



Market Commentary August 2023

MARKET COMMENTARY

August 2023

SNAPSHOT

- Equity markets were positive and led by a broader set of companies compared to recent months.
- US and Japanese government bond yields rose, but short-duration Gilt yields fell back.
- Macro data was generally robust and inflation data improved, while crude oil rallied strongly.

All percentages below are monthly returns for July 2023

EQUITIES



BOND MARKETS

BONDS

Credit outperformed global government bonds

| | | |
|--|-------------------------|-------|
| | UK GILTS | 0.8% |
| | US TREASURIES | -0.4% |
| | GLOBAL CORPORATE BONDS | -0.3% |
| | GLOBAL HIGH YIELD BONDS | 0.7% |



*Values represent bond index returns

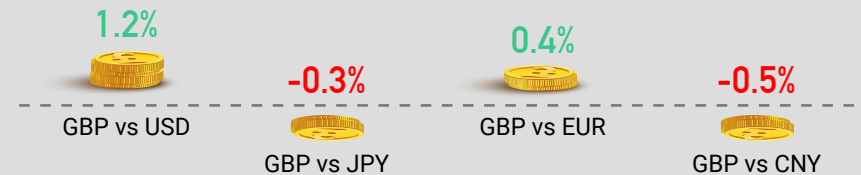
CURRENCIES

CURRENCIES

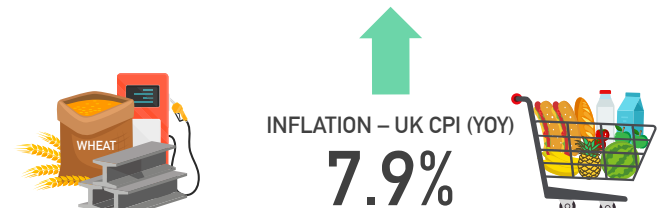
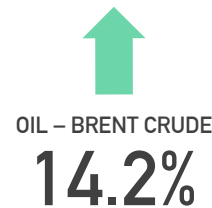
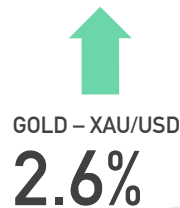
Sterling stronger versus US dollar



Pound vs Other Currencies



KEY INDICATORS



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GLOBAL MARKETS

Better inflation prints and robust US macro data led to a broader market rally, while commodities were strong.



US MARKETS

Rallied overall on improved inflation numbers

Unlike recent months, the rally this month was broader based, as weaker underlying core inflation and strong 2Q23 GDP raised hopes of a soft landing. The Fed remained hawkish in tone with inflation fears still apparent, but the markets scaled back expectations of further rate rises. Investor sentiment continued to improve from their spring lows. The wider S&P 500 Index rose but was pipped by the technology Nasdaq (at 4.1%). Yet, it was smaller companies, represented by the small cap Russell 2000, that led the way overall with a return of 6.1%, benefiting most from the prospect of an economic soft landing.

3.1%

US 500



UK MARKETS

Commodities helped contribute to a strong performance

The first positive inflation surprise for a long time (Core CPI came in lower than expected, at 6.9%) triggered a rally in short-dated Gilts and a robust performance from UK small and mid-caps. Sterling also appreciated versus the US dollar, particularly in the first half of the month, as US interest rate expectations were pared back. Rising oil and metals prices allowed for a rotation into 'value' equities, and the index benefitted overall from a rally in commodities, given the large weighting to oil and mining related stocks.

2.5%

UK All Share



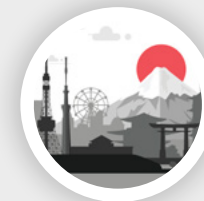
EUROPEAN MARKETS

Gained despite weaker macro data

European macro data continued to disappoint, coming in persistently below expectations, in sharp contrast to the USA, and even the UK. German 2Q23 GDP was just +0.1%, following on from two quarters of negative growth, and Italy, previously one of the stronger economies, also saw negative growth in the second quarter. The European Central Bank continued to raise interest rates, despite evidence of weaker inflationary pressures. Falling energy costs are starting to feed through into lower input prices. French and German government bond yields edged up slightly over the month..

