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Global Matters | Monthly

Market Review

July 2023

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Contents

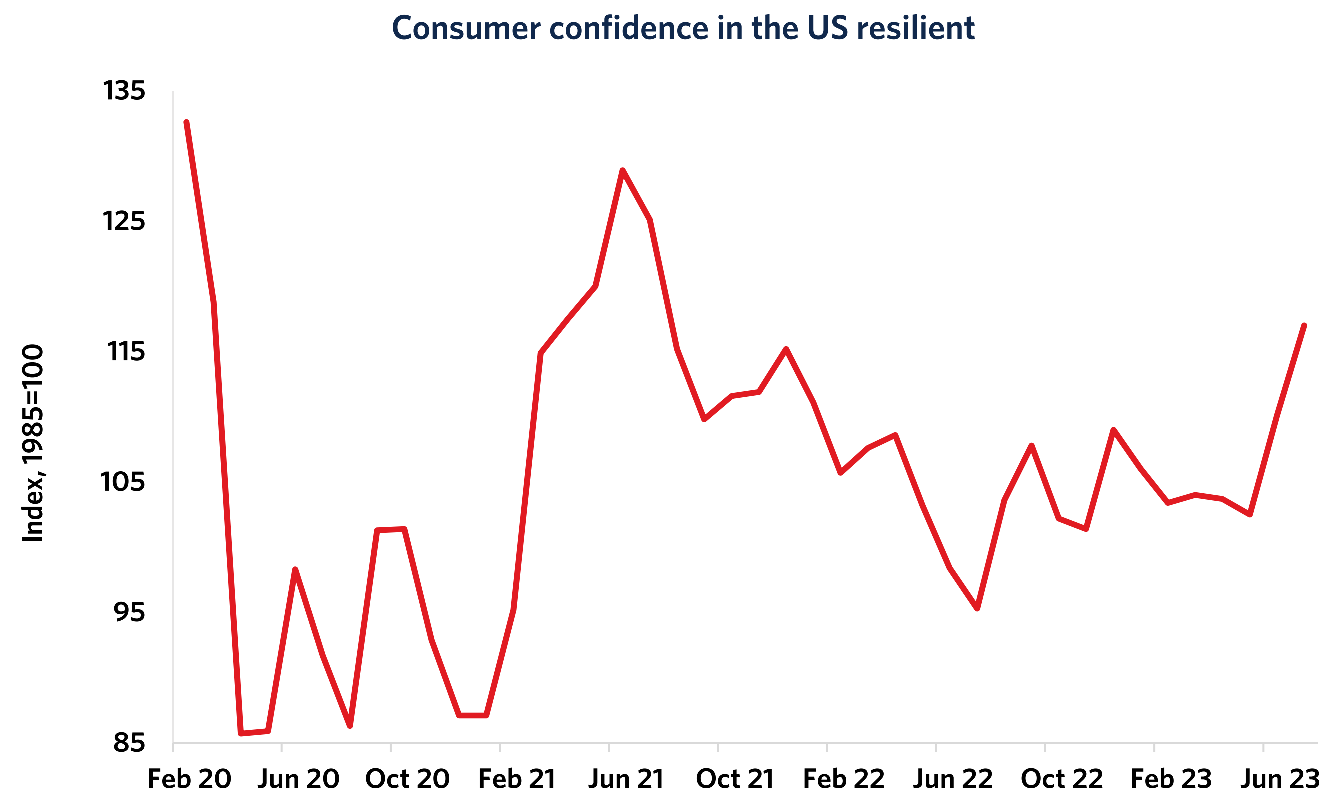
Global market review & outlook

Risk assets performed well in July, continuing the pattern of recent months, while safe-haven government bonds generally produced negative returns as yields ticked higher.

Key developments during the month:

» Prospects for a soft-landing in the US improved as data surprised on the upside, pointing to resilience in the economy along with cooling inflation. The labour market, which had been showing some signs of softness, surprised with almost half-a million private sector jobs created in June, the highest since mid-2022, and jobless claims fell in recent weeks. The consumer-facing service sector remains buoyant, consumer confidence hit a two-year high, and the housing sector showed signs of recovery, with the NAHB housing index in July recording its seventh consecutive monthly gain. GDP in Q2 grew by 2.4% annualised, above expectations. Yet the latest inflation data was lower than expected, with both CPI and core CPI rising by 0.2% month-on-month in June, taking year-on-year CPI to 3.0% and core CPI to 4.8%. Equities responded with another gain, the S&P 500 returning 3.2% in the month, taking its gain YTD to 20%. Mega-cap tech stocks again outperformed, but more marginally than in previous months, the FANG+ index up 3.8%, the strength broadening out with all sectors participating in the gains, with energy, financials and industrials among the leaders.

