ZURICH

Weekly Macro and Markets View

4 March 2024

Highlights and View

China's government releases further pro-growth and capital market support measures before the National People's Congress convenes tomorrow

We expect China's growth target to remain at 5%, above consensus expectations, while our focus will be on Premier Li's government work report and details of the budget announcement.

India surprises again with stellar growth in Q4 2023, driven by robust capex

GDP surged by 8.4% YoY, surpassing market forecasts, while GVA, which excludes the volatile indirect tax component from GDP, expanded by 6.5%. Capital expenditure remains the cornerstone of growth, and we anticipate continued momentum ahead.

Economic activity indicators remain in expansive territory in Brazil and Chile

Brazil's Q4 GDP rose 2.1% YoY, and in Chile the economic activity indicator IMACEC showed an increase of 1.7% MoM and 2.5% YoY in January.

The Nikkei 225 breaks through the 40,000 level as capex remains solid

Source: Bloomberg

Japanese equities continued to rally, with the Nikkei 225 index breaking through the 40,000 mark for the first time today, Monday, to set a new record high while the broader Topix index continued to lag, closing marginally lower. Domestic players joined foreign investors in driving the rally, with semiconductor-related stocks leading the way. Corporate governance reform, the weak yen and NISA, the tax-advantaged Nippon Individual Savings Account investment programme for domestic retail investors, continue to drive the strong demand for Japanese equities.

Today's corporate survey from the Ministry of Finance showed a strong rise in capital expenditure in Q4, up 10.4% QoQ and 16.4% YoY, stronger than Q3 and well above consensus expectations. However, corporate revenue growth, while solid, is gradually slowing. The same is true for recurring profit growth, which slowed from 20.1% YoY in Q3 to 13% in Q4, with SME profits actually falling by 7.3% YoY. Profits fell on a sequential basis in both Q3 and Q4 as higher labour costs began to bite. Meanwhile, consumer confidence continued to improve in February, reaching post-Covid highs. We continue to believe that the Q4 GDP figures will be revised upwards, negating the recession scenario. Today's strong investment data supports our view.

US

A weaker growth environment

Most of the data published last week reflect a slowdown in activity following the solid start into the year. The ISM Manufacturing fell back to 47.8 in February with both new orders and employment weakening. Consumer confidence softened, driven by both the present situation and expectations. Similarly, personal spending rose by only 0.2% MoM in January, following a 0.7% rise in December, resulting in a small dip in real spending once adjusted for inflation. Initial jobless claims increased to 215'000 with continuing claims climbing to the second highest level since November 2021. Finally, PCE Core, the Fed's favoured inflation measure, ticked down to 2.8% YoY, in line with expectations. The lack of negative inflation surprises and a softer growth environment weighed on bond yields but helped to support equities. The S&P 500 rose by almost 1% last week, most of which happened on Friday. Small cap stocks did even better with the Russell 2000 jumping by almost 3% to reach the highest level in almost two years.

Eurozone

Inflation continues to fall

Eurozone inflation fell from 2.8% in January to 2.6% YoY in February. The number is now a far cry away from the 10.7% seen in 2022, yet importantly remains above the ECB's 2% target. Core inflation, seen as a more reliable indicator of persistent trends in inflation, fell from 3.3% to 3.1%, although it was higher than expected. Inflation is clearly moving in the right direction for the ECB, but concerns remain about the strength of more domestically driven 'service' components of inflation. Both equity and bond markets are currently very sensitive to the monthly inflation prints given both the ECB's data dependency and heightened uncertainty over the drivers of inflation. We anticipate a further decline in both headline and core inflation towards the target but see equal risks in both directions. Considering weak growth and falling inflation, we continue to believe that the ECB will begin cutting rates this year but see them moving gradually and cautiously.

Switzerland

CPI rises on rent pressures while economic activity remains resilient

GDP grew by 0.3% QoQ in Q4, slightly above expectations. Private consumption led the gains while investment and construction were weak, leaving growth for 2023 at 0.7% (not adjusted for sport events). This is well below trend, but a recession was avoided, and timelier data continue to improve. The Manufacturing PMI rose for the fourth consecutive month in February, though it remains at a low level, and the employment component was weak, while services activity remains robust alongside improving consumer sentiment. After a soft patch over the past few months, consumer prices rose by a solid 0.6% MoM in February, in part led by rising rents. While inflation continues to undershoot the SNB's latest inflation forecast, the solid February print means that rates are likely to be left unchanged in the March policy meeting. Last week, the SNB also announced that chairman Jordan will step down in September, after having led the bank since 2012. We anticipate that the SNB will maintain its strong focus on inflation and do not foresee the change in leadership impacting the near-term policy outlook.

Australia

Optimistically cautious

CPI held steady at 3.4% YoY in January, below consensus forecasts of 3.6%, indicating a disinflationary trend. However, the monthly CPI's weightings, tilted towards goods with only some components of services, may not fully capture overall inflationary pressures, particularly related to rental costs. Retail sales, despite showing modest MoM growth, indicate lacklustre momentum. This suggests consumer spending is feeling the strain after a period of resilience, reinforcing the view that the Reserve Bank of Australia (RBA) may no longer need to tighten monetary policy. The ASX200 index reached a record high today, Monday, mirroring trends in other major country indices such as the Nikkei 225 and the S&P 500. The optimism in stocks seems to reflect market expectations that the RBA will soon discuss rate cuts. While positive momentum in equities is likely to continue, the risk of setbacks remains as inflation, though easing, might take longer than expected to comfortably reach the RBA's target given that services inflation remains sticky.

Argentina

Tension persists in a difficult economic situation

Amidst deteriorating economic activity, a contraction of -1.1% YoY is anticipated for 2023 and -2.0% YoY in 2024. Inflation is expected to remain at three digits, projected to reach 280% by the end of 2024. However, the reduction in government spending has already resulted in some positive signs. According to the government, primary and financial surpluses were reached in January 2024, something that had not been achieved since 2012. The surplus was the result of a drop in expenses, which were cut by 10.9% in January, and if debt interest payments (which increased by 141%) are excluded, primary expenses fell by 30%.

Following the rejection of the Omnibus bill, attention is now on the speech President Milei will give for the opening of the legislative year as tensions between the government and Congress have increased. The President has asserted that there are changes he can implement through modifications in the application of certain laws, bypassing Congress's approval.

What to Watch

- In the US, investors will focus on the latest batch of labour market data with payrolls expected to weaken following two strong months, which should help to keep a lid on wage growth.
- The ECB meets this Thursday, although policy is expected to be left unchanged. The market will focus on messaging regarding anticipated rate cuts later this year. Otherwise, we await Eurozone January retail sales and the first German industrial production figures for 2024.
- In APAC, China's National People's Congress (NPC) will convene on Tuesday. Japan will release the Eco Watchers Survey and the Tokyo CPI for February, as well as wage data and the household survey for January. Mainland China and Taiwan will publish February export and inflation data. South Korea will report Q4 GDP and February CPI data. Australia will publish its Q4 GDP and January trade data. Bank Negara Malaysia is expected to keep its policy rate unchanged.

Disclaimer and cautionary statement

Zurich Insurance Group Ltd

Investment Management
Mythenquai 2
8002 Zurich

173008049 01/22) TCL

ZURICH®