Market Commentary
February 2023

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SNAPSHOT

- Positive macroeconomic datapoints on the outlook for inflation and interest rates boosted investor sentiment
- Global equities and bonds moved higher, while the US dollar continued to weaken
- With slowdown fears offset by a potential re-engagement of China, commodities were mixed

All percentages below are monthly returns

EQUITIES

BOND MARKETS

BONDS

Global bonds recover ground as yields lower

UK GILTS	2.6%
US TREASURIES	2.5%
GLOBAL CORPORATE BONDS	2.0%
GLOBAL HIGH YIELD BONDS	2.1%

*Values represent bond index returns

CURRENCIES

CURRENCIES

Sterling strengthens

Pound vs Other Currencies

GBP vs USD	GBP vs JPY	GBP vs EUR	GBP vs CNY
2.0%	1.3%	0.4%	0.1%

KEY INDICATORS

GOLD – XAU/USD	OIL – BRENT CRUDE	COMMODITIES	INFLATION – UK CPI (YOY)
6.0%	-1.7%	-2.4%	10.5%

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

Markets began the year in an optimistic mood, with global equities and bonds gaining, and maintaining their positive correlation.

Falling inflation releases and reduced expectations of higher future interest rates helped spur the rally.

US MARKETS

With headline inflation declining, the markets opened the year strongly

US equities had a robust start to the year, as headline year-on-year inflation declined to 6.4%, signalling that the Federal Reserve may need to reassess the future path of policy rate hikes. Falling home, car, and retail sales are potential signs of an economic slowdown materialising. PMI's ticked higher, albeit remaining in negative territory, and wage pressures also declined, despite unemployment falling to a 53-year low. Both equities and bonds rallied, with the former led by the consumer discretionary and materials sectors. The US dollar weakened against most developed and emerging currencies.

6.2% ↑

US 500

UK MARKETS

A strong start to the year for the markets bely a challenging economic environment

Led by cyclical selections within consumer discretionary, construction and real estate, the UK equity market enjoyed a strong start to the year, outperforming broader developed market equities. December's year-on-year inflation figures fell marginally, with energy and food prices easing. However, the country is still witnessing inflation well above long-term trend levels, with robust wage growth a contributing factor. PMI's remain in negative territoryand the market is pricing negative economic growth for 2023. Retail sales are declining and aggregate demand is beginning to slow. The Bank of England will have a difficult task raising borrowing rates against this increasingly recessionary backdrop.

4.4% ↑

UK All Share

EUROPEAN MARKETS

Falling headline inflation and a mild winter helped to rally the markets

European equities outperformed their global counterparts in local currency terms, as macroeconomic data surprised on the upside for January. PMI's shifted into expansionary territory, while a mild winter has provided welcome downward pressure on energy markets. Consumer sentiment improved for the fourth consecutive month. Notably, inflation readings once again declined, falling to 9.2%, adding further food for thought on whether the ECB will maintain their hawkish approach. European government bonds also outperformed treasuries and global counterparts, while the currency experienced more of a mixed month against developed and emerging equivalents.

6.7% ↑

Euro 600 Index

JAPAN MARKETS

A mixed performance to start the year for Japanese markets

The performance of the Japanese market was more mixed than other developed markets, as equities rose in local currency terms, bonds underperformed, and the Yen fell slightly. Domestic stock market performance was driven by consumer discretionary and technology sectors, both of which lagged in December. Despite 2023 GDP growth expectations being ahead of the US, Eurozone and the UK, composite PMI's remain in negative territory and inflation is at 4.0% year-on-year (a 31-year high). This has moved the central bank to loosen its yield curve control policy. However, intervention was required mid-month to maintain the new wider limit that had been imposed.