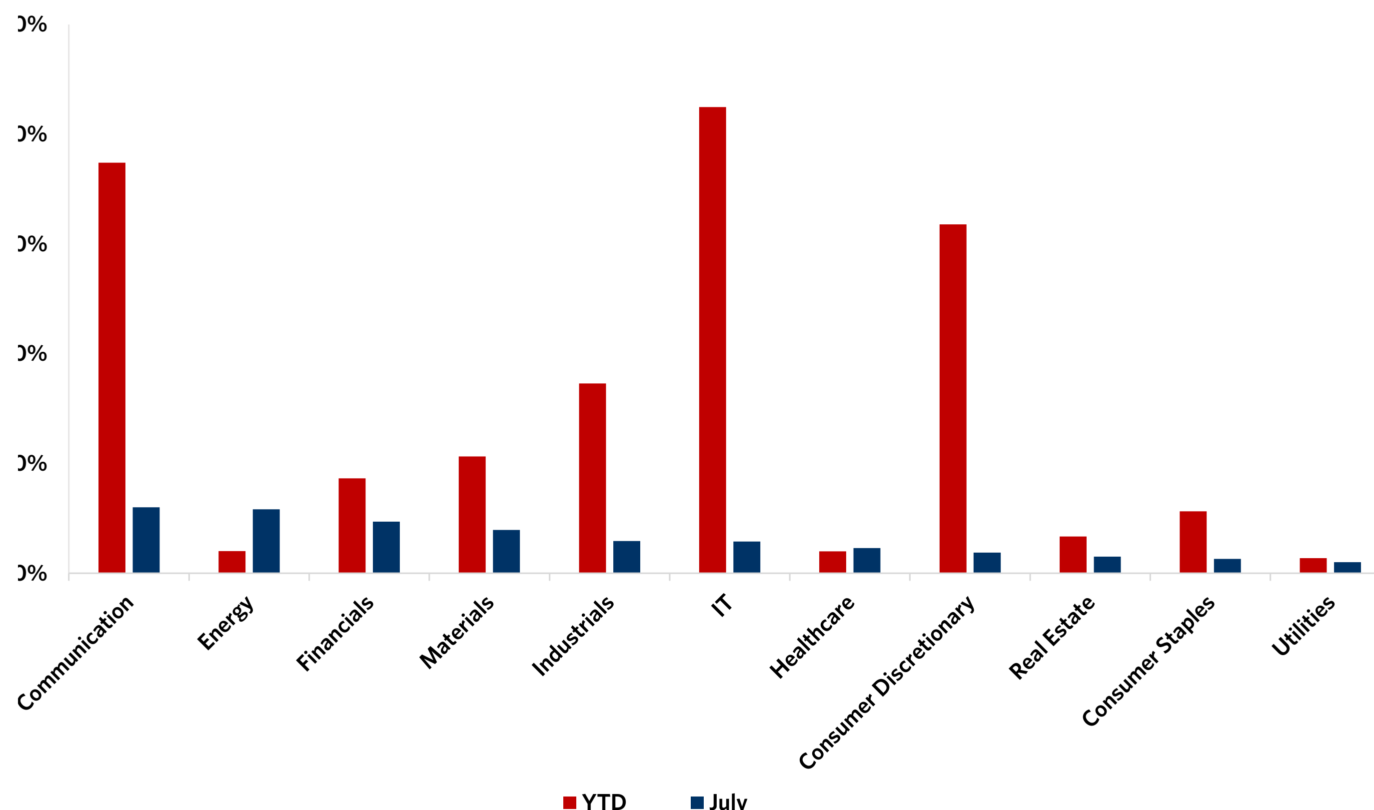
Consumer confidence in the US resilient



Source: The Conference Board as at 31 July 2023.

