Market Commentary

June 2023

MARKET COMMENTARY

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SNAPSHOT

- Weaker macro data and heightened infl ation weigh on investor sentiment
- Market leadership was very narrow wit h US large tech dominant
- Poor inflation data drives bond yields higher

All percentages below are monthly returns for May 2023

EQUITIES

US MARKETS
Nasdaq significantly outperforms S&P500

UK MARKETS
Impacted by inflation and weak commodities

EMERGING MARKETS
China weaker on macro data

BOND MARKETS

BONDS
Yields rise on disappointing inflation data

UK GILTS	-3.4%
US TREASURIES	-1.2%
GLOBAL CORPORATE BONDS	-0.5%
GLOBAL HIGH YIELD BONDS	0.3%

*Values represent bond index returns

CURRENCIES

CURRENCIES
Sterling down against a resurgent USD

Pound vs Other Currencies

GBP vs USD	GBP vs JPY	GBP vs EUR	GBP vs CNY
-1.4%	1.2%	2.1%	1.6%

KEY INDICATORS

GOLD – XAU/USD	OIL – BRENT CRUDE	COMMODITIES	INFLATION – UK CPI (YOY)
-1.3%	-8.7%	-4.8%	8.7%

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GLOBAL MARKETS

Core inflation as measured by ***Consumer Price Index (CPI)*** remains sticky in the USA while stubbornly high in the UK. Global ***macroeconomic*** sentiment remains fragile, with one noticeable exception being in the US large-cap technology sector.

US MARKETS

Mostly driven by a few stocks, with a mixed bag of data impacting overall sentiment

Returns were unusually varied within the US market. Conflicting macro data (stronger employment, weaker ***PMI (Purchase Managers Index)*** activity) and rising bond yields meant that market leadership was mostly concentrated in large cap technology. 'AI' or Artificial Intelligence was the focus of investor optimism, with one stock, Nvidia, adding U$248bn to its market value, an amount equivalent to 2.5x the entire market cap of BP. Bond markets pared back their assumptions for rate cuts later in the year and a deal to avert a debt default was reached.

0.3%

US 500

UK MARKETS

Fall despite better than expected economic data

Whilst economic data was generally better than expected, and the International Monetary Fund (IMF) and Band of England (BoE) both abandoned their UK recession forecasts, markets were agitated by rising Core CPI inflation, which helped drive Gilt prices lower. Weaker commodity prices and a rotation away from traditionally defined value sectors saw the FTSE100 decline by -5.4%, though the FTSE250 was slightly more resilient at -3.6%. The Oil sector was particularly weak, dropping -11.6%.

-5.1%

UK All Share

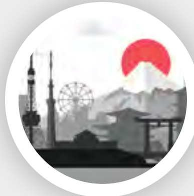
EUROPEAN MARKETS

Despite lower inflation data, the markets fell and the ECB remains hawkish

The European Central Bank (ECB) has been tightening monetary policy, but despite lower inflation data (on weaker energy prices), ECB rhetoric remains hawkish. The Eurozone Composite PMI indicated reasonably robust economic output, despite the manufacturing sector's contraction. In local currency terms, long-duration Bund prices rose slightly, while the euro fell against the dollar. Growth stocks outperformed value, and large-cap stocks continued to outperform small-cap. The Technology sector saw strong returns, taking its lead from Wall Street.

-3.1%

Euro 600 Index



JAPAN MARKETS

A period of strong performance continues

The Japanese stock market experienced strong performance, with the Nikkei 225 rising 7.04%, and reaching a 23-year high. Like most markets, growth equities outperformed their value counterparts, and large cap was ahead of small cap. Inflationary pressures, although high by historical standards, remain significantly below the US and European levels, while the Japanese central bank continues to pursue relatively dovish monetary policies.