4.4% ↑

Japan Index

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THE WORLD AT A GLANCE

	2018	2019	2020	2021	2022	Jan 2023	Year to Date
UK CASH	0.6%	0.7%	0.2%	0.0%	1.4%	0.3%	0.3%
US DOLLAR	4.4%	0.2%	-6.7%	6.4%	8.2%	-1.4%	-1.4%
UK GILTS	0.6%	6.9%	8.3%	-5.2%	-23.8%	2.6%	2.6%
US TREASURIES	0.9%	6.9%	8.0%	-2.3%	-12.5%	2.5%	2.5%
GLOBAL CORPORATE BONDS	2.1%	7.3%	7.1%	-1.9%	-6.8%	2.0%	2.0%
GLOBAL HIGH YIELD BONDS	1.6%	8.3%	3.8%	2.0%	-2.3%	2.1%	2.1%
US 500	-6.2%	28.9%	16.3%	26.9%	-19.4%	6.2%	6.2%
UK ALL SHARE INDEX	-13.0%	14.2%	-12.5%	14.5%	-3.2%	4.4%	4.4%
EURO 600 INDEX	-13.2%	23.2%	-4.0%	22.2%	-12.9%	6.7%	6.7%
JAPAN INDEX	-17.8%	15.2%	4.8%	10.4%	-5.1%	4.4%	4.4%
ASIA EX-JAPAN	-12.3%	17.9%	22.4%	-3.1%	-15.4%	6.9%	6.9%
EMERGING MARKETS	-16.6%	15.4%	15.8%	-4.6%	-22.4%	7.9%	7.9%
COMMODITIES	-8.5%	13.1%	-26.1%	41.6%	41.9%	-2.4%	-2.4%
GOLD	-2.8%	18.0%	20.9%	-4.3%	-0.7%	6.0%	6.0%
HEDGE FUNDS	-6.7%	8.6%	6.8%	3.7%	-4.4%	1.7%	1.7%

Source: Bloomberg

Total Return – Local Currency

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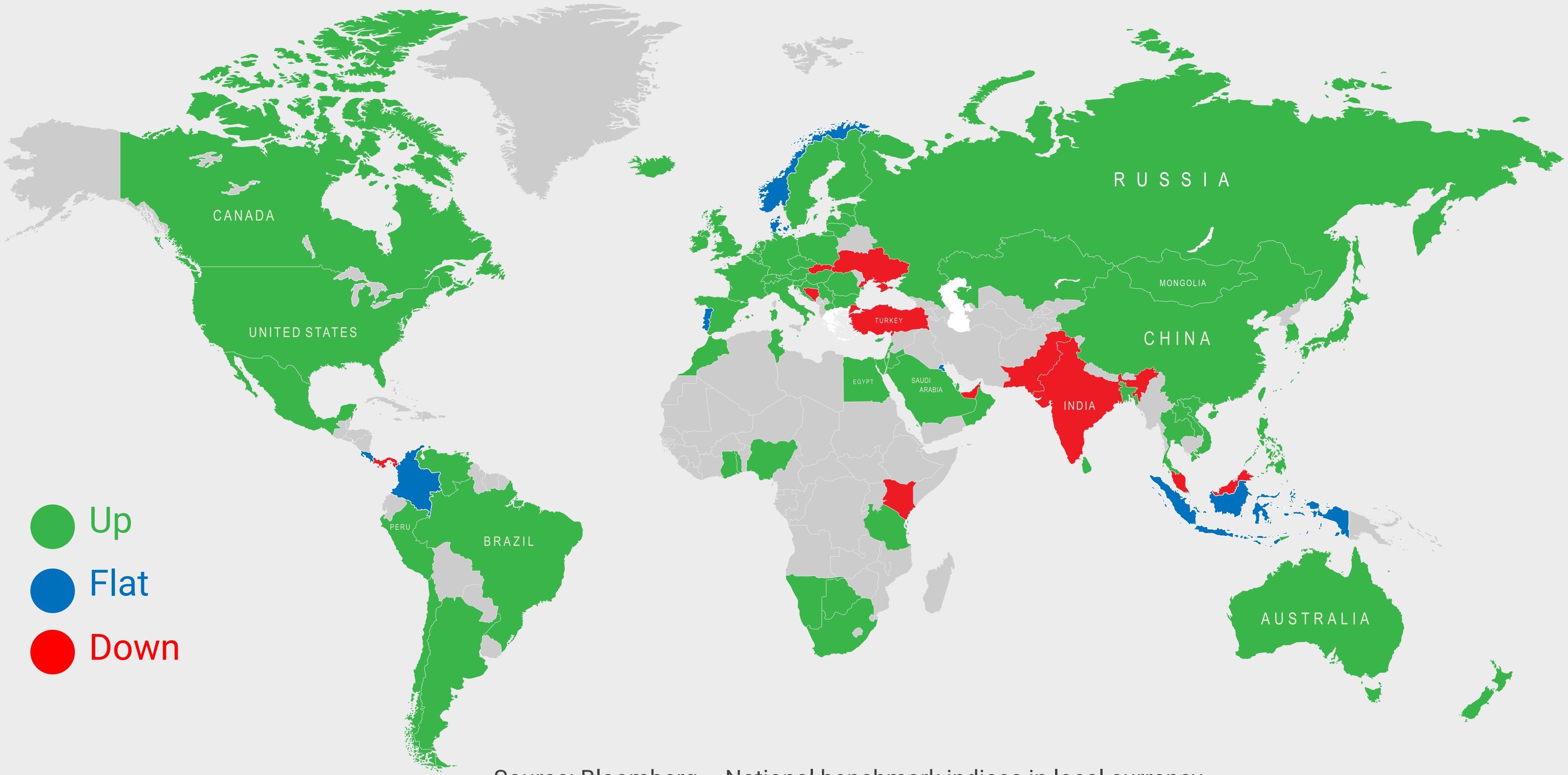
WORLD EQUITY MARKETS



