Market Commentary
September 2023

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SNAPSHOT

- Equity markets were negative but rallied off their mid-month lows.
- Government bond yields rose, as concerns over issuance levels outweighed better inflation data.
- Macro economic data was generally robust, while oil rallied.

All percentages below are monthly returns for August 2023

EQUITIES

US MARKETS
Small caps weaker

-1.8%
US 500

UK MARKETS
Lagged other developed markets

-3.3%
UK ALL SHARE

EMERGING MARKETS
Macro data drove equities lower

-6.4%
EM

BOND MARKETS

BONDS
Credit outperforms Government bonds

UK GILTS	-0.4%
US TREASURIES	-0.5%
GLOBAL CORPORATE BONDS	0.5%
GLOBAL HIGH YIELD BONDS	1.0%

*Values represent bond index returns

CURRENCIES

CURRENCIES
Sterling weaker versus US dollar

Pound vs Other Currencies

GBP vs USD	GBP vs JPY	GBP vs EUR	GBP vs CNY
-1.5%	0.8%	0.0%	0.3%

KEY INDICATORS

GOLD – XAU/USD
-1.7%

OIL – BRENT CRUDE
1.5%

COMMODITIES
2.1%

INFLATION – UK CPI (YOY)
6.8%

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GLOBAL MARKETS

Hawkish central banks and weak Chinese data weighed on global equity markets before a tech-led rally occurred at the end of the month, while government bond yields drifted higher.

US MARKETS

Despite overall falling markets, US equities managed to outperform their global peers

Better core inflation data and a generally resilient macro-economic backdrop failed to stop a sharp equity market correction, which bottomed on 18th August, before a late tech-led rally erased most of the losses for the month. AI stock darling NVIDIA was up nearly 6%. Most of the weakness was in small cap stocks, particularly in 'value' oriented ones. Inflation data continued to improve, some significantly so, but the language used by the Federal Reserve remained generally hawkish. US 10yr yields moved up, while the US dollar was strong. West Texas Intermediate (WTI) crude oil was up for the month.

-1.8%

US 500

UK MARKETS

Weak first half followed by a late month rally

UK equities mirrored global trends, with a weak first half followed by a late month-end rally. However, returns lagged other developed markets. Unlike the US, there was little difference in performance across the market cap spectrum. Despite better inflation data in the previous month, August showed more modest progress. That, and concerns over the scale of future gilt issuance levels, as well as a continued hawkish tone from the Bank of England, saw short term Gilt yields move higher, with 2yr Gilt yields moving up from 4.99% to 5.16%.

-3.3%

UK All Share

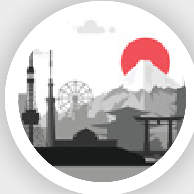
EUROPEAN MARKETS

Declined on weak macro-economic data

European equities declined, with oil and gas and large cap value outperforming the broader index. In sharp contrast to the US, and even the UK, macro economic data continued to disappoint, coming in below expectations. The outlook for the German economy is particularly subdued, with GDP for the 3rd quarter of 2023 looking increasingly likely to be negative. Despite evidence of weaker inflationary pressures, the European Central Bank (ECB) continues to use generally 'hawkish' language. However, falling energy costs are starting to feed through into lower input prices.

-2.6%

Euro 600 Index



JAPAN MARKETS

Benefited from strong performances in the utilities and energy sectors

In local currency terms, the Japanese equity market was in positive territory, benefitting from a strong performance in the utilities and energy sectors, as well as tailwinds from a weakening domestic currency. The Japanese Central Bank modified its yield management policy late in the previous month which led to a significant upward movement in bond yields. Yields continued to drift higher during August, with 10yr bond yields reaching 0.64%, the highest level since 2014. Japan is a meaningful constituent of the Global Bond Index from a country perspective.