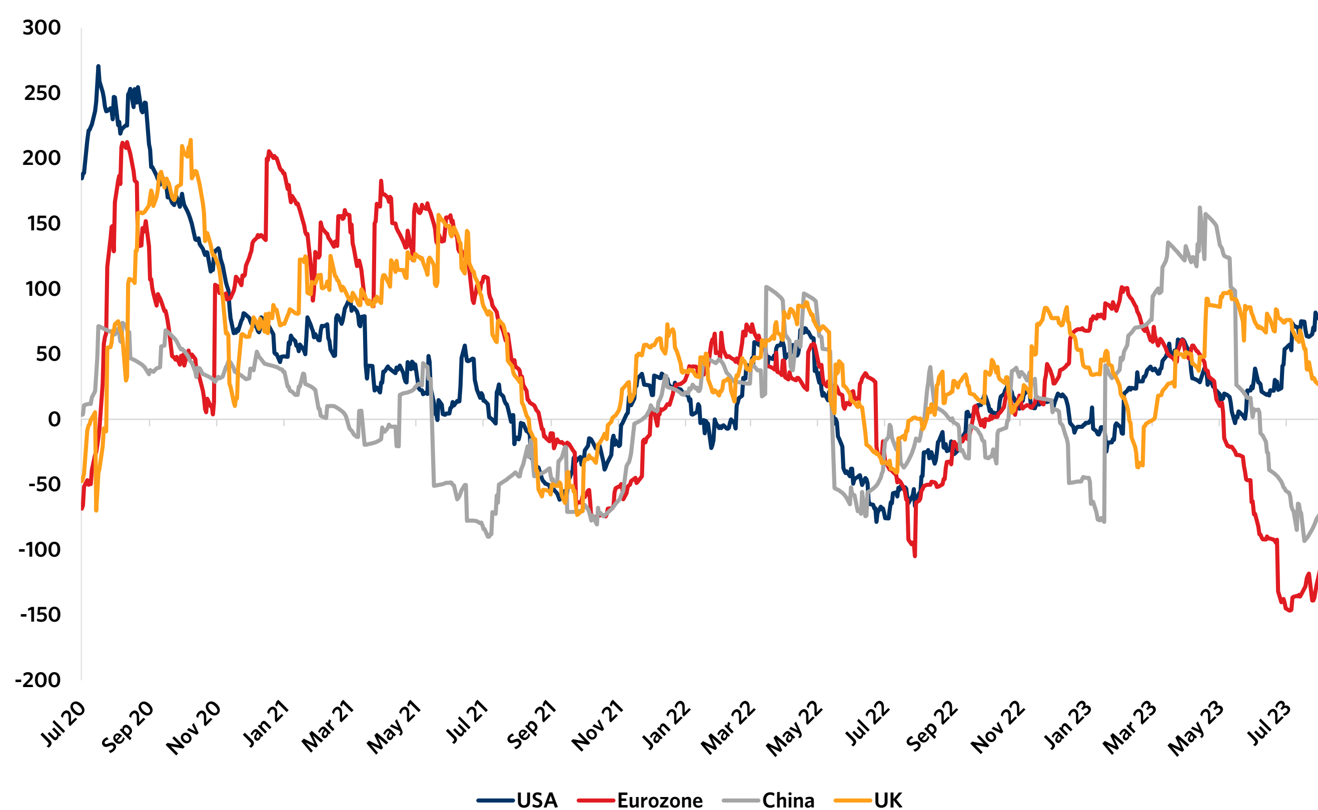
"Prospects for a soft-landing in the US improved as data surprised on the upside, pointing to resilience in the economy along with cooling inflation"

MSCI World Sector returns July 2023 and YTD



Source: Bloomberg Finance L.P. as at 31 July 2023.

Citi economic surprise index: US surprises on upside



Source: Bloomberg Finance L.P. as at 1 August 2023.