6.2% USA

6.7% EUROPE

4.4% JAPAN

4.4% UK

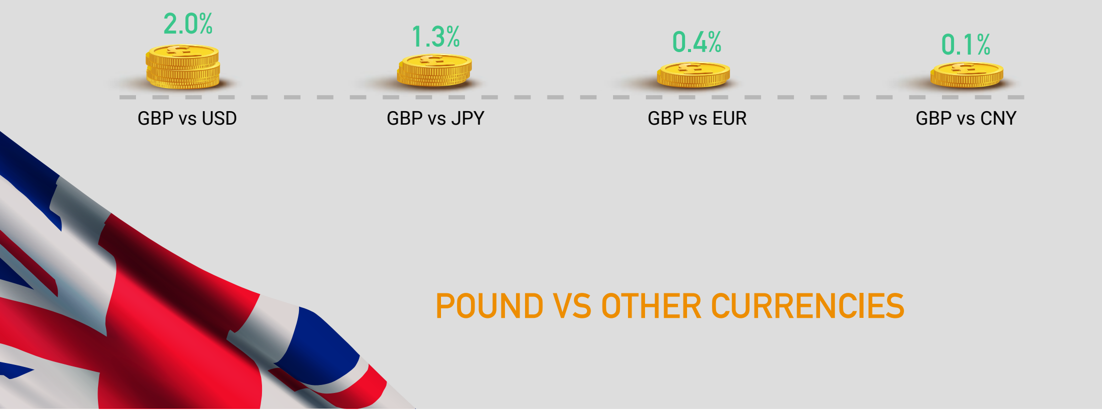
7.9% EMERGING MARKETS

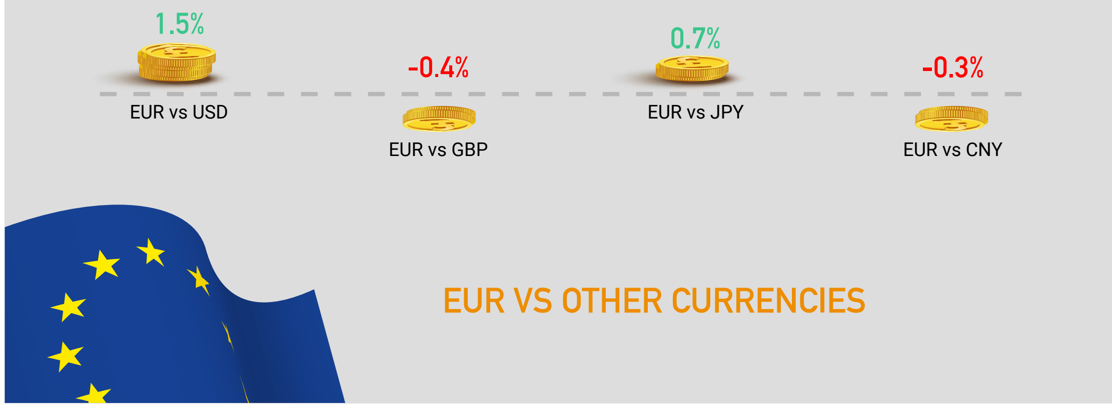
Source: Bloomberg – National benchmark indices in local currency