0.4%

Japan Index

THE WORLD AT A GLANCE

	2018	2019	2020	2021	2022	August 2023	Year to Date
UK CASH	0.6%	0.7%	0.2%	0.0%	1.4%	0.5%	2.9%
US DOLLAR	4.4%	0.2%	-6.7%	6.4%	8.2%	1.7%	0.1%
UK GILTS	0.6%	6.9%	8.3%	-5.2%	-23.8%	-0.4%	-3.2%
US TREASURIES	0.9%	6.9%	8.0%	-2.3%	-12.5%	-0.5%	0.7%
GLOBAL CORPORATE BONDS	2.1%	7.3%	7.1%	-1.9%	-6.8%	0.5%	-1.3%
GLOBAL HIGH YIELD BONDS	1.6%	8.3%	3.8%	2.0%	-2.3%	1.0%	1.9%
US 500	-6.2%	28.9%	16.3%	26.9%	-19.4%	-1.8%	17.4%
UK ALL SHARE INDEX	-13.0%	14.2%	-12.5%	14.5%	-3.2%	-3.3%	-0.4%
EURO 600 INDEX EX UK	-13.0%	24.2%	1.0%	22.4%	-14.9%	-2.6%	9.4%
JAPAN INDEX	-17.8%	15.2%	4.8%	10.4%	-5.1%	0.4%	23.3%
ASIA EX JAPAN	-12.3%	17.9%	22.4%	-3.1%	-15.4%	-5.2%	4.2%
EMERGING MARKETS	-16.6%	15.4%	15.8%	-4.6%	-22.4%	-6.4%	2.5%
COMMODITIES	-8.5%	13.1%	-26.1%	41.6%	41.9%	2.1%	-2.2%
GOLD	-2.8%	18.0%	20.9%	-4.3%	-0.7%	-1.7%	6.3%
HEDGE FUNDS	-6.7%	8.6%	6.8%	3.7%	-4.4%	0.0%	1.0%

Source: Bloomberg

Total Return – Local Currency

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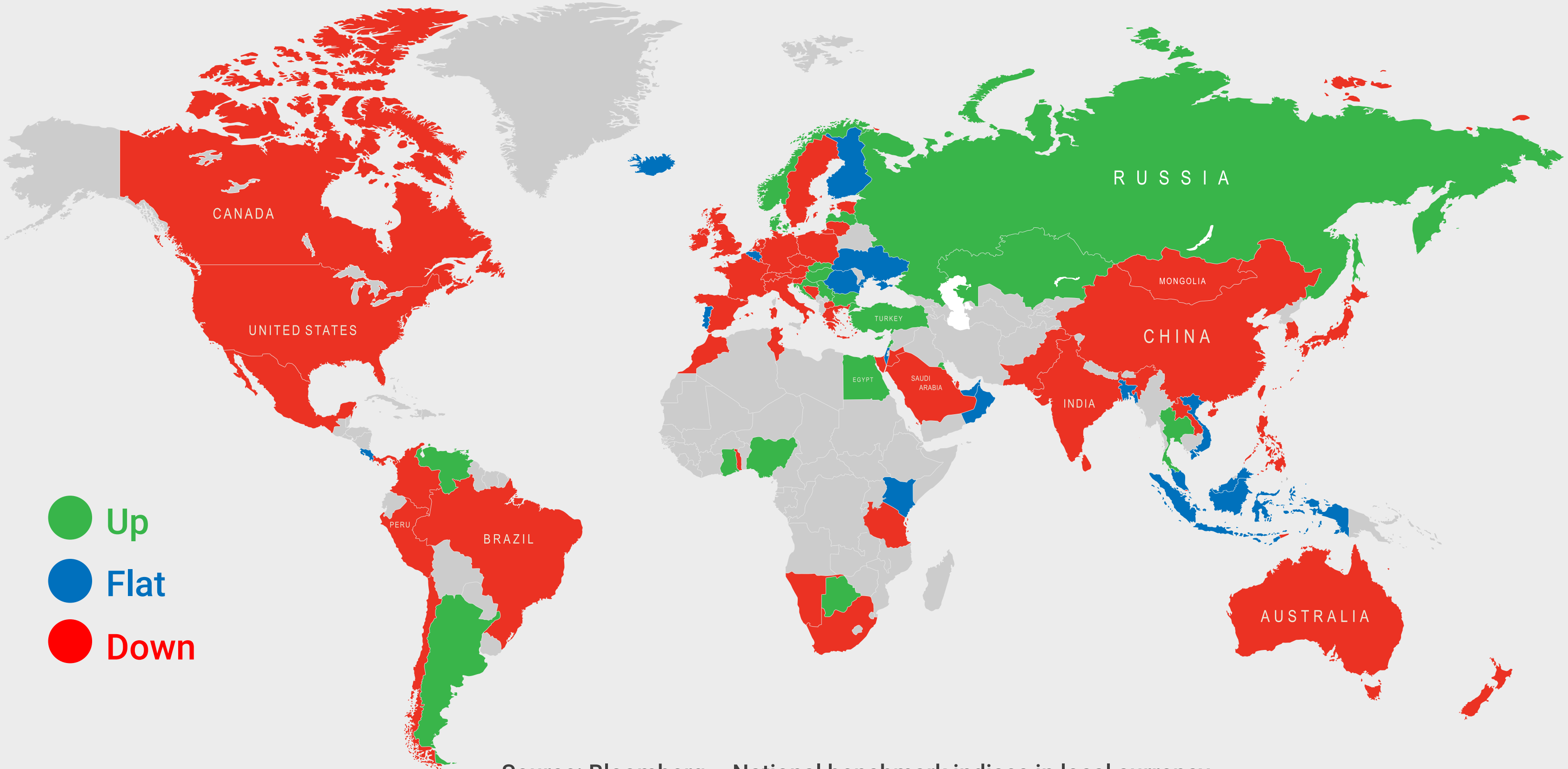
WORLD EQUITY MARKETS



