently published March monthly labor report showed high job creation and an upward revision of the previous two months. The 303,000 new jobs in February far exceeded expectations of 200,000. Unemployment fell to 3.8% from February's 3.9%, the highest level in two years. On the other hand, wages grew by 4.1% y/y, in line with expectations, although still above inflation.

The growth of the American economy continues to surprise. GDP projections for 2024 have increased sharply in recent months, from an initial 0.6% year-on-year to the current 2.2%. High-frequency data shows strong momentum in the first quarter. Atlanta's GDP Now estimates that the economy would grow by 2.5%, down from the 3.4% in the fourth quarter of 2023 but well above the 0.6% estimated in mid-last year.

RETURNS OF MAJOR ASSETS

	Price 5/April/24	1Q24	Jan-24	Feb-24	Mar-24	4Q23	3Q23	2Q23	2024QD	2023	2022
Stocks											
U.S. Stocks (Percentage Changes in USD)											
DJIA (USD)	38.904	**6,1**	1,3	2,5	2,2	13,1	(2,1)	4,0	**3,8**	16,2	(6,9)
Nasdaq Composite (USD)	16.249	**9,3**	1,0	6,2	1,8	13,8	(3,9)	13,1	**8,5**	44,6	(32,5)
S&P 500 (USD)	5.204	**10,6**	1,7	5,3	3,2	11,7	(3,3)	8,7	**9,5**	26,3	(18,1)
Russell 2000 (USD)	11.047	**5,2**	(3,9)	5,7	3,6	14,0	(5,1)	5,2	**2,2**	16,9	(20,4)
Developed Markets in U.S. (Percentage Changes in USD)											
MSCI ACWI (USD)	416	**8,2**	0,6	4,3	3,1	11,0	(3,4)	6,2	**7,2**	22,2	(18,4)
MSCI ACWI ex-US (USD)	301	**4,7**	(1,0)	2,5	3,1	9,8	(3,8)	2,4	**3,8**	15,6	(16,0)
MSCI World (USD)	10.654	**8,9**	1,2	4,2	3,2	11,4	(3,5)	6,8	**7,8**	23,8	(18,1)
MSCI World ex-US (USD)	8.209	**5,6**	0,4	1,7	3,4	10,5	(4,1)	3,0	**4,3**	17,9	(14,3)
Japan: Nikkei 225 (JPY)	38.992	**9,2**	4,1	5,8	2,8	11,4	(6,5)	9,1	**9,2**	21,7	(18,7)
Stoxx Europe 600 (EUR)	507	**3,8**	(0,6)	1,7	3,5	11,1	(5,5)	1,5	**3,8**	16,3	(18,0)
Emerging Markets (Percentage Changes in USD)											
MSCI EM (USD)	548	**2,4**	(4,6)	4,8	2,5	7,9	(2,9)	0,9	**2,7**	9,8	(20,1)
China: Shanghai Comp. (RMB)	3.568	**2,1**	(7,2)	9,1	0,1	(4,2)	(3,5)	(9,1)	**2,1**	(11,7)	(26,1)
Hong Kong: Hang Seng (HKD)	5.864	**1,4**	(10,0)	9,2	2,4	(5,9)	(4,2)	(7,6)	**1,4**	(14,1)	(18,6)
India: S&P BSE Sensex (INR)	74.248	**2,8**	(0,4)	1,3	1,0	9,7	0,8	10,6	**2,8**	19,6	(4,9)
Brazil: Bovespa (BRL)	126.795	**(9,4)**	(6,7)	0,7	(1,6)	19,3	(6,2)	22,6	**(9,4)**	32,9	10,5
