



Market Commentary
July 2023

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SNAPSHOT

- Equities performed well overall, with the US continuing to lead
- Bond performance was predominantly flat or negative as shorter-dated gilts struggled in the UK
- Sterling strength impacted UK investor performance

All percentages below are monthly returns for June 2023

EQUITIES



BOND MARKETS

BONDS

Better US macro data boosted lower rated bonds

	UK GILTS	-0.4%
	ST EASURIES	-0.8%
	LO AL CORPORATE BONDS	-1.7%
	GLOBAL HIGH YIELD BONDS	0.0%



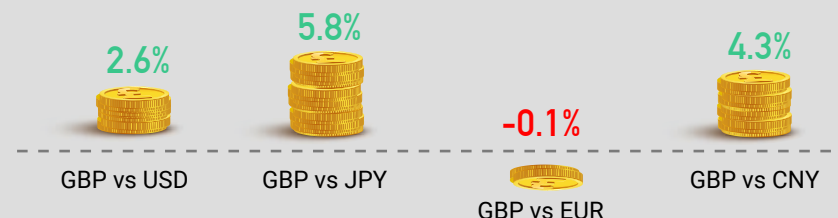
CURRENCIES

CURRENCIES

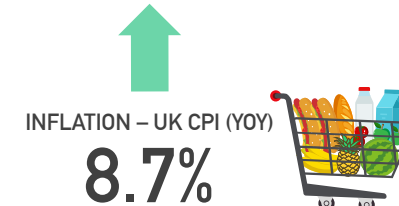
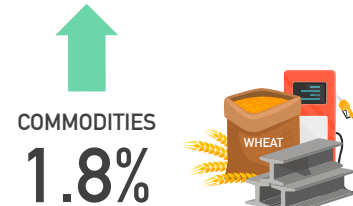
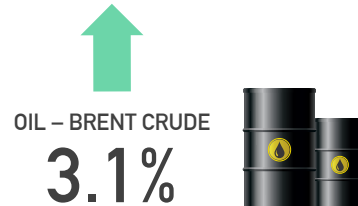
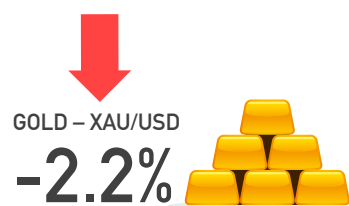
Pound strengthened across the board



Pound vs Other Currencies



KEY INDICATORS



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GLOBAL MARKETS

Equity prices were firmer across the board. Bonds were mixed, other than High Yield, and to a lesser extent Investment Grade Credit, compared on a GBP Hedged basis, boosted by stronger US macro data.



US MARKETS

Markets robust overall, with US small caps leading the way

US small cap led the way, but finished off best levels, with the Russell 2000 posting an impressive 8.0% return over the month. The S&P500 and the Dow (+4.6%) posted slightly more modest increases. Conflicting US macro signals continued but with a somewhat surprising, firmer tone, as weekly jobless claims continued to trend (erratically) higher, while Q1 GDP was revised notably stronger. Inflation continued to moderate, but not at a pace likely to appease the Fed hawks (-members of the Federal Reserve who advocate for higher interest rates), who are indicating two more interest rate increases are likely this year

6.5%

US 500



UK MARKETS

Inflation continues to impact sterling and UK markets overall

Disappointingly strong core inflation data precipitated a 0.5% Base Rate increase from the Bank of England (BoE), to 5%. The greater than expected June hike pressured short-duration sterling bonds. After a torrid start to the year, longer-dated bonds found some solace in the more hawkish BoE stance. The stronger pound was supported by the bond market pricing in a Base Rate of 6% by year end. Impacted by the strong pound, UK equities, particularly the more economically sensitive mid-caps stocks, lagged most other developed markets.

0.7%

UK All Share



EUROPEAN MARKETS

Performed reasonably well despite poor macro data

European equities produced positive returns, but lagged behind the US on the back of a further 0.25% increase in the European Central Bank (ECB) rate to 4.0%, its highest since 2001. Recent European macro data, such as the Eurozone Manufacturing PMI, has disappointed, but markets welcomed the recent Greek election results. After recent elevated volatility, most European Bond yields moved sideways during the month. The exception was Germany, where 10yr yields moved up from 3.19% to 3.64%.

2.6%

Euro 600 Index



JAPAN MARKETS

Continued its strong recent performance

The Japanese stock market continued its good run with the Nikkei now trading at a near 33 year high with manufacturing boosted by the weak Yen and low interest rates – compared to the rest of the world.