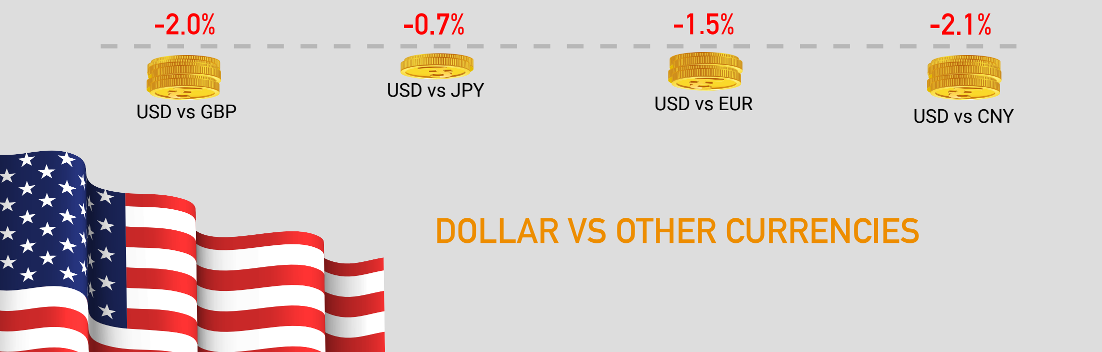
Key Points

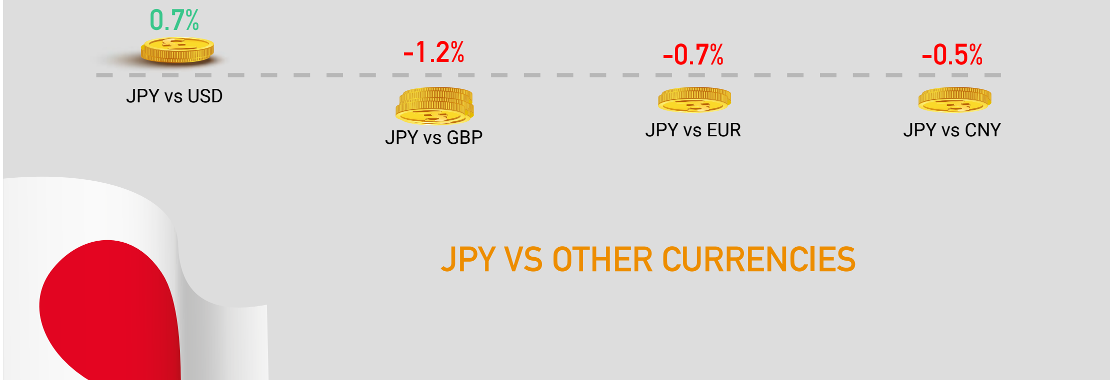
- Developed market equities rose strongly, led by European stocks, as equity market volatility fell to the lowest level in almost a year. Inflation data aided sentiment, and there is a broad expectation of an eventual end to the monetary tightening cycle.
- Emerging markets outperformed developed markets as investor confidence rose and the US dollar weakened, providing tailwinds to regional performance. Mexico (+12.6%), Vietnam (+10.3%) and China (+5.4%) were key contributors.
- The US posted strong performance in dollar terms, with stock performance benefitting from a falling domestic currency. Top performing sectors included consumer discretionary (+14.8%), materials (+11.2%), and technology (+10.7%).
- In local currency terms, the UK and Japan both returned well, returning similar performance to investors in their respective currencies. Strongest performance was seen within pro-cyclical segments of the market.