1.9%

Euro 600 Index



JAPAN MARKETS

Approaching levels not witnessed since 1990

Towards the end of the month the Japanese Central Bank modified its yield management policy, which led to a significant upward movement in bond yields. Japanese headline inflation is now higher than the USA. Japanese Bond yields hit the dizzy heights of 0.61%, the highest level since 2014. Japan is the second largest constituent of the Global Bond Index from a country perspective. After surging in recent months, the Nikkei 225 set highs not seen since 1990 before closing off its best levels.

1.5%

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% |

July 2023

Year to Date

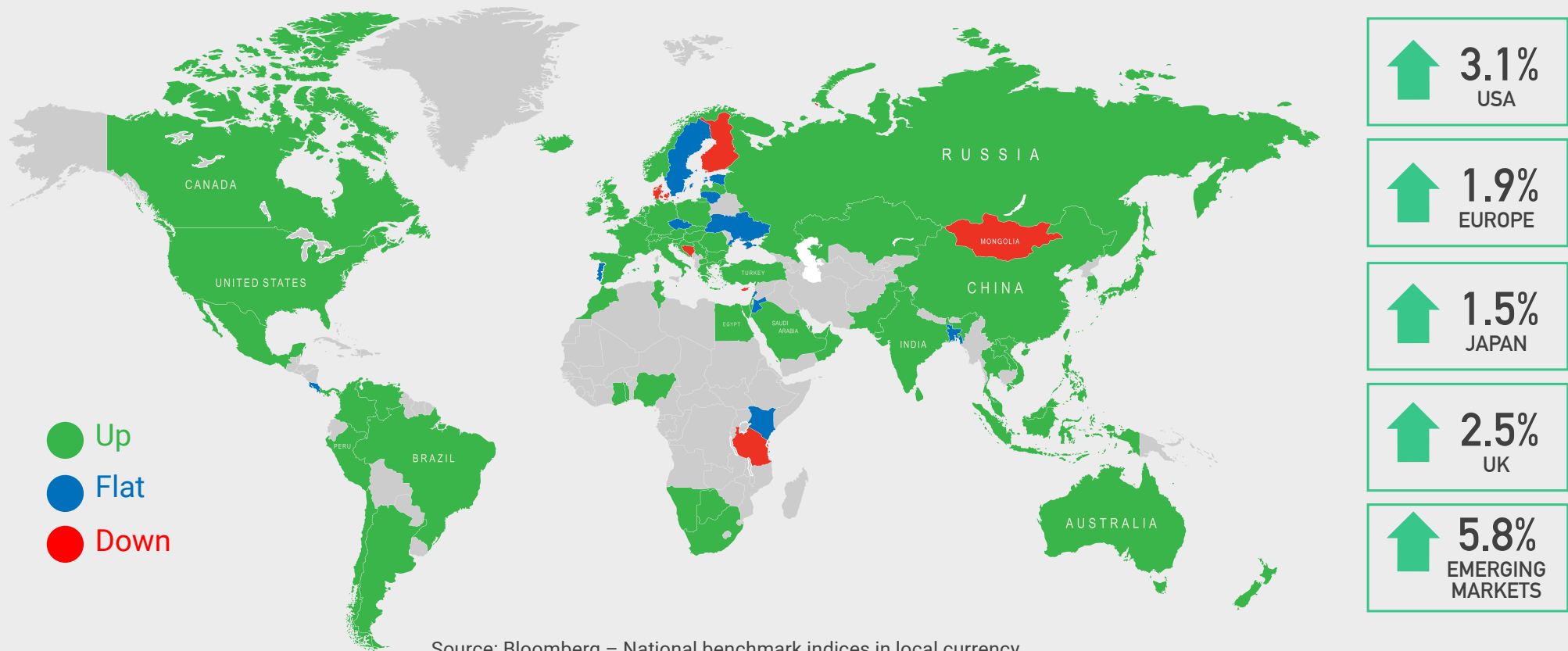
| | |
|-------|-------|
| 0.4% | 2.5% |
| -1.0% | -1.6% |
| 0.8% | -2.7% |
| -0.4% | 1.2% |
| -0.3% | -1.8% |
| 0.7% | 0.8% |
| 3.1% | 19.5% |
| 2.5% | 3.0% |
| 1.9% | 12.3% |
| 1.5% | 22.8% |
| 5.4% | 9.9% |
| 5.8% | 9.5% |
| 9.4% | -4.3% |
| 2.6% | 8.1% |
| 0.3% | 1.0% |