Q1 23 GDP was up +2.7% on an annualised basis with economic policies appearing to prove effective, in part thanks to the effects of Covid and inflation elsewhere.

7.4%

Japan Index



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THE WORLD AT A GLANCE

	2018	2019	2020	2021	2022
UK CASH	0.6%	0.7%	0.2%	0.0%	1.4%
US DOLLAR	4.4%	0.2%	-6.7%	6.4%	8.2%
UK GILTS	0.6%	6.9%	8.3%	-5.2%	-23.8%
US TREASURIES	0.9%	6.9%	8.0%	-2.3%	-12.5%
GLOBAL CORPORATE BONDS	2.1%	7.3%	7.1%	-1.9%	-6.8%
GLOBAL HIGH YIELD BONDS	1.6%	8.3%	3.8%	2.0%	-2.3%
US 500	-6.2%	28.9%	16.3%	26.9%	-19.4%
UK ALL SHARE INDEX	-13.0%	14.2%	-12.5%	14.5%	-3.2%
EURO 600 INDEX EX UK	-13.0%	24.2%	1.0%	22.4%	-14.9%
JAPAN INDEX	-17.8%	15.2%	4.8%	10.4%	-5.1%
ASIA EX JAPAN	-12.3%	17.9%	22.4%	-3.1%	-15.4%
EMERGING MARKETS	-16.6%	15.4%	15.8%	-4.6%	-22.4%
COMMODITIES	-8.5%	13.1%	-26.1%	41.6%	41.9%
GOLD	-2.8%	18.0%	20.9%	-4.3%	-0.7%
HEDGE FUNDS	-6.7%	8.6%	6.8%	3.7%	-4.4%

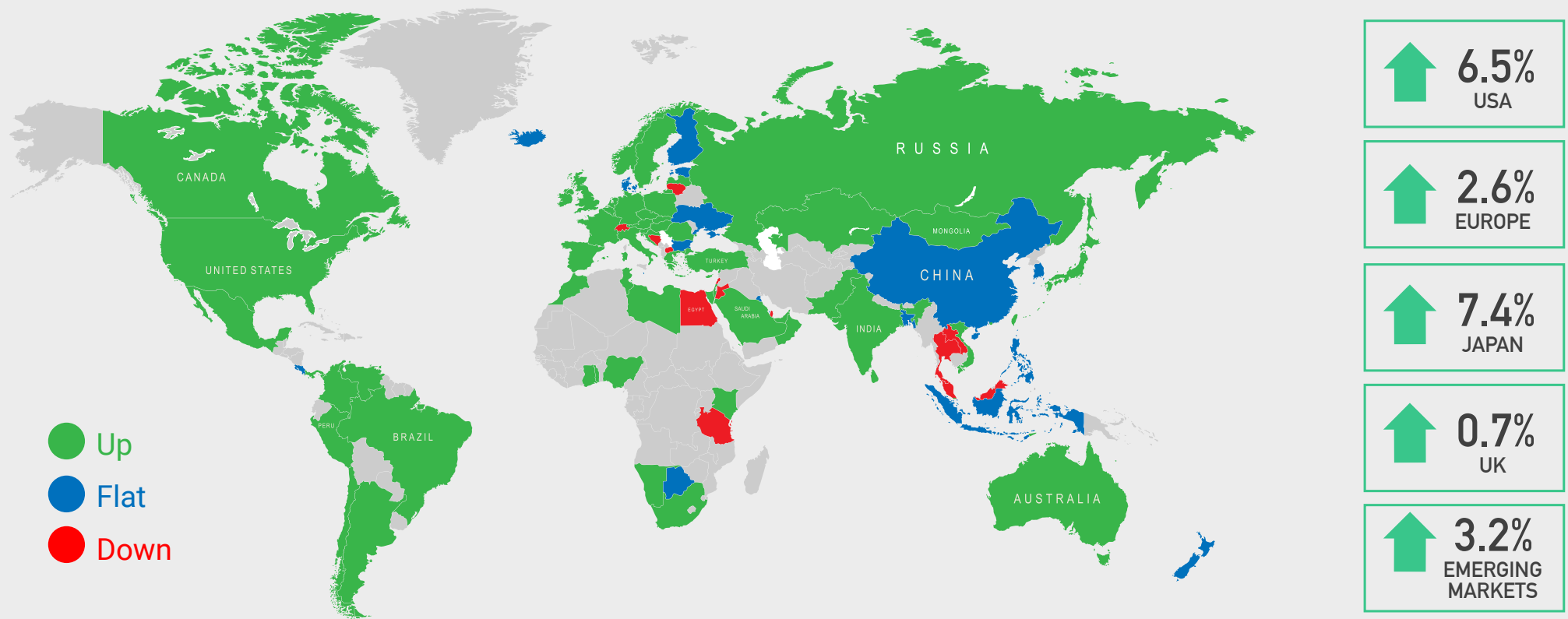
	June 2023	Year to Date
UK CASH	0.4%	2.0%
US DOLLAR	1.4%	-0.6%
UK GILTS	-0.4%	-3.5%
US TREASURIES	-0.8%	1.6%
GLOBAL CORPORATE BONDS	-1.7%	-1.5%
GLOBAL HIGH YIELD BONDS	0.0%	0.1%
US 500	6.5%	15.9%
UK ALL SHARE INDEX	0.7%	0.5%
EURO 600 INDEX EX UK	2.6%	10.3%
JAPAN INDEX	7.4%	21.0%
ASIA EX JAPAN	2.9%	4.3%
EMERGING MARKETS	3.2%	3.5%
COMMODITIES	1.8%	-12.5%
GOLD	-2.2%	5.4%
HEDGE FUNDS	0.8%	0.6%

