Market Commentary
March 2023

MARKET COMMENTARY

March 2023

SNAPSHOT

- Both equities and bonds declined for global investors
- The recent upward trajectory of risk assets stalled on mixed macroeconomic data
- UK equity and sterling exposure provided some consolation for domestic investors

All percentages below are monthly returns

EQUITIES

US MARKETS
Declined on falling earnings, stubborn inflation

-2.6%
US 500

UK MARKETS
Reached all-time highs

1.2%
UK ALL SHARE

EMERGING MARKETS
Lower on economic and political concerns

-6.5%
EM

BOND MARKETS

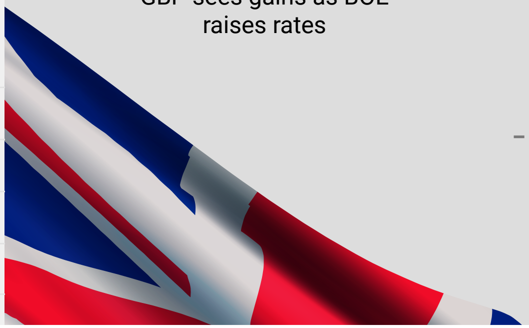
BONDS
Declined on persistent inflation fears

UK GILTS	-3.3%
US TREASURIES	-2.3%
GLOBAL CORPORATE BONDS	-1.4%
GLOBAL HIGH YIELD BONDS	-0.1%

*Values represent bond index returns

CURRENCIES

CURRENCIES
GBP sees gains as BOE raises rates



Pound vs Other Currencies

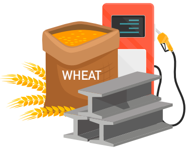
GBP vs USD	-1.8%
GBP vs JPY	2.4%
GBP vs EUR	0.6%
GBP vs CNY	0.5%

KEY INDICATORS

GOLD – XAU/USD
-5.2%

OIL – BRENT CRUDE
-0.7%

COMMODITIES
-2.2%



INFLATION – UK CPI (YOY)
10.1%

DISCLAIMER – The value of investments and the income from them can go down as well as up and past performance is not a guide to future performance. Returns are in local currency unless indicated otherwise. Source: Bloomberg.

GLOBAL MARKETS

Robust macroeconomic indicators have led to investor fears of persistent stickier inflation, and a longer road of monetary tightening ahead.

US MARKETS

Inflation fears continue to linger over the market

US equities declined for the month, led by energy and utilities. The resilience of the economy remains a concern for investors, mostly those who have been pricing in a slowing of rates for later this year. Despite corporate layoffs and lacklustre earnings, consumer confidence and retail spending remain strong. PMI's shifted into expansionary territory, producer inflation printed hotter than expected, and the labour market remains stubbornly tight. Interest rates were hiked a further 25 bps at the beginning of the month, adding upward pressure on the dollar. The Federal Reserve stated that further increases would be required, to achieve their long-term target rate of 2% for inflation.

-2.6%

US 500

UK MARKETS

UK equities outperform their global counterparts but remain fragile

UK stocks outperformed their global market counterparts, driven by consumer staples and materials. As monetary policy efforts begin to take hold, the economy showed the initial signs of slowing, with GDP growth declining. House prices fell at their fastest rate in a decade. The Bank of England governor Andrew Bailey delivered a more dovish statement following another 50 bp hike early in the month. Despite some positive signals, the outlook remains mixed. While inflation remains at challengingly high levels, owing to prices of soft commodities and wage growth effects, PMI's have improved but remained in contractionary territory, and consumer confidence has lifted.

1.2%

UK All Share

EUROPEAN MARKETS

European financials help propel the region

European equities were the best performing region globally, led by Spain (+4.4%), Italy (+3.3%) and Greece (+10.4%). European financials have been a key contributor to positive performance year-to-date. Inflation has declined in recent periods but remains well above trend, as food prices continue to move higher and there is little respite from a tight labour market. On a positive note, falling energy costs have continued to benefit both households and firms in the short term. The ECB has signalled that, despite a looming recession and receding manufacturing figures, they intend to follow through with scheduled rate rises to quell inflationary pressures.

1.7%

Euro 600 Index

JAPAN MARKETS

Move higher on accommodative Bank of Japan

On the back of the Bank of Japan's decision to continue their accommodative monetary policy stance, leading to a softness in the Yen, both the Japanese equity and bond markets moved higher. In local currency terms, Japan has outperformed the US and other Asian counterparts this year, due to stronger corporate earnings and a tailwind from increased tourism. However, PMI figures are in negative territory and inflation is now reaching 40-year highs, affecting wage and goods costs, and ultimately impacting profitability. Geopolitical issues are also heating up, as North Korea fired missiles close to, and over, the Japanese mainland.

