# 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

### US MARKETS

Strong across all market caps

3.1%

US 500

### UK MARKETS

Rallied on Mid and Small caps

2.5%

UK ALL SHARE

### EMERGING MARKETS

Gained despite weaker China macro data

5.8%

EM

## 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

| GBP vs USD | GBP vs JPY | GBP vs EUR | GBP vs CNY |
|---|---|---|---|
| 1.2% | -0.3% | 0.4% | -0.5% |

## KEY INDICATORS

| GOLD – XAU/USD | OIL – BRENT CRUDE | COMMODITIES | INFLATION – UK CPI (YOY) |
|---|---|---|---|
| 2.6% | 14.2% | 9.4% | 7.9% |

**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

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, but markets scaled back expectations of further rate rises. Investor sentiment continued to improve from their spring lows. The S&P rose but was pipped by the Nasdaq (at 4.1%). Yet, it was the small cap Russell 2000 that led the way overall with a return of 6.1%, benefiting the most from the prospect of an economic soft landing.

**Up 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.

**Up 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 ECB 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.

**Up 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, and someway behind the Topix.

**Up 1.5% (Japan Index)**

# THE WORLD AT A GLANCE

| | 2018 | 2019 | 2020 | 2021 | 2022 | July 2023 | Year to Date |
|---|---|---|---|---|---|---|---|
| UK CASH | 0.6% | 0.7% | 0.2% | 0.0% | 1.4% | 0.4% | 2.5% |
| US DOLLAR | 4.4% | 0.2% | -6.7% | 6.4% | 8.2% | -1.0% | -1.6% |
| UK GILTS | 0.6% | 6.9% | 8.3% | -5.2% | -23.8% | 0.8% | -2.7% |
| US TREASURIES | 0.9% | 6.9% | 8.0% | -2.3% | -12.5% | -0.4% | 1.2% |
| GLOBAL CORPORATE BONDS | 2.1% | 7.3% | 7.1% | -1.9% | -6.8% | -0.3% | -1.8% |
| GLOBAL HIGH YIELD BONDS | 1.6% | 8.3% | 3.8% | 2.0% | -2.3% | 0.7% | 0.8% |
| US 500 | -6.2% | 28.9% | 16.3% | 26.9% | -19.4% | 3.1% | 19.5% |
| UK ALL SHARE INDEX | -13.0% | 14.2% | -12.5% | 14.5% | -3.2% | 2.5% | 3.0% |
| EURO 600 INDEX EX UK | -13.0% | 24.2% | 1.0% | 22.4% | -14.9% | 1.9% | 12.3% |
| JAPAN INDEX | -17.8% | 15.2% | 4.8% | 10.4% | -5.1% | 1.5% | 22.8% |
| ASIA EX JAPAN | -12.3% | 17.9% | 22.4% | -3.1% | -15.4% | 5.4% | 9.9% |
| EMERGING MARKETS | -16.6% | 15.4% | 15.8% | -4.6% | -22.4% | 5.8% | 9.5% |
| COMMODITIES | -8.5% | 13.1% | -26.1% | 41.6% | 41.9% | 9.4% | -4.3% |
| GOLD | -2.8% | 18.0% | 20.9% | -4.3% | -0.7% | 2.6% | 8.1% |
| HEDGE FUNDS | -6.7% | 8.6% | 6.8% | 3.7% | -4.4% | 0.3% | 1.0% |