3.6%

Japan Index

THE WORLD AT A GLANCE

	2018	2019	2020	2021	2022	May 2023	Year to Date
UK CASH	0.6%	0.7%	0.2%	0%	1.4%	0.4%	1.7%
US DOLLAR	4.4%	0.2%	-6.7%	6.4%	8.2%	2.6%	0.8%
UK GILTS	0.6%	6.9%	8.3%	-5.2%	-23.8%	-3.4%	-3.1%
US TREASURIES	0.9%	6.9%	8%	-2.3%	-12.5%	-1.2%	2.4%
GLOBAL CORPORATE BONDS	2.1%	7.3%	7.1%	-1.9%	-6.8%	-0.5%	0.2%
GLOBAL HIGH YIELD BONDS	1.6%	8.3%	3.8%	2%	-2.3%	0.3%	0.1%
US 500	-6.2%	28.9%	16.3%	26.9%	-19.4%	0.2%	8.9%
UK ALL SHARE INDEX	-13%	14.2%	-12.5%	14.5%	-3.2%	-5.1%	-0.2%
EURO 600 INDEX EX UK	-13%	24.2%	1%	22.4%	-14.9%	-3.1%	7.4%
JAPAN INDEX	-17.8%	15.2%	4.8%	10.4%	-5.1%	3.6%	12.6%
ASIA EX JAPAN	-12.3%	17.9%	22.4%	-3.1%	-15.4%	-1.5%	1.3%
EMERGING MARKETS	-16.6%	15.4%	15.8%	-4.6%	-22.4%	-1.9%	0.2%
COMMODITIES	-8.5%	13.1%	-26.1%	41.6%	41.9%	-4.8%	-14.0%
GOLD	-2.8%	18%	20.9%	-4.3%	-0.7%	-1.3%	7.8%
HEDGE FUNDS	-6.7%	8.6%	6.8%	3.7%	-4.4%	-0.5%	-0.1%

Source: Bloomberg

Total Return – Local Currency

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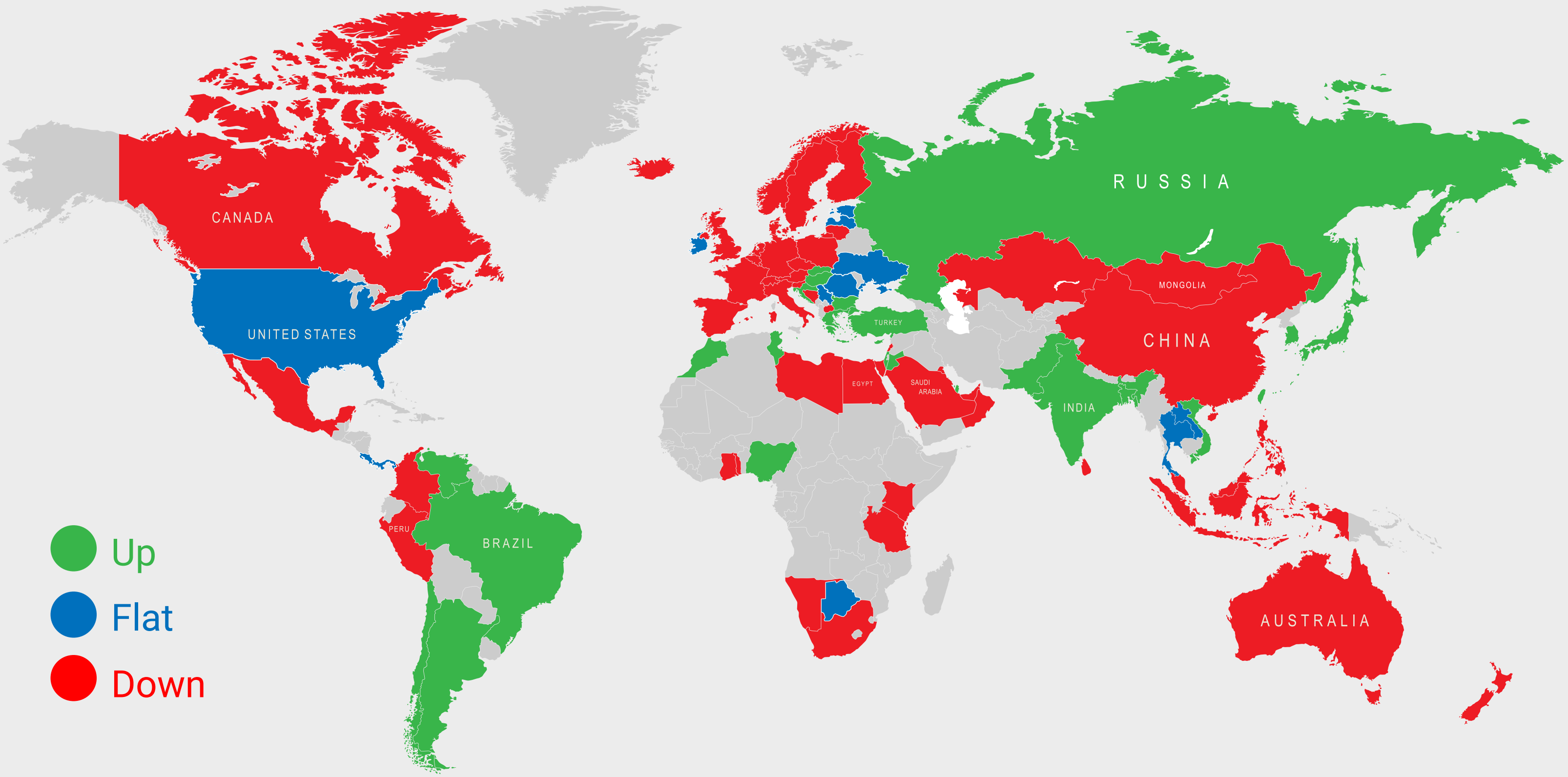
WORLD EQUITY MARKETS