0.9%

Japan Index

THE WORLD AT A GLANCE

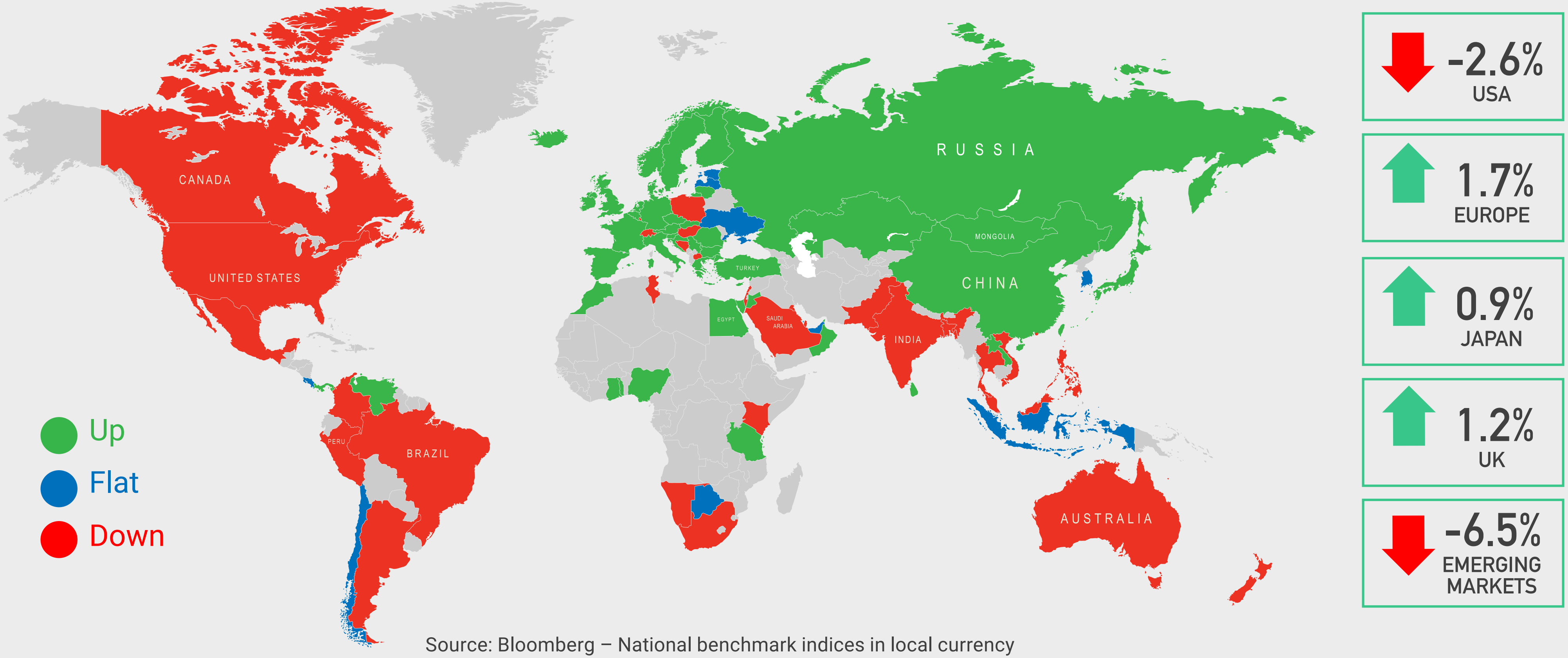
	2018	2019	2020	2021	2022	Feb 2023	Year to Date
UK CASH	0.6%	0.7%	0.2%	0.0%	1.4%	0.3%	0.6%
US DOLLAR	4.4%	0.2%	-6.7%	6.4%	8.2%	2.7%	1.3%
UK GILTS	0.6%	6.9%	8.3%	-5.2%	-23.8%	-3.3%	-0.8%
US TREASURIES	0.9%	6.9%	8.0%	-2.3%	-12.5%	-2.3%	0.1%
GLOBAL CORPORATE BONDS	2.1%	7.3%	7.1%	-1.9%	-6.8%	-1.4%	0.5%
GLOBAL HIGH YIELD BONDS	1.6%	8.3%	3.8%	2.0%	-2.3%	-0.1%	2.1%
US 500	-6.2%	28.9%	16.3%	26.9%	-19.4%	-2.6%	3.4%
UK ALL SHARE INDEX	-13.0%	14.2%	-12.5%	14.5%	-3.2%	1.1%	5.6%
EURO 600 INDEX	-13.2%	23.2%	-4.0%	22.2%	-12.9%	1.7%	8.5%
JAPAN INDEX	-17.8%	15.2%	4.8%	10.4%	-5.1%	0.9%	5.4%
ASIA EX-JAPAN	-12.3%	17.9%	22.4%	-3.1%	-15.4%	-5.0%	1.6%
EMERGING MARKETS	-16.6%	15.4%	15.8%	-4.6%	-22.4%	-6.5%	0.8%
COMMODITIES	-8.5%	13.1%	-26.1%	41.6%	41.9%	-2.2%	-4.5%
GOLD	-2.8%	18.0%	20.9%	-4.3%	-0.7%	-5.2%	0.5%
HEDGE FUNDS	-6.7%	8.6%	6.8%	3.7%	-4.4%	-0.5%	1.2%