Source: Bloomberg

Total Return – Local Currency

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WORLD EQUITY MARKETS

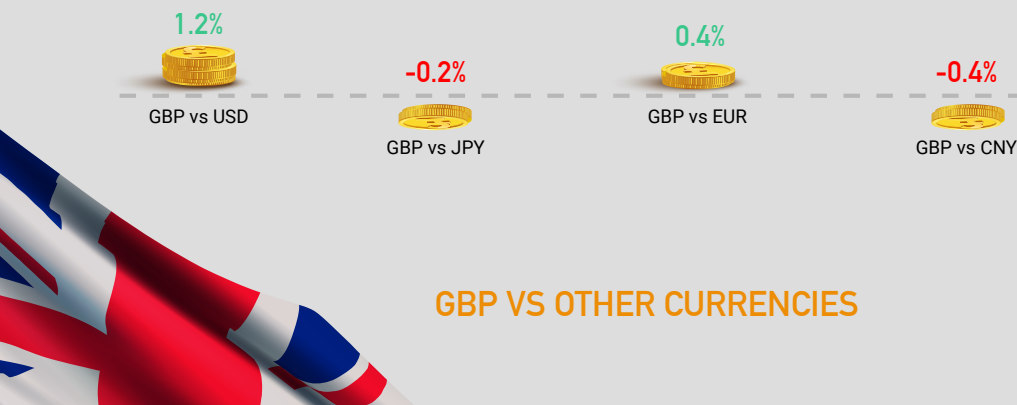


Key Points

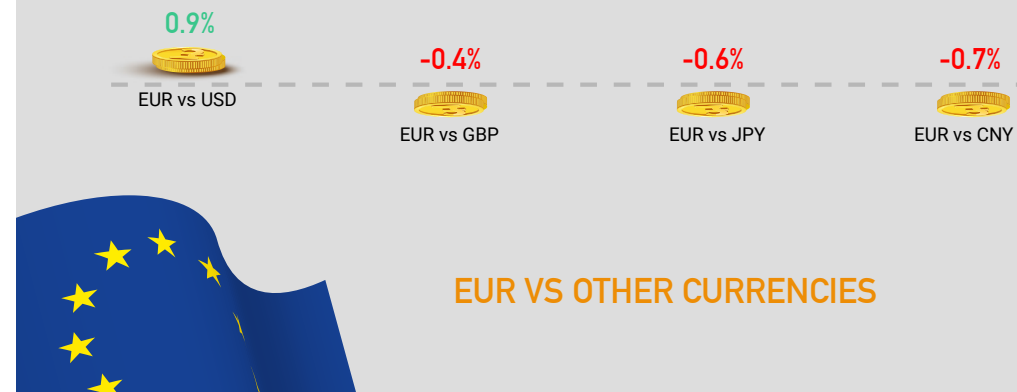
- Equity markets were positive on the back of better US inflation data, which saw interest rate expectations moderate. US macro data was robust, raising hopes of a soft landing. However, Chinese and European economic data continued to disappoint.
- Market leadership widened beyond US technology, with strong returns across the US and UK markets. Small and mid-caps performed well. China rallied on stimulus hopes. After a very strong rally, Japan posted more moderate gains.
- In the wake of falling interest rate expectations and rising commodity prices, value, energy and economically sensitive equities were back in favour, although this was more apparent outside the USA.
- The consensus expectation of a recession in the UK has not come to pass and the better-than-expected inflation data allowed for a meaningful rally in small and mid-caps.