0.3% USA

-3.1% EUROPE

3.6% JAPAN

-5.1% UK

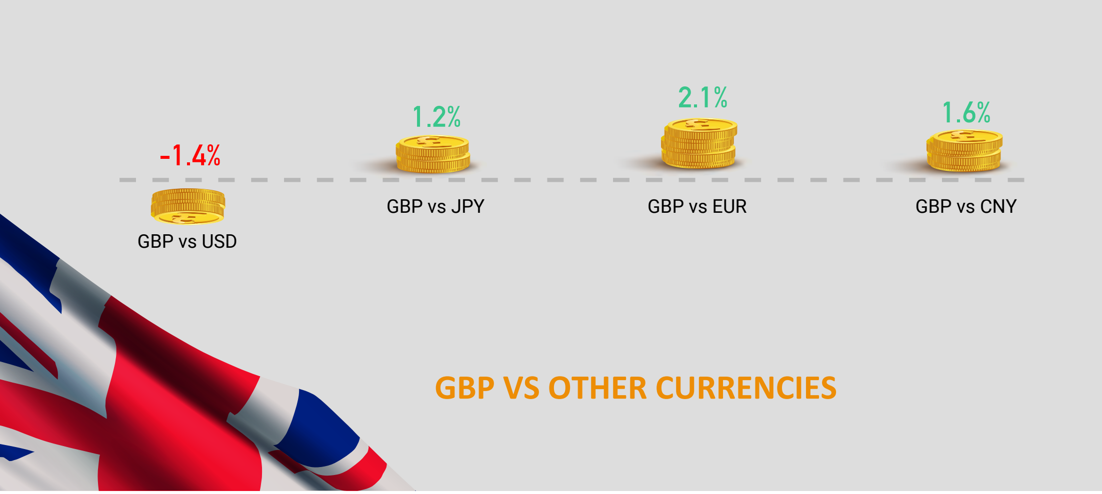
-1.9% EMERGING MARKETS

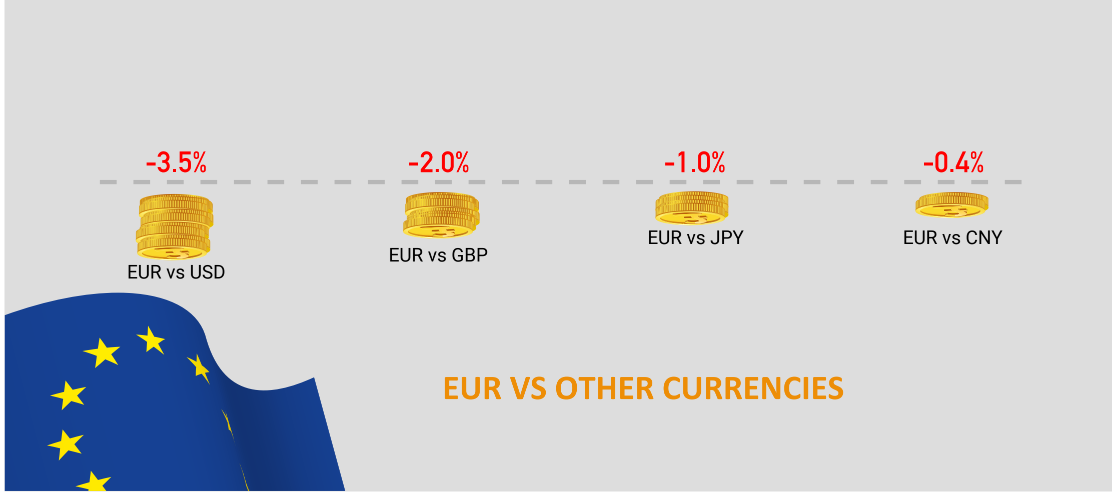
Source: Bloomberg – National benchmark indices in local currency