Source: Bloomberg

Total Return – Local Currency

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WORLD EQUITY MARKETS



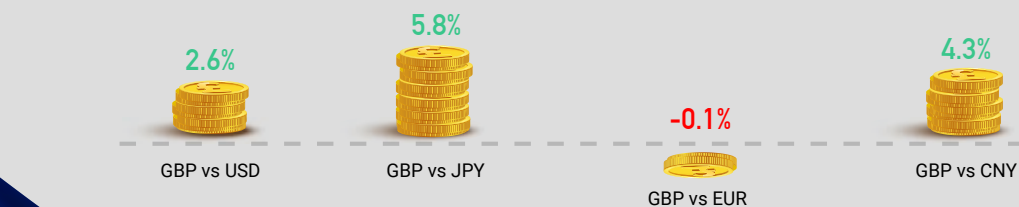
Source: Bloomberg – National benchmark indices in local currency

Key Points

- Global equities continue to be dominated by the strength in US markets. Apple, with a \$3trn market cap, is now worth more than the entire UK listed stock market.
- The UK market fared well considering sterling's strength. With the majority of FTSE100 companies earning their revenues globally, a stronger pound impacts (negatively) their bottom line.
- While the FTSE250's revenues are more domestically driven, and therefore less sensitive to sterling (but, equally, more sensitive to the UK economy).
- From an equity style perspective, Growth equities generally outperformed their Value counterparts. However, this was more marginal than in recent months.
- Asia Pacific equities lagged their global peers, as disappointing Chinese datapoints weighed on domestic sentiment.

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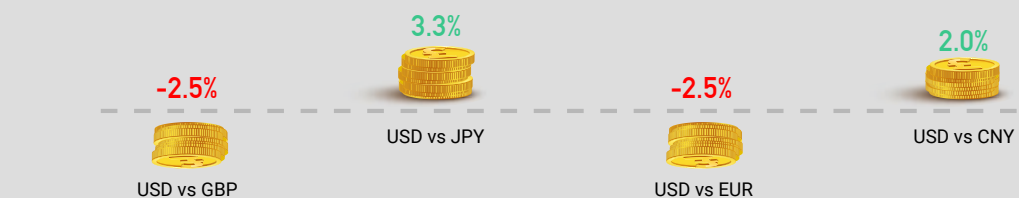
CURRENCIES