Source: Bloomberg

Total Return – Local Currency

DISCLAIMER – The value of investments and the income from them can go down as well as up and past performance is not a guide to future performance. Returns are in local currency unless indicated otherwise. Source: Bloomberg.

WORLD EQUITY MARKETS

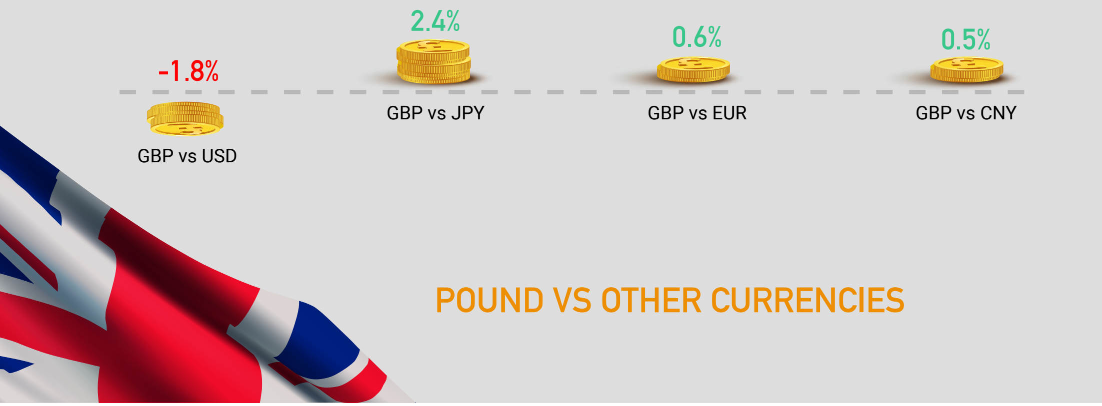


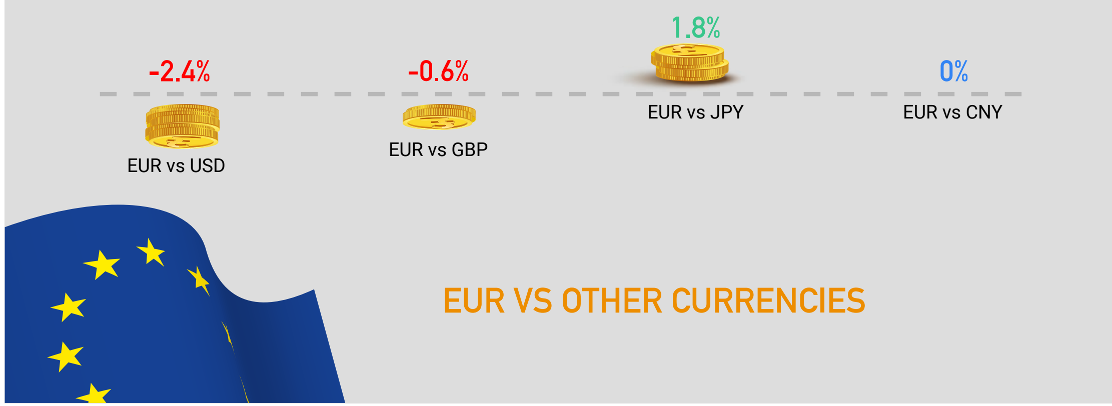
Source: Bloomberg – National benchmark indices in local currency