Source: Bloomberg – National benchmark indices in local currency

-1.8% USA

-2.6% EUROPE

0.4% JAPAN

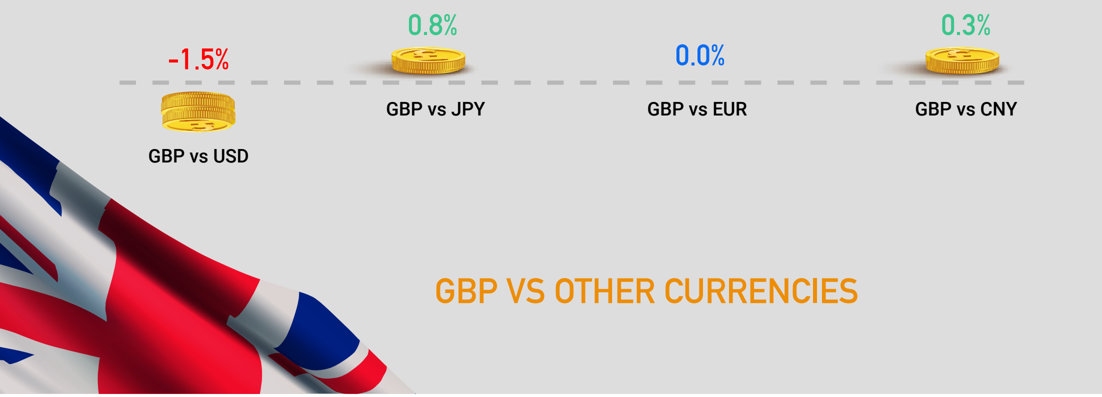
-3.3% UK

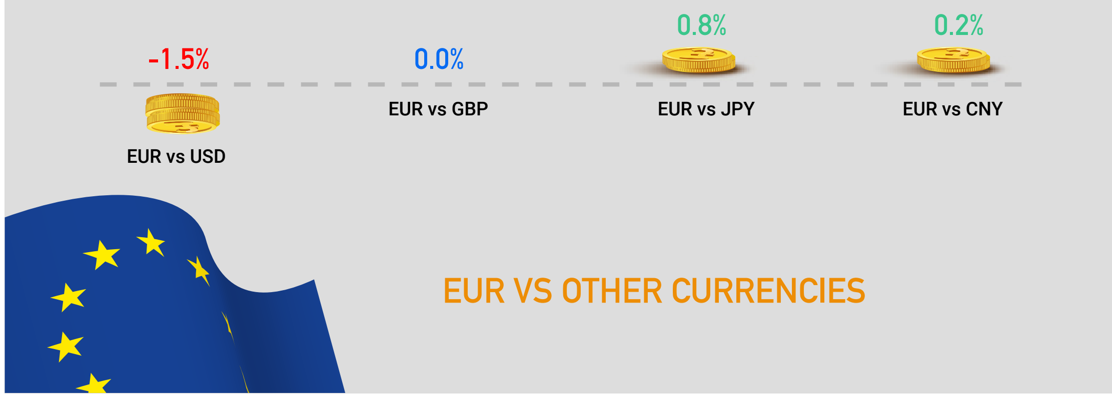
-6.4% EMERGING MARKETS

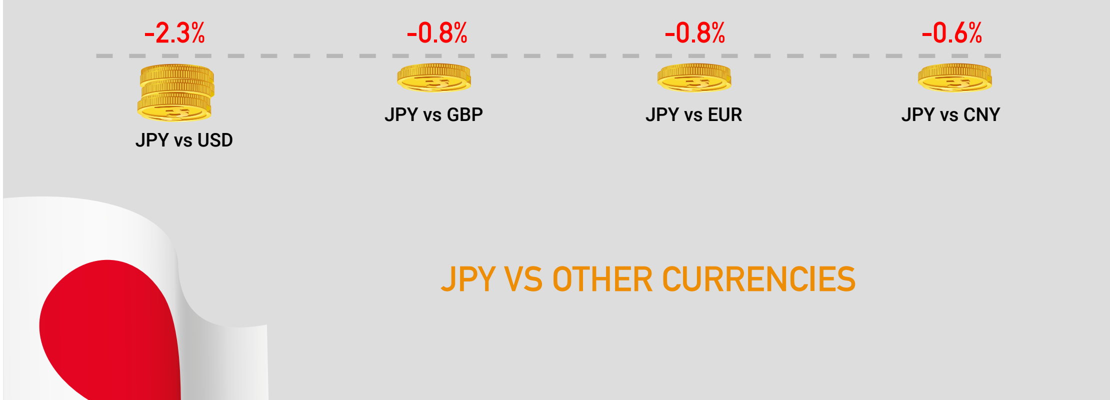
Key Points

- Equity markets fell during most of August before staging a late technology-led rally. The US and Japan were the most resilient, while emerging markets were the poorest performers, specifically China.
- Early in the month, technology led the market down, with the Nasdaq down -7.4% at one point. A strong Nvidia-led rally towards the end of the month saw it reclaim most of its losses.
- Despite concerns over China, where macro data and equity markets were very weak, oil had a strong month. Consequently, oil equities performed well, with both US and UK oil & gas sectors outperforming their relative markets.
- The global equity market drawdown in August was the largest for several months. This occurred at a time when bond markets also fell, indicating the high level of correlation between bonds and equities that still exists.

