



US GROWTH DISAPPOINTS BUT EQUITIES RISE AS US TECH STOCKS BEAT EARNINGS FORECASTS

This week saw more volatility as markets got to grips with another surprising economic update. Only a week after strong US consumer activity unsettled markets, weak US GDP growth in the first quarter did the same. The level of economic activity shown in this week's Purchasing Managers' Indices suggests any slowdown may be temporary, and US growth is still far higher than the level seen in the UK and Europe. However, there was little to dissuade bond investors from the assumption that Federal Reserve rate cuts will be delayed.

Equity markets have also been volatile but US equities led a positive week. Tesla generated a considerable amount of positivity, despite a poor Q1 update, and bumper AI-related earnings from Alphabet and Microsoft helped end the S&P 500's recent slide. Meanwhile, the FTSE 100 maintained recent upward momentum as it pushed above its previous all-time high. However, the decline of sterling is a significant factor as this boosts overseas earnings while low valuations mean overseas companies continue to see the UK as an attractive market for corporate bargain hunting.

THE MARKETS THIS WEEK

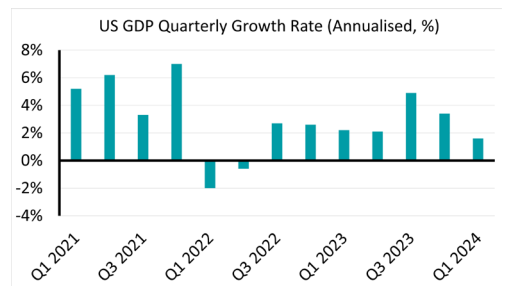
FTSE 100	S&P 500	Nikkei 225	MSCI Europe	Hang Seng	US 10 Yr	UK 10 Yr	Brent Crude	Gold	Iron Ore	GBP USD
+3.60%	+2.06%	+1.77%	+2.01%	+8.92%	+0.08%	+0.08%	+2.13%	-2.11%	+1.60%	+0.80%

US: DROP IN US GROWTH CONTRASTS WITH IMPROVING SENTIMENT

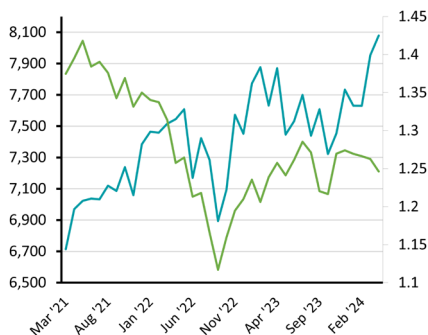


US economic growth slowed in the first quarter of the year as the annualised rate of GDP growth fell to 1.6%. This is down from 3.4% in the previous quarter and well below the forecast of 2.5%. As well as the rate of growth declining, the measure of inflation used to calculate GDP growth increased significantly. This cast more doubt on the Federal Reserve's ability to cut rates and markets have pushed back their expectations for a first rate cut by the Fed to the end of the year.

Slower growth is in contrast to an increase in economic activity shown in the monthly Purchasing Managers' Indices. Although the PMI figures show some weakness in manufacturing, services in the US, UK, Japan and Europe continue to expand in all these regions. The lower GDP reading helped contribute to a drop in government bonds and the potential delay to Fed rate cuts added to mixed earnings updates meant the S&P 500 was volatile before rallying late in the week.



FTSE 100 Performance (LHS) vs GBP/USD (RHS)



UK: FTSE 100 HITS ALL TIME HIGH BUT VALUATIONS STILL LAG PEERS

The FTSE 100 hit a new all-time high as it rose above 8,100 to exceeded the previous high set in February 2023. The growth of US and Japanese equities has attracted a lot of attention, but UK equities have been making steady gains this year. The recent rise in the UK's large cap index is partly due to strong gains from energy and mining stocks but the decline in the value of the pound has played a part. There has also been some buying by overseas investors concerned about the high valuations of some US stocks and have been tempted by the lower valuations in the UK.

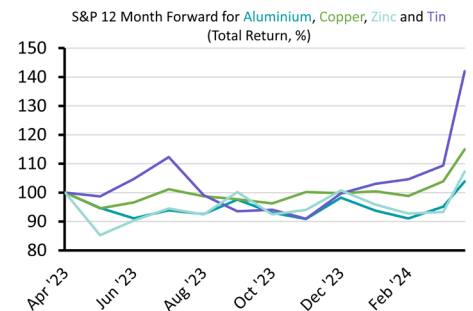
The decline in sterling has a significant impact on FTSE 100 earnings due to the high proportion of multinational companies, particularly energy and mining stocks, which generate significant earnings in US dollars. Stocks in the FTSE 250 are less affected by currency movements. Since early March, sterling has fallen from \$1.28 to \$1.23 this week. During this time the FTSE 100 has risen 5.6% compared to a gain of 2.5% for the FTSE 250.

EQUITIES: BHP BIDS FOR ANGLO AMERICAN AS COPPER TIPPED TO RISE



Australian mining company BHP has launched a bid for rival Anglo American. The initial bid of £31bn is a premium to the current market value and caused Anglo's shares to appreciate significantly. If the deal succeeds it would create the world's largest copper producer and would reduce BHP's reliance on iron ore. Many analysts predict the price of copper is likely to rise sharply as demand is constrained but demand increases due to global growth and countries continue to move away from their reliance fossil fuels.

The prices of many industrial metals have risen considerably this year as markets look to the return of Chinese demand and the potential for geopolitical tension to restrict supplies. The price of tin, zinc and aluminium are up between 8% and 24% this year. The copper price has risen 18% this year, with much of the increase coming in the last month as several big miners, including Anglo American and Codelco (the world's largest copper producer), reported a big drop in production.



Data sourced from FE Analytics, Trading Economics and Yahoo Finance

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