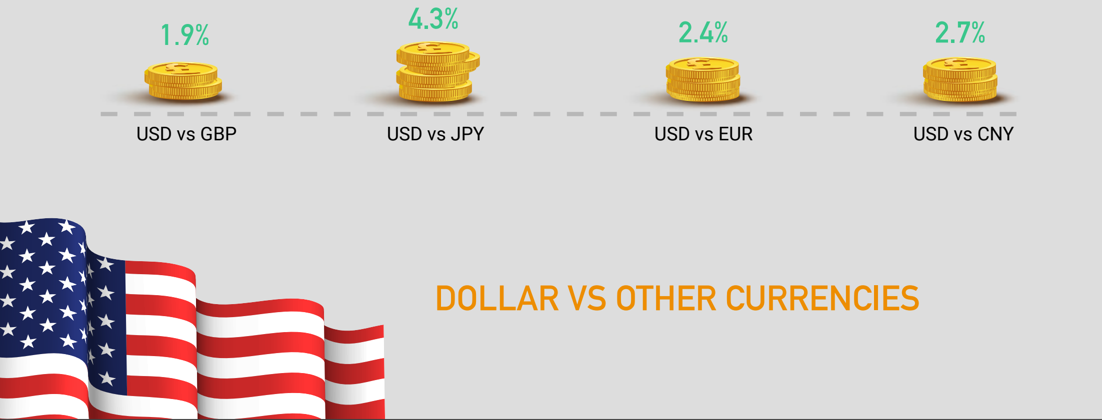
Key Points

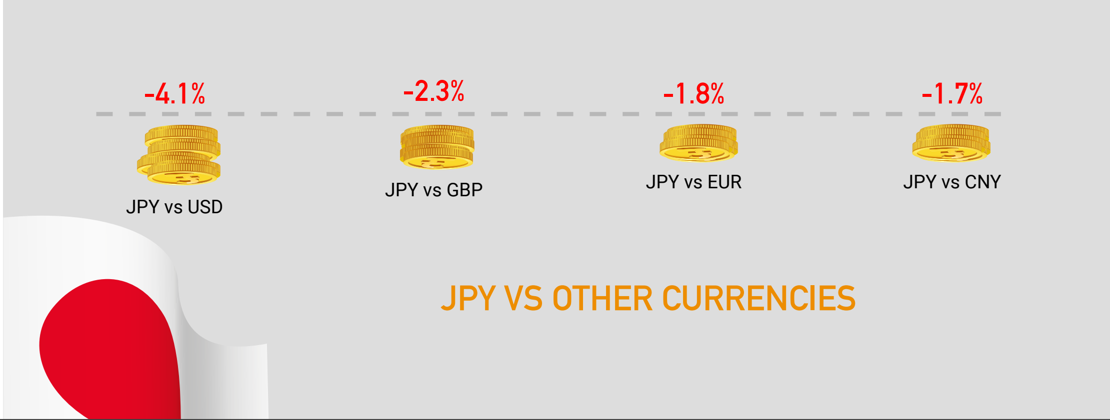
- Global equities declined (-2.8% in USD), with emerging markets generally underperforming developed market countries in aggregate.
- In local currency terms, the UK and Europe were the best returning regions, aided by falling inflation readings and notably within energy, as natural gas prices continued to plummet. Japan also posted positive returns as stocks were buoyed by a falling Yen.
- The US declined as investors moved to safer positioned assets, while the strength of the dollar proved to be a headwind to performance for global investors.
- With overall investor sentiment souring, the US dollar strengthening, and global growth slowing, emerging markets declined, led by Brazil, India, China and Korea.