CURRENCIES





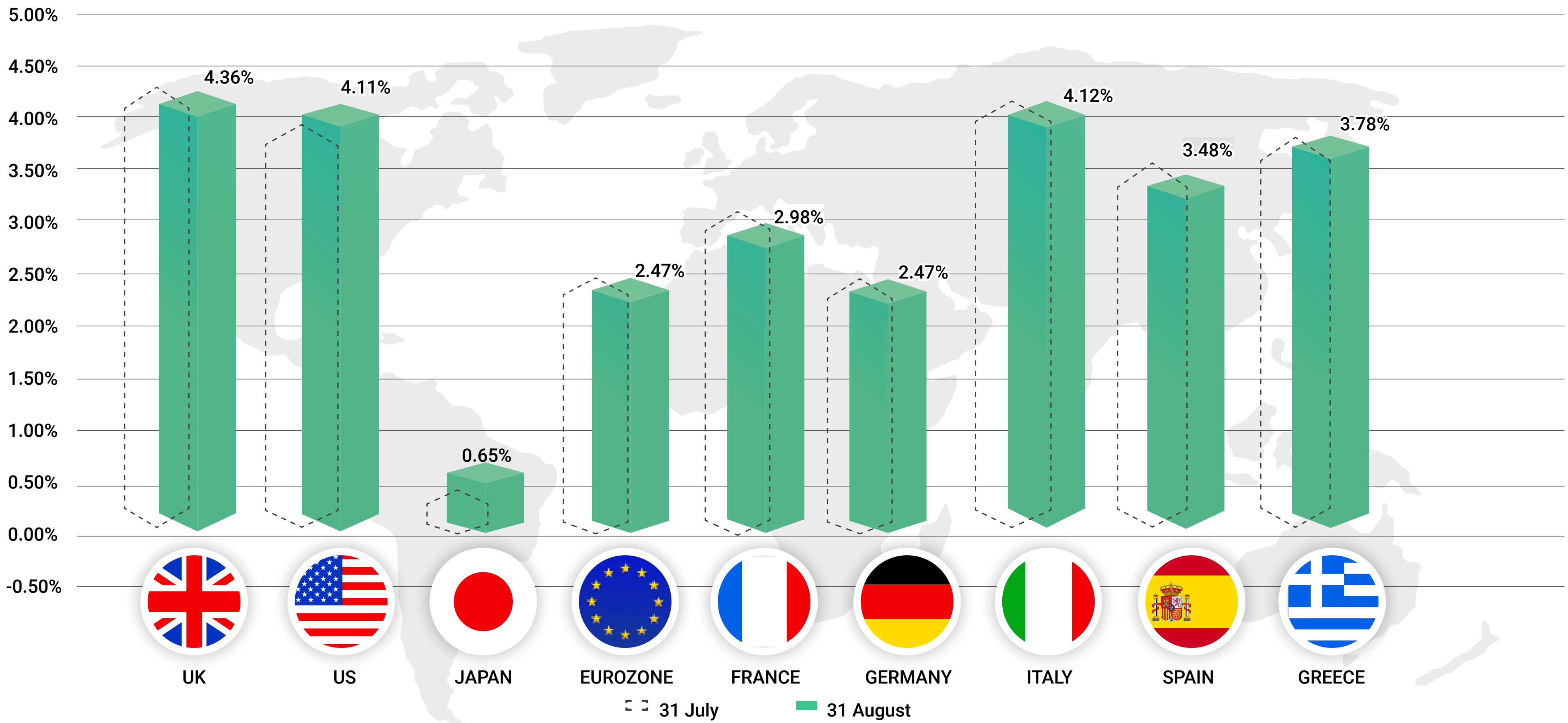


Key Points

- Tough language from the Fed, and an expectation of ‘higher for longer’ on interest rates, saw strong gains for the US dollar index (an index tracking the relative value of USD versus main currency pairs).
- Sterling weakness versus the US dollar was as much about US dollar strength as any UK specific issues.
- The Japanese Yen was particularly weak, but this reflected to some degree a reversal of its gains from the previous month.
- Macro economic concerns and an underwhelming market reaction to China’s policy response saw further weakness in the Chinese Yuan. Year-to-date it is down -5% versus the US dollar.

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

- Slower progress on inflation and hawkish Bank of England comments saw UK short duration gilt yields move higher.
- In the US, it was yet another month where underlying inflation data suggested progress was being made. But stronger macro data meant markets continued to price in 'stronger for longer' interest rate expectations.
- The Barclays Global Aggregate Index, a measure of investment grade debt performance, was negative in aggregate terms. High yield and corporate debt held up better than government bonds.
- The US 'yield curve inversion', which is often perceived as a predictor of recessionary periods, remained deeply inverted, but less than it was at the start of the month.
- The big move last month was the large hike in Japanese Government bonds yields. August saw further moves higher and yields remain the highest since 2014.

GLOSSARY

CORE INFLATION – a measure of inflation that excludes the more volatile components such as food and energy and lets economists and policymakers better assess long term inflationary pressures

HAWKISH – monetary policy stance that prioritises controlling inflation over stimulating economic growth

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.

Typically, a normal yield curve slopes upward, indicating that longer-term bonds have higher yields compared to shorter-term bonds. This is because investors generally expect higher compensation for the increased risk and uncertainty associated with holding longer-term bonds.

However, when the yield curve inverts, it suggests that investors have a pessimistic outlook on the economy. It is often seen as a warning sign of an impending economic downturn or recession. Historically, yield curve inversions have preceded many recessions in various countries.

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.

DISCLAIMER

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