Source: Bloomberg

Total Return – Local Currency

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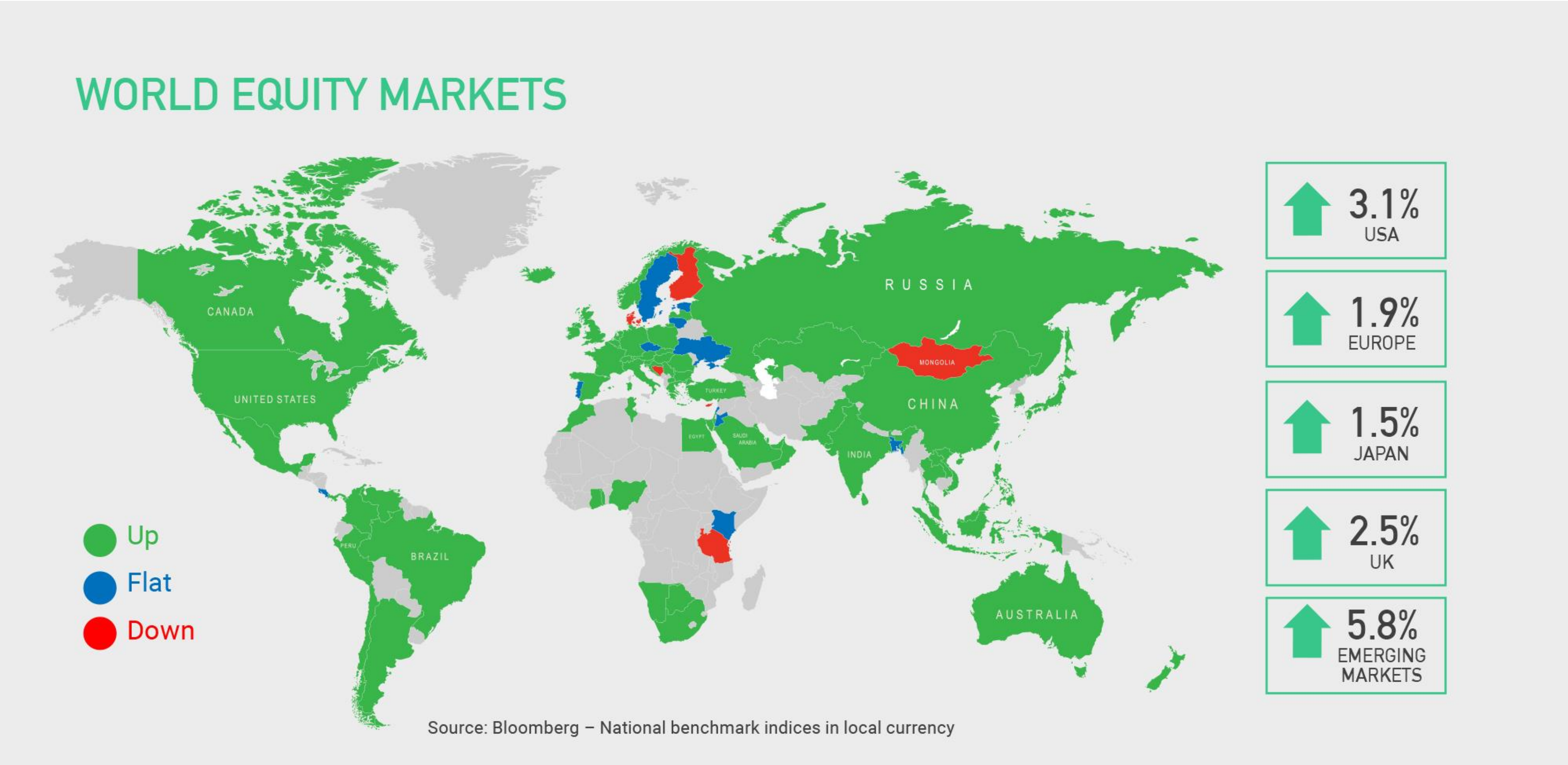
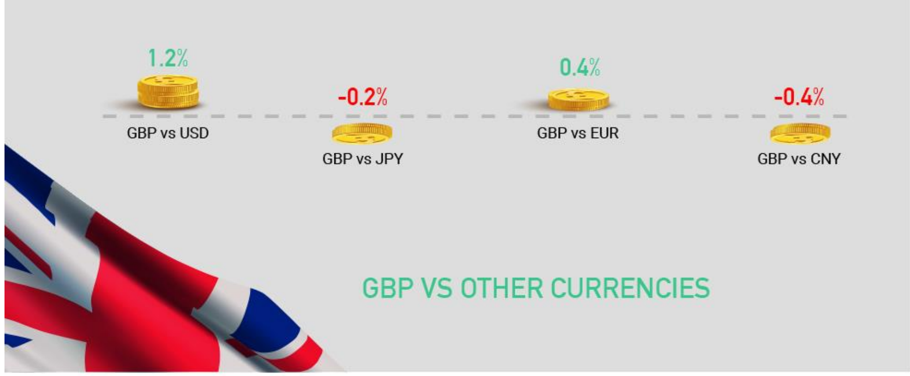
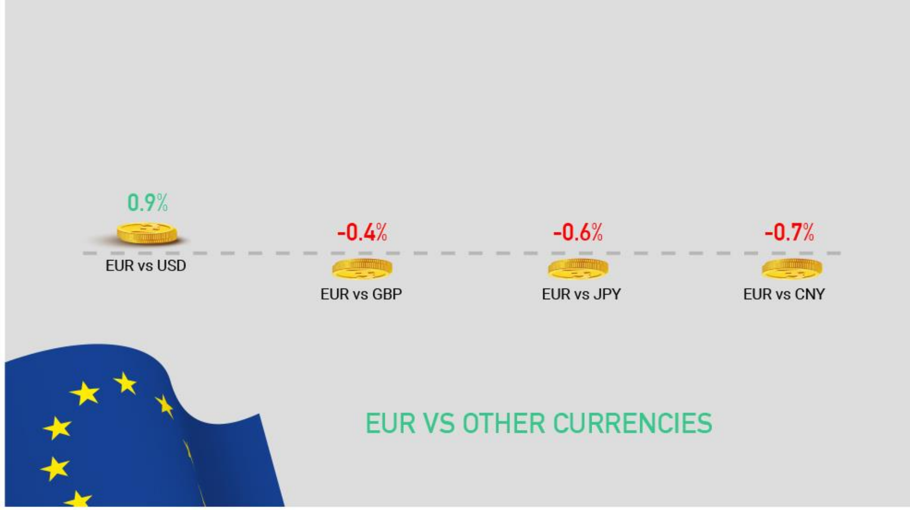