CURRENCIES







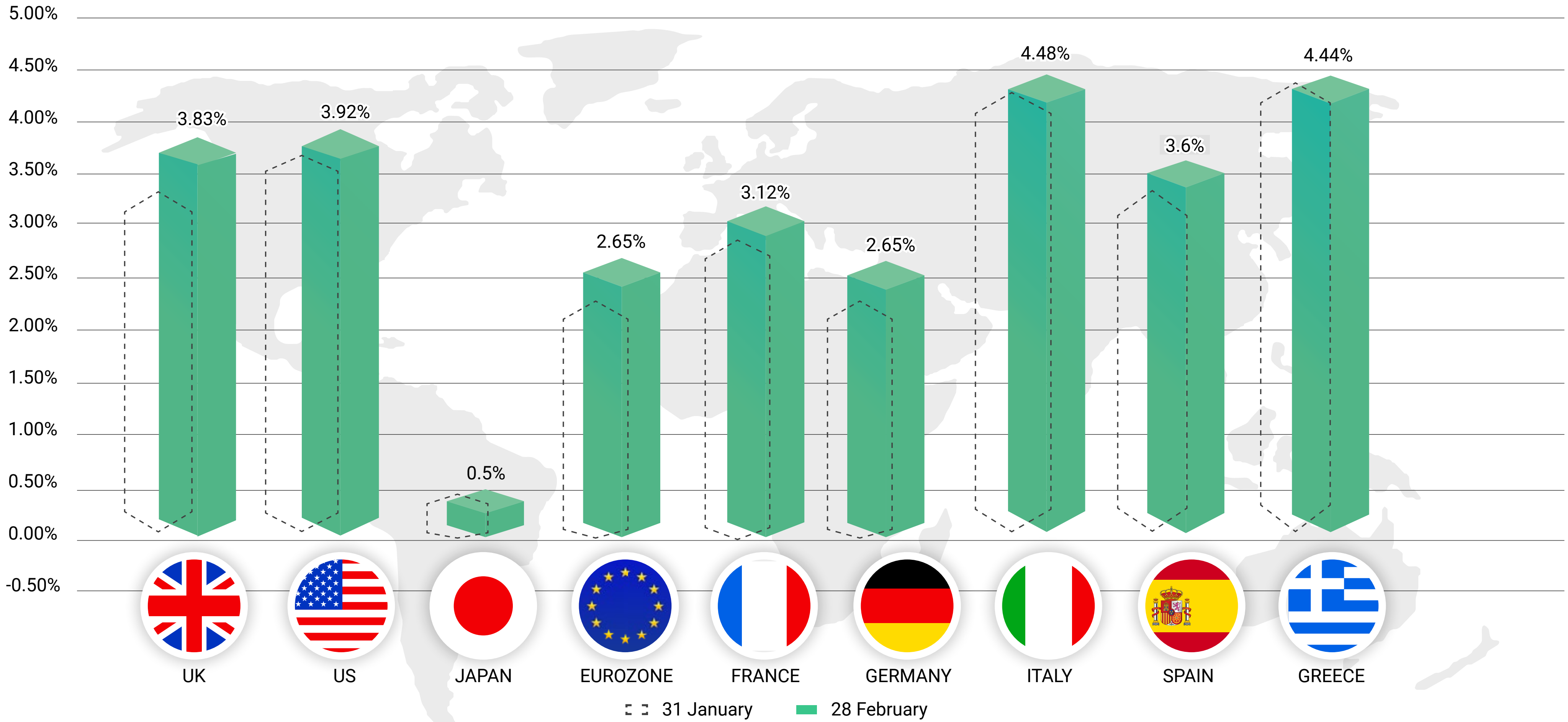


Key Points

- The US dollar, driven by a flight to safety, appreciated against most developed and emerging pairs in February, as market consensus seems to believe the Federal Reserve has the appetite for further interest rate hikes.
- Sterling also strengthened, albeit not versus the greenback, as slowing inflation and a prudent monetary policy approach provided a level of reassurance to global investors.
- The performance of the Euro was more mixed, appreciating broadly against emerging market currencies, with an outlook of slowing inflation and growth balanced against a fractured political backdrop.
- The Japanese Yen declined alongside most EM currencies in aggregate terms, as uncertainty in monetary policy clouded the former, while an outlook of slowing economic growth hindered mostly the latter.

GENERIC 10-YEAR YIELDS*

*A Generic bond is a theoretical bond that always has the specified tenor, unlike a Benchmark bond, which is a physical bond, with a decreasing tenor.



Key Points

- Global bonds performed negatively through the month as yields pushed higher following multiple central bank policy rate rises and resilient inflationary datapoints. The market is beginning to sober up to the idea of higher rates for longer than previously envisioned.
- The UK witnessed yields on the 10-year move 50 basis-points, close to levels seen at the end of December, while the US charted a similar course, albeit to a less severe extent, seeing 10-year yields shift 41 basis-points.
- In Europe, bond markets also reversed as borrowing rates were lifted another 50 basis points, with guidance for similar moves at upcoming meetings. The greatest movers were in France and Germany, which rose off a lower base than their southern European counterparts.
- The exception in February was Japan, where yields moved lower, albeit marginally, on concerns surrounding the direction of monetary policy under the new Bank of Japan governor, Kazuo Ueda.
- In the global corporate bond sphere, spreads widened on both investment grade and high yield issues as the market digested weakening growth conditions and the consequences of rising borrowing rates.

Data references are for the period to 28 February 2023 and are correct at date of publishing (24 March 2023).

Sources: Collidr, Bloomberg. Indices: Barclays, FTSE, Bloomberg, STOXX, Japan Exchange Group, MSCI, S&P, New York Mercantile Exchange, Chicago Mercantile Exchange, Bureau of Labour Statistics, US and Office for National Statistics, UK