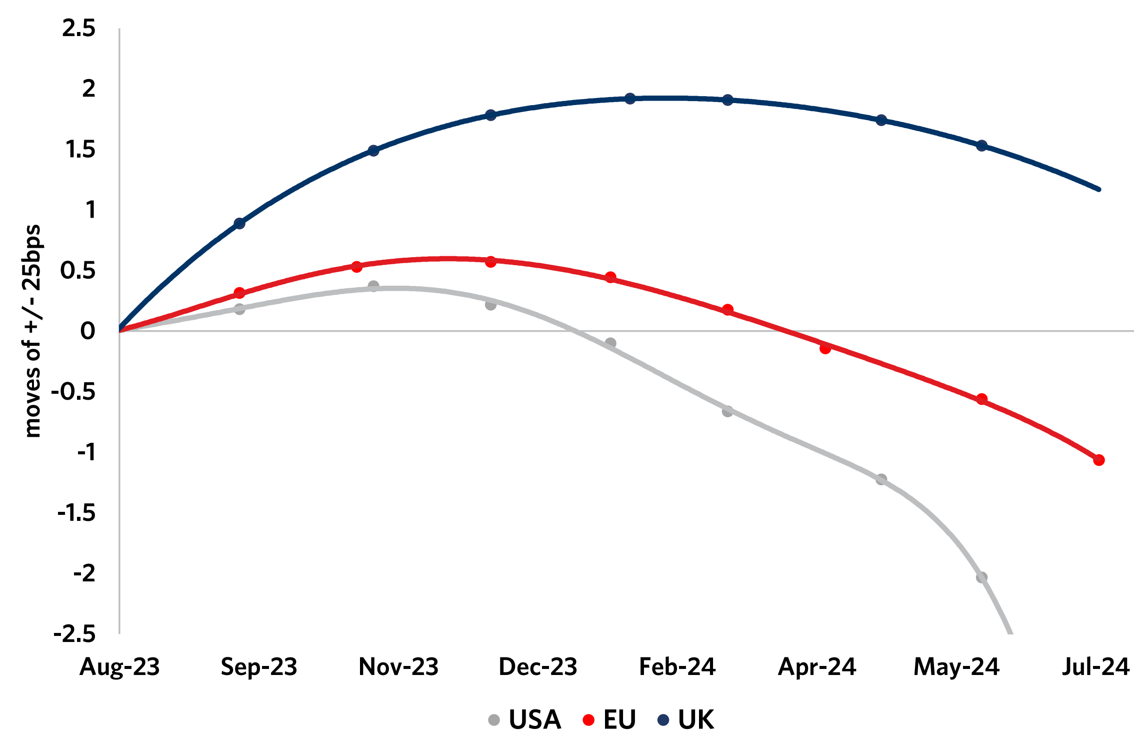
» The EU is underperforming the US, with activity broadly stagnant (Q2 GDP +0.3% after two consecutive flat quarters) and inflation, while falling, is proving to be sticky: CPI inflation fell to 5.3% in July, while core inflation remained at 5.5%. The key German economy is in recession, with three consecutive quarters of negative or flat growth, suffering from its historically heavy dependency on Russian energy supplies, its dominant manufactured goods sector facing recessionary conditions globally, and its key market, China, experiencing serious growth challenges. After a strong start to the year, European equity markets are under-performing, +2.2% over the past 3 months (MSCI Europe ex UK) versus +10.4% in the US and +13.1% in Japan.

» China's post-pandemic growth has faded, compounding the woes from its vastly over-leveraged property development industry and the difficulties arising from US controls over exports of high-end chips. China's Q2 GDP disappointed, with growth of 0.8% quarter-on-quarter, down from +2.2% in Q1. Retail sales grew by only 3.1% year-on-year in June, industrial production by 4.4%, and concerns are rising that China will struggle to meet its 2023 growth target of around 5%. Leading indicators point to further contraction in the manufacturing sector and slowing growth in services. The administration responded by announcing targeted measures to support consumption and the property sector, and the July meeting of the Politburo signalled further easing ahead, albeit non-specific, and a shift to a growth focus. While macro-prudential concerns are likely to limit the extent of policy reflation that could be delivered, markets were encouraged by the shift in policy and tone, with the Chinese equity market recovering 10% in July after a very weak six months.

» Arguably the biggest upside surprises came in the UK, where growth in recent months has been broadly flat, confounding virtually all the official forecasts of an extended recession. Inflation finally surprised on the downside, with a fall in CPI inflation in June to 7.9% and core CPI to 6.9%, with month-on-month inflation rates of 0.1% and 0.2% respectively, well below the rates of recent months. Markets reacted positively, with falls in bond yields from peak levels in early July of 25-50bps, and domestically focussed equities rallying

sharply after a lengthy period of weak returns. The equity market rose by 6% from its July low, recovering some of its underperformance so far this year, although it remains the weakest performer of the major markets YTD.

» The resilience of economies gave central banks the leeway to continue to prioritise the control of inflation, with the Fed and ECB raising policy rates as expected by 0.25% to 5.5% and 3.75% respectively in July, and signals from the Bank of England that a similar rise in the UK base rate is near-certain in August. The ECB policy rate is at its highest ever level, matched only in 2000/01, compared with a rate of -0.5% a year ago, an extraordinarily rapid tightening. However, both the Fed and ECB delivered more nuanced statements than previously, interpreted by markets as slightly dovish, with a shift away from forward guidance on further rate rises to a data-dependent approach.