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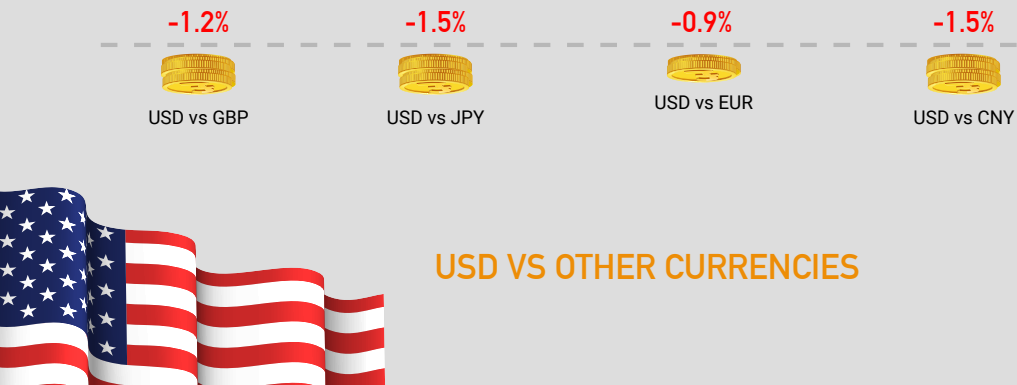
CURRENCIES