GBP VS OTHER CURRENCIES



EUR VS OTHER CURRENCIES



USD VS OTHER CURRENCIES



JPY VS OTHER CURRENCIES

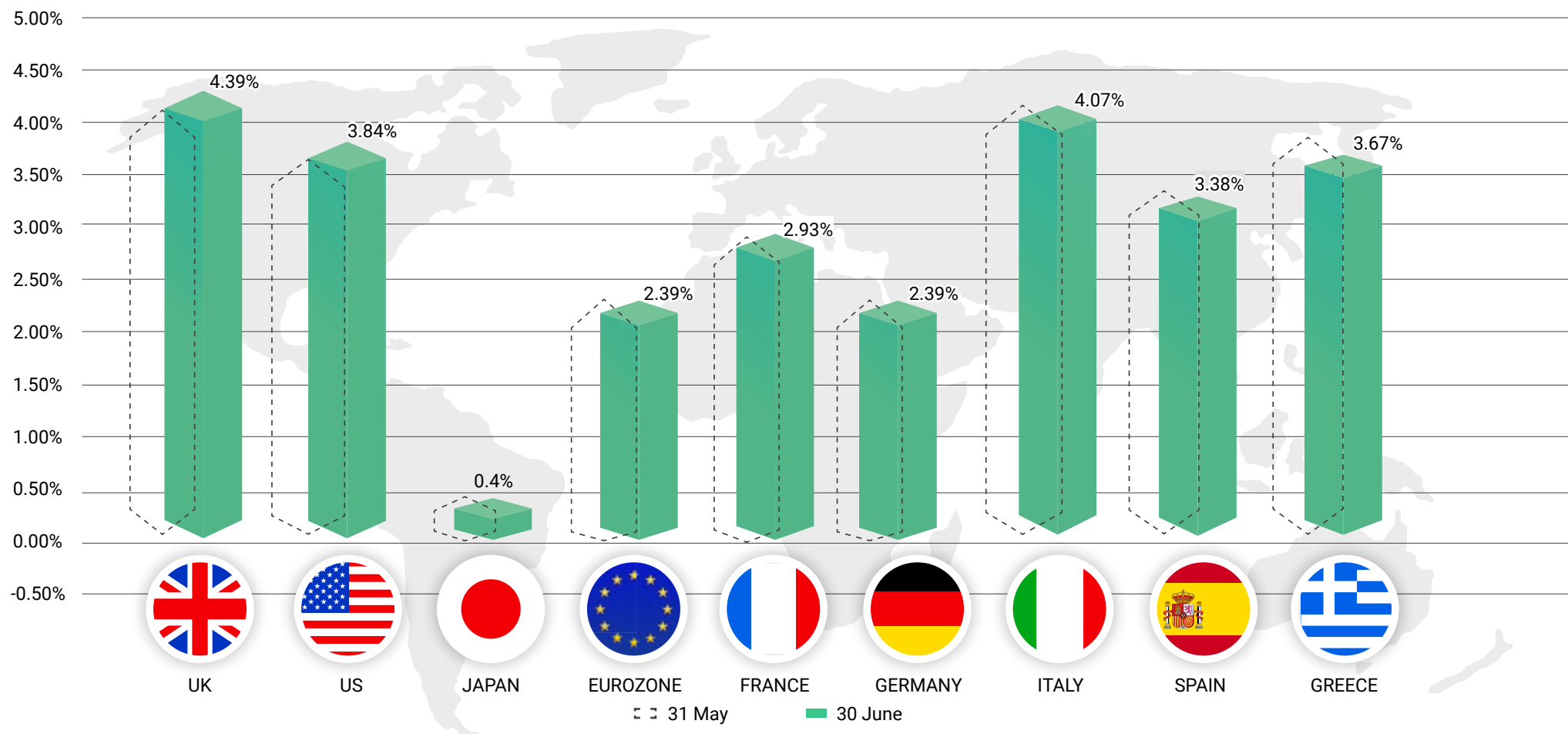
Key Points

- Sterling performed strongly following the higher-than-expected 0.5% base rate increase from the Bank of England. Over the month it rose 2.6% versus the US Dollar, closing at U\$1.271.
- The Yen was the weakest major currency, as Japanese interest rates look set to remain significantly below their Western peers. Inflation has picked up, but, at 3.2%, is not at a level high enough to motivate the Bank of Japan to tighten policy.
- Despite a hawkish Fed, indicating two more rate increases should be expected this year, the dollar was one of the weaker majors.
- The Chinese Yuan continues to soften, from lows in 2023 near CNY8.2/£ to just below CNY9.25/£ currently, aided by China growth disappointing and rates easing.

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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

- High Yield had a good month, boosted by a better economic outlook. Defaults have been rising, but the market took comfort in improved US economic data and US CPI declining to 4%, pointing to a potential economic soft landing.
- Inflation Linked Gilts performed well despite sticky UK inflation and a more aggressive central bank. Year-on-Year inflation is expected to soften imminently, as higher energy costs in 2022 begin to drop out of the data in the coming months.
- Short-dated gilts bore the brunt of the more aggressive tightening approach from the BoE. 2-year gilts currently yield 5.3%, while for 6 months an investor can now achieve 5.7%.
- Short to medium dated US Treasuries continue to feel much of the pain, with 2-year yields rising around 40 basis points for the month, while 3-month and 30-year treasuries were little changed.
- Japanese bonds are little changed on the year, which, from a performance perspective, is great news. However, from a yield perspective, 20-year JGB's offer less than 1% (unhedged).

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GLOSSARY

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 stands for 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.

CPI stands for 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.

A tenor bond 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.

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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