

Opinion

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Financial Markets Just Delivered a Powerful Reminder

The strong rally during the first quarter showed yet again that under the right conditions equities can thrive amid considerable uncertainty.

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Despite the tragic and deadly wars in Gaza and Ukraine, escalating tensions between major global powers, the further weaponization of investment restrictions, and the unsettling news of three major advanced economies slipping into recession (Germany, Japan, and the United Kingdom), the S&P 500's gains accelerated and broadened. The benchmark surged 10.2%, outpacing the Dow Jones Industrial Average (5.62%) and the Nasdaq Composite Index (9.11%). Remarkably, these gains occurred alongside a notable shift in expectations for interest rates that resulted in a 30 basis-point increase in the yields on two-year US Treasury notes and a similar move for 10-year yields. The 13% rise in Brent oil also failed to derail the strong rally.

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From a bottom-up perspective, the first quarter saw much broader investor adoption of the promise of generative artificial intelligence, as illustrated most vividly by Nvidia Corp.'s 82% surge. This was supported by growing recognition of the innovative technology's potential to enhance productivity across many sectors and in a durable manner.

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From a top-down perspective, the rally's expansion beyond the technology sector was fueled by a combination of US economic exceptionalism and the Federal Reserve's relatively dovish stance on monetary policy.