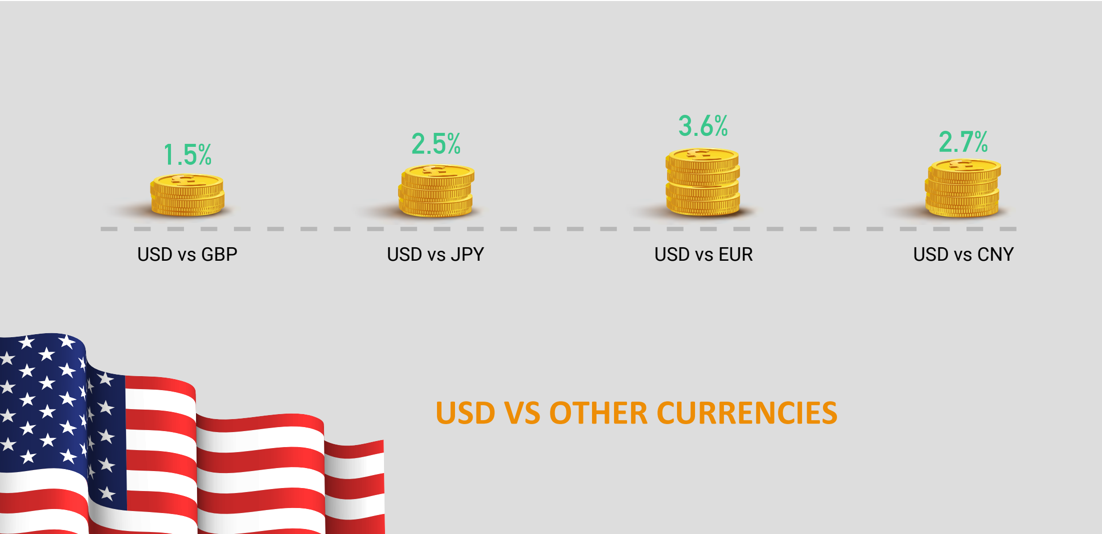
Key Points

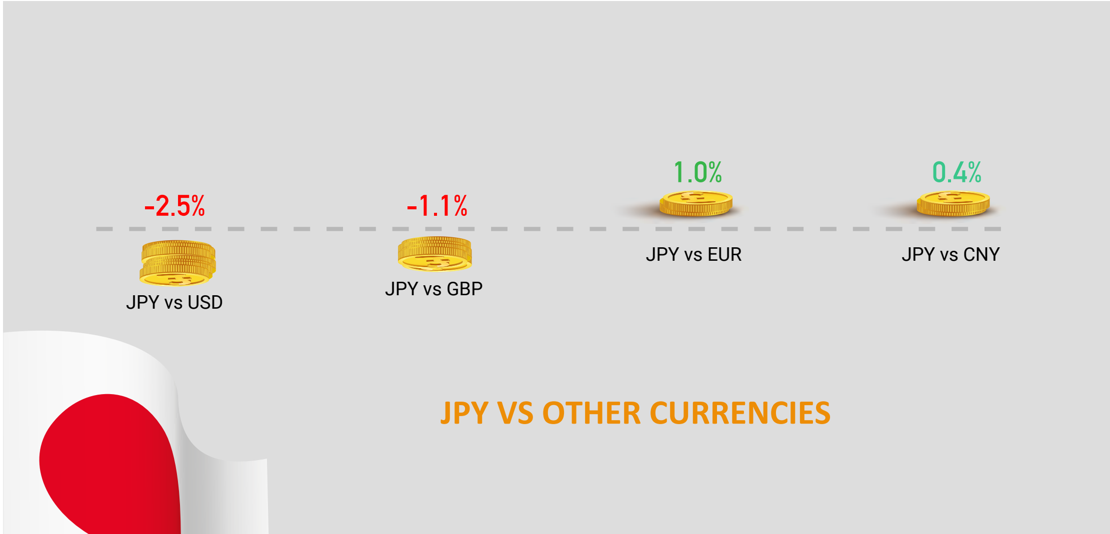
- Equity markets generally struggled in the face of stubbornly sticky core inflation. Financial markets are now pushing further out the point at which they expect US interest rates to begin being reduced.
- Market direction was very narrow, with a few mega-cap US tech stocks dominating returns. Technology, growth (despite rising bond yields) and size were the dominant positive factors.
- Economically sensitive, value and energy sectors were out of favour in the wake of rising interest rate expectations, despite weaker macro data and falling oil and metals prices. The latter reflected concerns over a weaker Chinese post-covid reopening bounce.