Mexico S&P (MXN)	58.092	**4,6**	(1,4)	(2,4)	6,6	17,5	(6,3)	6,3	**4,6**	40,9	(0,8)
Argentina: Merval (USD)	1.161	**20,7**	2,9	(3,5)	16,4	35,1	(15,3)	32,6	**20,7**	54,2	41,4
Fixed Income											
U.S. Treasury Bonds (bp Changes)											
US Treasury 2 Yr	4,75	**37**	(4)	41	0	(79)	15	87	**50**	(18)	369
US Treasury 5 Yr	4,39	**37**	(1)	41	(3)	(76)	45	58	**55**	(16)	274
US Treasury 10 Yr	4,40	**32**	3	34	(5)	(69)	73	37	**52**	0	236
US Treasury 30 Yr	4,55	**31**	14	21	(4)	(67)	84	21	**52**	7	206
Fixed Income (Percentage changes in %)											
US HY (USD)	2.504	**1,5**	(0,0)	0,3	1,2	7,2	0,5	1,7	**1,0**	13,4	(11,2)
US IG (USD)	2.123	**(0,8)**	(0,3)	(1,4)	0,9	6,8	(3,2)	(0,8)	**(1,8)**	5,5	(13,0)
US GLOBAL (USD)	575	**(0,5)**	(0,2)	(1,2)	1,0	6,8	(2,9)	(0,6)	**(1,4)**	6,2	(13,0)
GLOBAL HY (USD)	431	**1,4**	(0,0)	0,3	1,0	7,7	0,0	1,7	**1,0**	13,5	(12,7)
GLOBAL IG (USD)	458	**(2,1)**	(1,4)	(1,3)	0,6	8,1	(3,6)	(1,5)	**(2,8)**	5,7	(16,2)
EM HY (USD)	1.462	**4,7**	(0,2)	2,1	2,8	9,7	(0,6)	2,3	**4,9**	13,1	(12,4)
EM IG (USD)	486	**(0,3)**	(0,8)	(0,6)	1,1	7,2	(3,3)	0,5	**(1,1)**	6,8	(16,9)
EM Global (USD)	1.184	**1,5**	(0,6)	0,4	1,7	8,1	(2,3)	1,1	**1,1**	9,1	(15,3)
Currencies (Percentage changes in %)											
DXY	104,30	3,1	1,9	0,9	0,3	(4,6)	3,2	0,4	2,9	(2,1)	8,2
Euro (USD/EUR)	1,08	(2,3)	(2,0)	(0,1)	(0,1)	4,4	(3,1)	0,6	(1,8)	3,1	(5,8)
Yen (JPY/USD)	151,62	(6,8)	(4,0)	(2,0)	(0,9)	5,9	(3,4)	(7,9)	(7,0)	(7,0)	(12,2)
Commodities (Percentage changes in %)											
BBG Commodity Index (USD)	102,90	2,2	0,4	(1,5)	3,3	(4,6)	4,7	(2,6)	5,8	(7,9)	16,1
BBG Agriculture Index (USD)	60,08	(3,0)	(1,0)	(4,4)	2,5	(0,3)	(3,2)	(1,0)	(2,4)	(4,4)	15,5
Petróleo Brent (USD/bbl)	91,17	13,6	6,1	2,3	4,6	(19,2)	27,2	(6,1)	18,3	(10,3)	10,5
Gas Henry Hub (USD/Mbtu)	1,79	(29,9)	(16,5)	(11,4)	(5,2)	(14,2)	4,7	26,3	(29,0)	(43,8)	20,0
Oro (USD/oz)	2.329,75	8,1	(1,1)	0,2	9,1	11,6	(3,7)	(2,5)	12,9	13,1	(0,3)
Plata (USD/oz)	27,48	4,9	(3,5)	(1,2)	10,1	7,3	(2,6)	(5,5)	15,5	(0,7)	2,8
Soja (USD/ton)	435,42	(7,9)	(5,5)	(7,7)	5,6	1,5	(18,1)	3,4	(8,4)	(14,9)	14,3

Source: Bloomberg / Latin Securities

Quarterly Charts

The American market had another excellent quarter S&P500

Source: Bloomberg

Within fixed income, only high-yield bonds had good returns

Bond index performances

Souce: Bloomberg

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