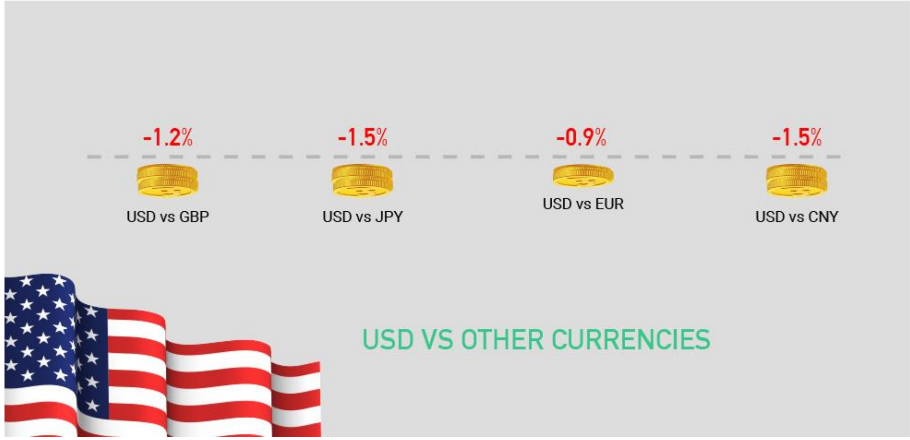

## Key Points

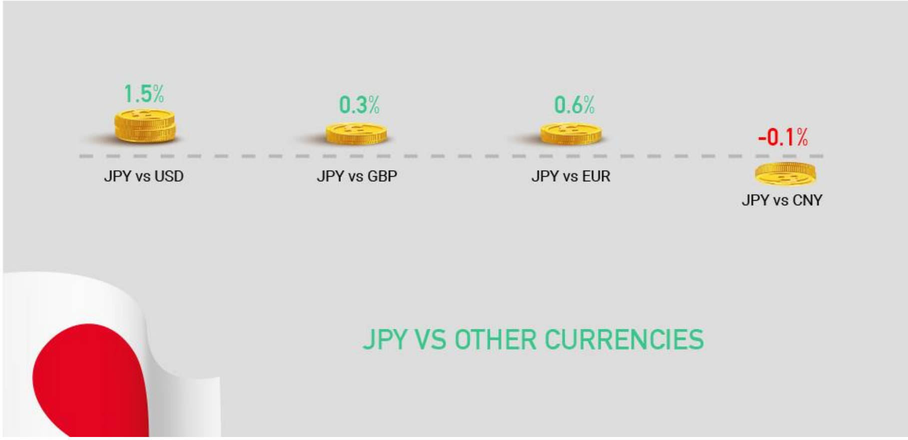
- Equity markets were positive on the back of better US inflation data, which saw interest rate expectations moderate. US macro data was robust, raising hopes of a soft landing. However, Chinese and European economic data continued to disappoint.
- Market leadership widened beyond US technology, with 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.