- The consensus expectation of a recession in the UK has not come to pass, but the UK market suffered from its large exposure to Oil and Mining and a lack of genuine technology stocks.

CURRENCIES









Key Points

- [illegible]
- [illegible] with May seeing the Dollar Index increase by around 2.6%.
- Dollar strength reflected a desire for safe haven currencies, based on macro data pointing towards stickier inflation, to suggest a 'stronger for longer' path for interest rates.
- On a year-to-date basis, the largest returns have been seen from the GBPJPY (9.22%) and the GBPEUR (3.09%).

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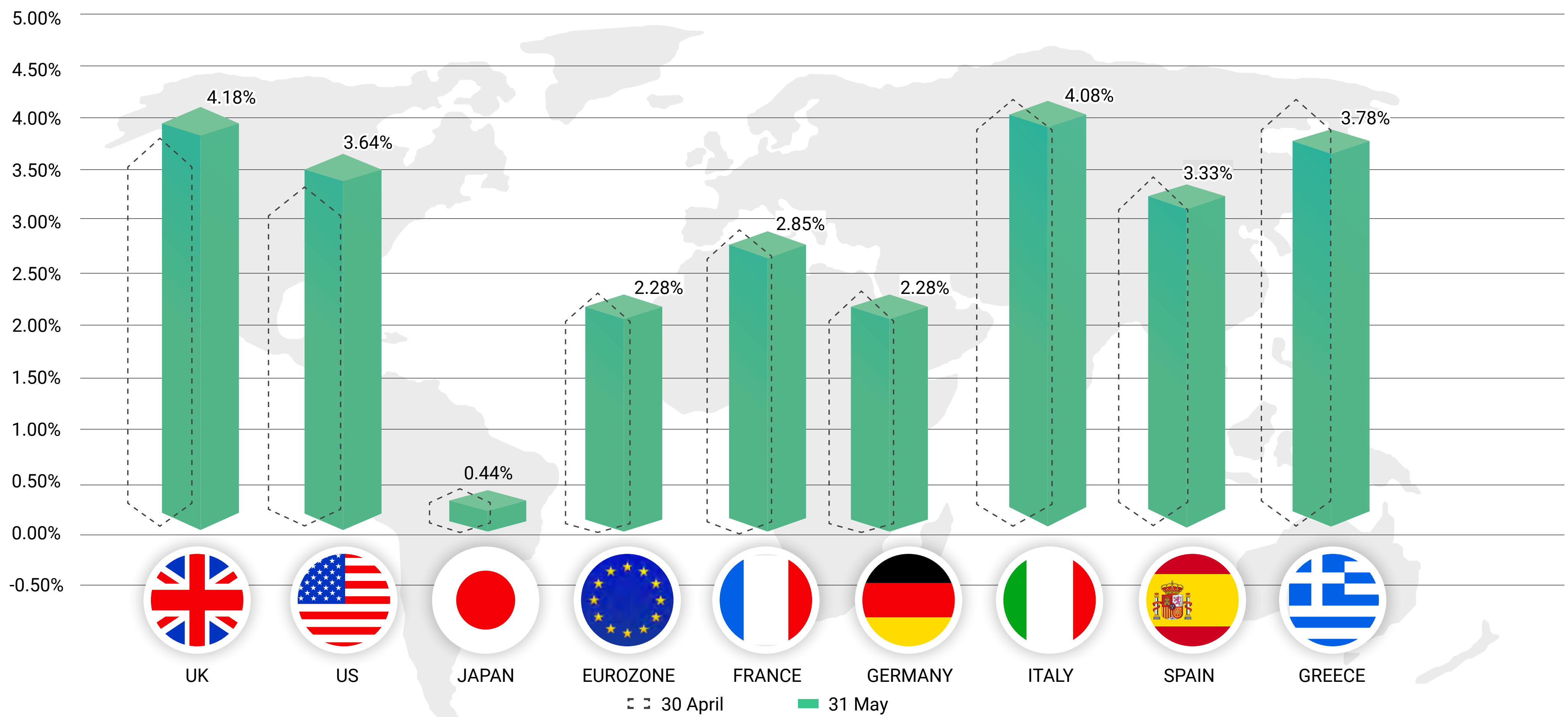
GENERIC 10-YEAR YIELDS*