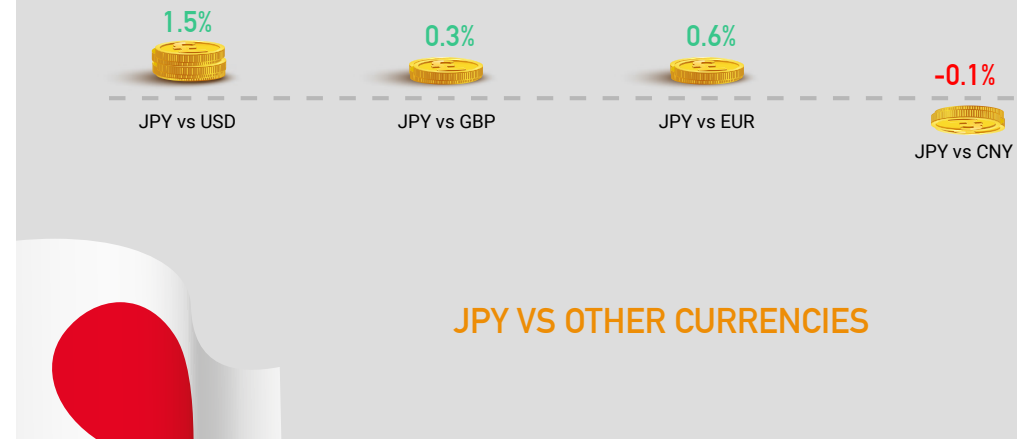
GBP VS OTHER CURRENCIES



EUR VS OTHER CURRENCIES



USD VS OTHER CURRENCIES



JPY VS OTHER CURRENCIES

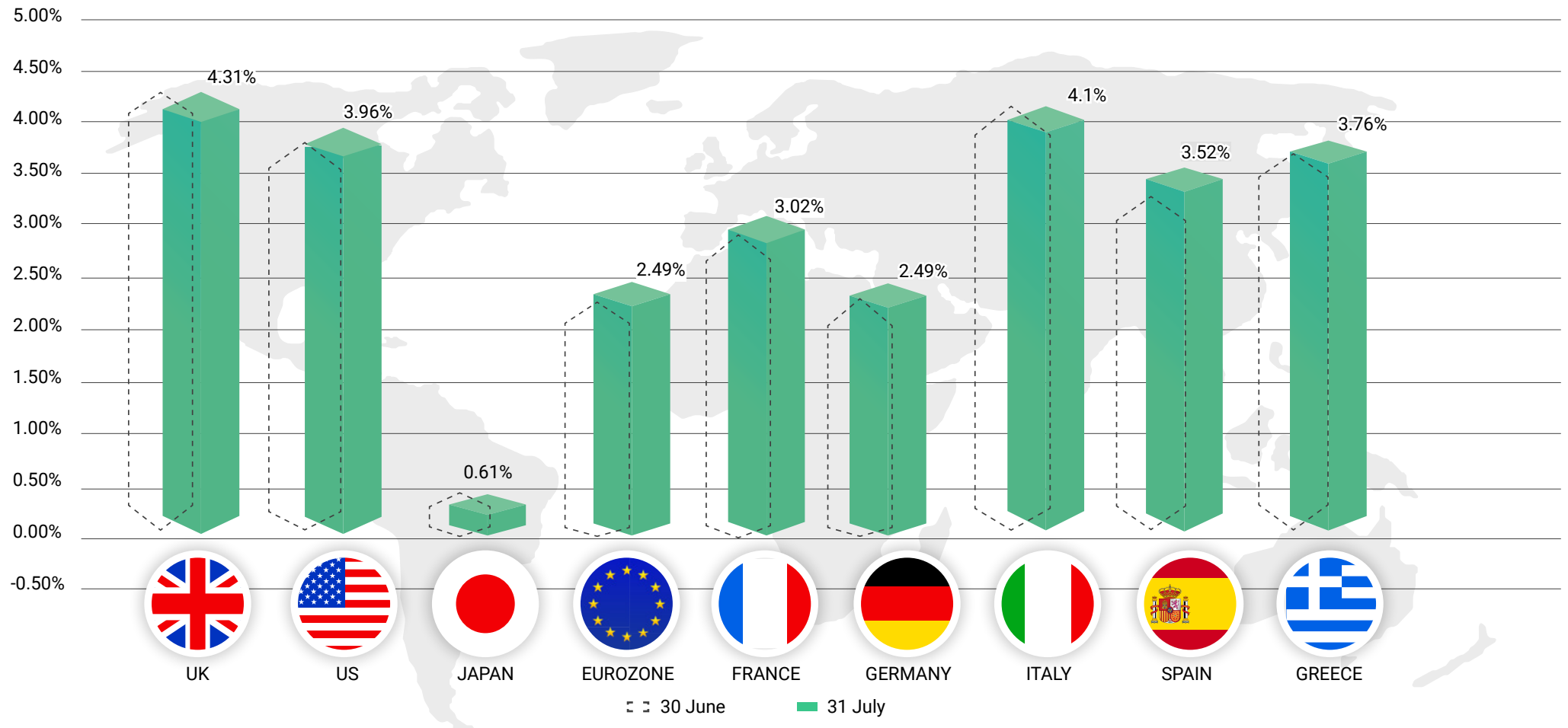
Key Points

- Changes in yield management policy by the Japanese Central Bank saw the yen stage a very modest rally after a period of prolonged weakness.
- Better-than-expected US inflation data saw the dollar weaken, with sterling moving up from 1.27 to 1.31. Then, better UK inflation data saw sterling retreat back somewhat in the second half of the month, closing at US\$1.287.
- The Dollar Index initially fell 3% on the back of better inflation numbers (reduced interest rate expectations), but then rallied on better macro data to close the month down around 1%.
- After a period of prolonged weakness, Chinese yuan strengthened 1.5% versus the US dollar. On a year-to-date basis, sterling has risen 7% against the US dollar and is 6% higher than a year ago.

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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

- The first positive inflation surprise in a long time allowed for a rally in short-dated UK Gilts. UK 2yr gilt yields fell from 5.26% to 4.98%. This is still significantly higher than the 3.71% yield at the start of 2023.
- In the US, it was another month where inflation data was better than expected. But stronger macro data meant markets began to price in 'stronger for longer' interest rate expectations. US 2yr yields barely changed over the month.
- Better macro data meant that Corporate, and especially High Yield, outperformed Government bonds.
- The US 'yield curve inversion', which is often perceived as a predictor of recessionary periods, remained deeply inverted, but less than at the start of the month.
- The big move was in Japanese Government Bonds, where changes in yield management policy saw 10yr yields jump from 0.40% to 0.61%, the highest level since 2014.

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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.

YIELD CURVE INVERSION - Yield curve inversion refers to a situation in which the yields on longer-term bonds are lower than the yields on shorter-term bonds. In other words, it occurs when the yield curve, which plots the interest rates of bonds with different maturities, becomes inverted.

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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