CURRENCIES







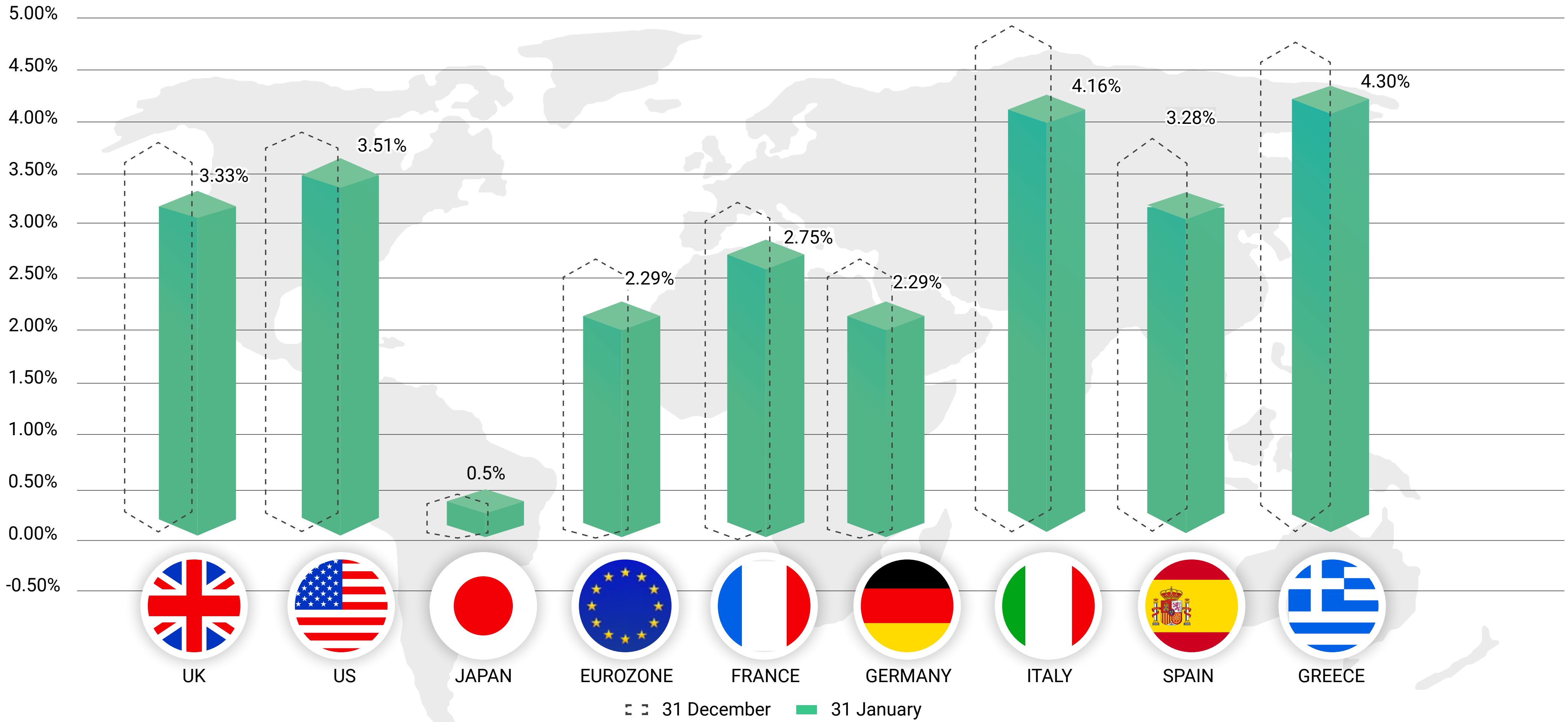


Key Points

- The UK pound was the best performing major currency in January, as markets moved into a pro-cyclical risk-on stance, aiding the domestic market which is tilted toward energy, materials and industrials.
- The euro gained ground against the greenback and Japanese Yen, but declined versus the UK pound and Chinese Yuan (as China sought to re-engage their economy following COVID-related disruptions).
- US Dollar weakness continued through from December, as global investors began digesting better nearer-term inflation figures and the increased likelihood of monetary easing following the most aggressive rate hiking cycle in 40 years.
- The Japanese Yen, which had rallied strongly in November and December following a change in monetary rhetoric from the Bank of Japan, had a mostly uneventful month, gaining against the dollar but marginally negative against other major pairs.
- Emerging market currencies, as well as pro-cyclical currencies such as the Australian and Canadian dollars, fared best for the month.

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 broadly gained as yields declined following slowing inflationary data and lowering expectations from markets surrounding further future rate increases. The exception being Japan, where government bonds posted negative performance as yields moved higher.
- The UK was the best performing developed government bond market in January. Yields on 10-year bonds have fallen 76 basis points since September, when the previous government spooked the markets with their mini-budget.
- The US saw meaningful downward movement on yields, as the 10-year fell another 36 basis points intra-month. A sustained re-rating in inflation expectations has led to the US Treasury Bond index returning an impressive +4.2% over the last three months.
- Yields on government debt in the Eurozone followed a similar course, with the largest movements experienced across Italian BTPs, French OATs, as well as Spanish bonds.
- In the global corporate bond sphere, spreads tightened, most notably across high yield selections, which proved to be an additional plus for investors.

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Data references are for the period to 31 January 2023 and are correct at date of publishing (22 February 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