# CURRENCIES



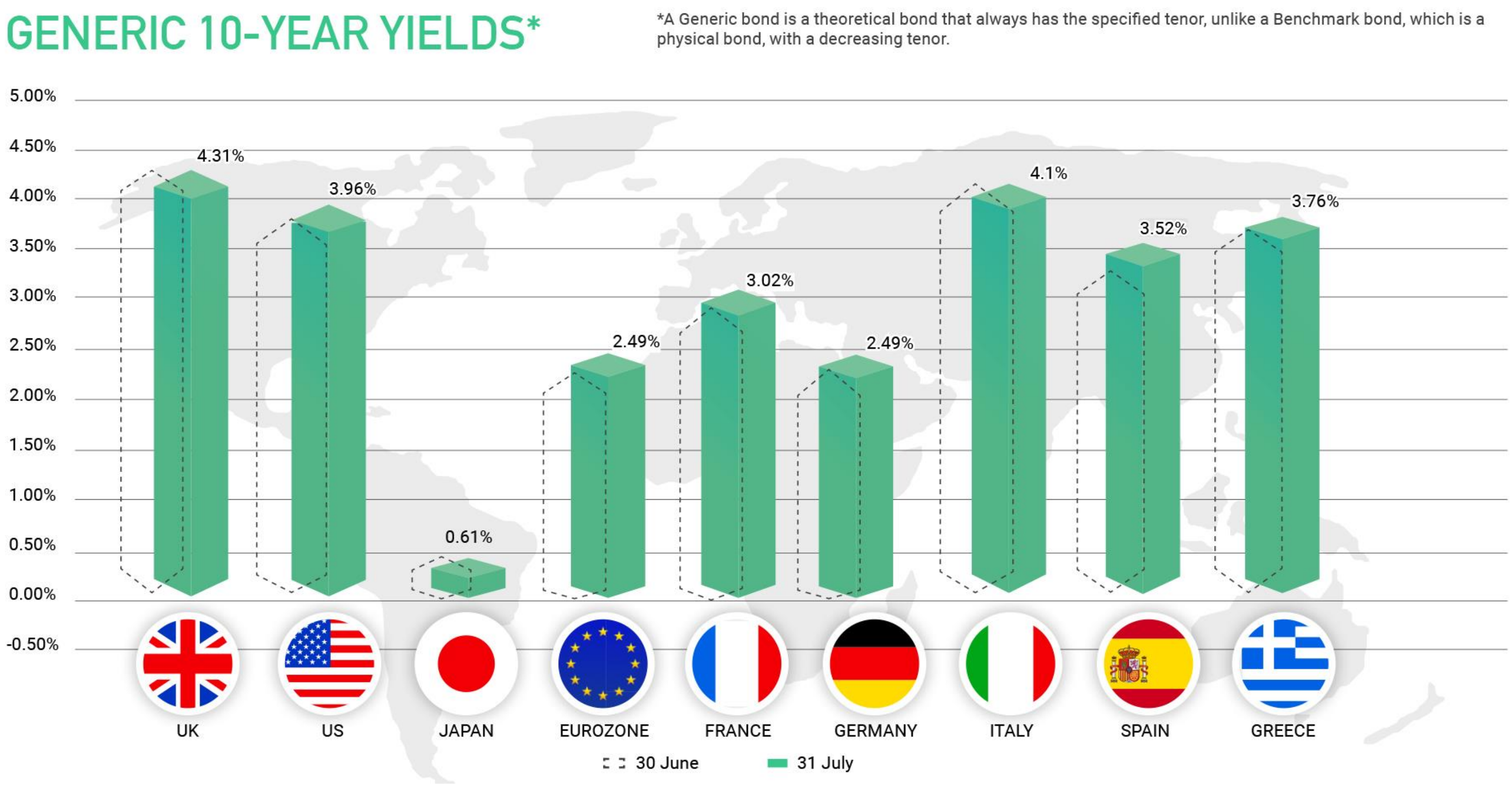




## Key Points

- 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 U$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.




## 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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