*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

- A very unpleasant print for UK Core CPI at 6.8% was the catalyst for a sell-off in Gilts. Expectations for further rate rises sent UK 1yr Gilt yields up from 4.3% to 4.7%.
- In the US, it was a tale of rate cuts postponed. For stronger jobs data and stickier inflation means that the expectation of rate cuts for later this year has begun to melt away.
- The UK 10% yield (0.46%) and US 10Y yield (0.22%) rose.
- The US '***yield curve inversion***', which is often perceived as a predictor of recessionary periods, deepened again during the month.
- Short duration continued to outperform long duration. Fixed income volatility throughout most of May was consistent with the elevated levels witnessed in recent years.

GLOSSARY

Currencies: ***GBP*** - Pounds Sterling ***USD*** - US Dollar ***EUR*** - *Euro* ***JPY*** - Japanese Yen

CPI (Consumer Price Index) - It is a measure of the average change in prices of goods and services consumed by households over time. The CPI is calculated by comparing the prices of a basket of goods and services in a given period to the prices of the same basket of goods and services in a base period. The CPI is used as an indicator of inflation and is often used by governments and central banks to make monetary policy decisions.

Hawkish - monetary policy more focussed on controlling inflation than promoting growth.

IMF (International Monetary Fund) - It is an international organization that was established in 1944 to promote international monetary cooperation, facilitate international trade, and promote economic growth and stability. The IMF provides financial assistance to member countries facing economic difficulties, and it also provides policy advice and technical assistance to help countries improve their economic policies and institutions. The IMF is governed by its member countries, and its headquarters is located in Washington, D.C. The IMF plays a key role in the global economy and is often involved in discussions and negotiations related to international economic issues.

Macro - short for ***macroeconomics***, a branch of economics that studies the performance and behaviour of the economy as a whole rather than individual markets. Focuses on the analysis of large-scale economic phenomena such as inflation, unemployment, international trade and economic growth. Used by policymakers and businesses to make decisions about economic policy, investment strategies and financial planning.

PMI (Purchasing Managers' Index) - It is an economic indicator that measures the activity level of purchasing managers in the manufacturing and services sectors. The PMI is calculated based on a survey of purchasing managers who report on various aspects of their business, such as new orders, production levels, employment, and supplier deliveries. The PMI is a leading indicator of economic activity and is closely watched by investors, policymakers, and analysts. A PMI reading above 50 indicates expansion in the sector, while a reading below 50 indicates contraction.

Tenor bond - This is a type of bond that has a longer maturity period, typically between 10 and 30 years. The term "tenor" refers to the length of time until the bond reaches maturity and the principal amount is repaid to the bondholder.

Yield curve inversion - takes place when the longer term yields falls much faster than short term yields. This happens when there is a surge in demand for long term Government bonds (e.g. 10 year US Treasury bond) compared to short term bonds.

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Data references are for the period to 31 May 2023 and are correct at date of publishing (15 June 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