Source: Bloomberg Finance L.P. as at 31 July 2023.

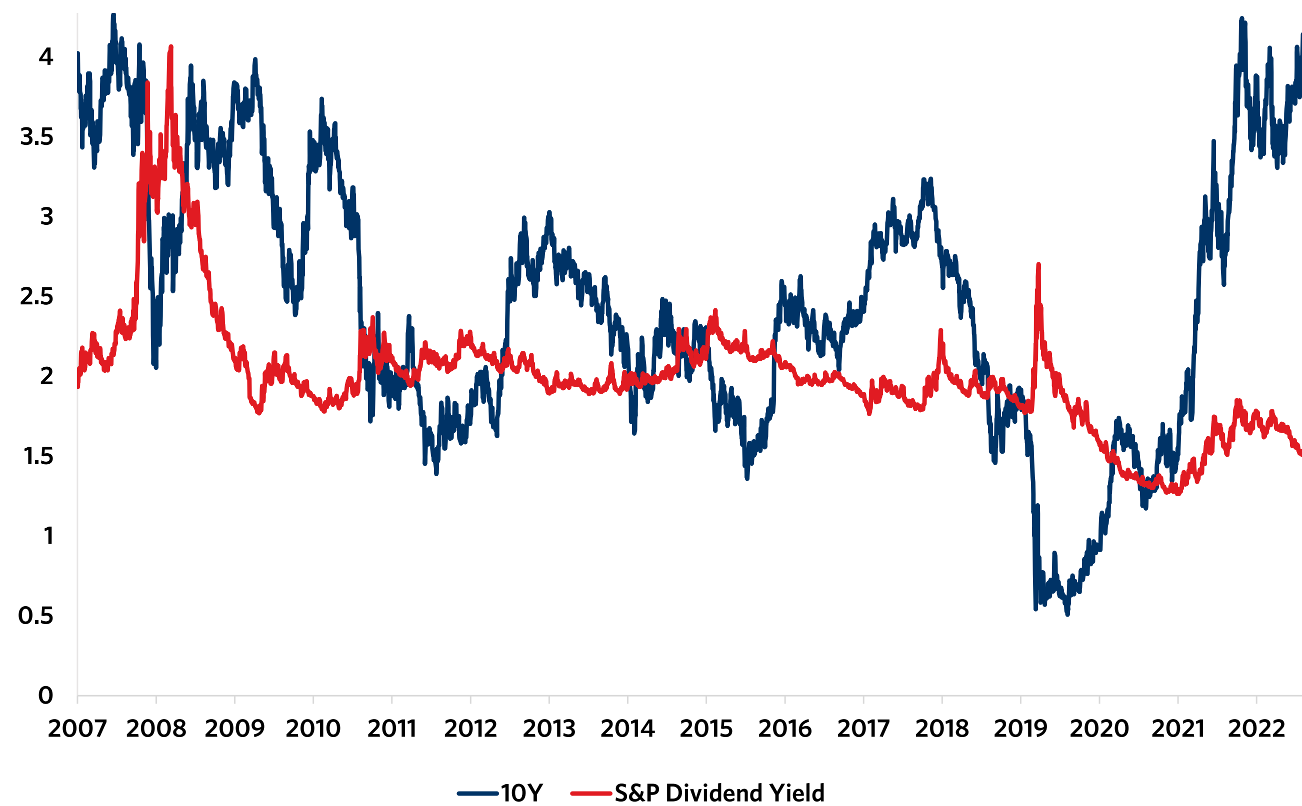
» The Fed is all but done on hiking, with perhaps one further 25bps rise. The ECB and Bank of England have more to do, but are also close to peak rates, as the impact of tightening is resulting in weaker activity levels in interest rate sensitive parts of economies such as housing and retail sales. However, the message from central banks of rates higher for longer to bring inflation down to target levels, has been reflected in market expectations of near-term rates, with cuts priced out for some time ahead. Futures markets are now pricing in peak rates to be reached in the US and Euro Area in the second half of this year but to stay at those levels for several months, before cuts of 50bps in the US and 25bps in the Euro Area by mid-2024. In the UK peak rates are expected at 5.75% in coming months and then to stay there until the end of 2024. If market forecasts prove to be accurate, the tightening effect of policy rates will move progressively higher through this period as inflation will be falling, real rates therefore rising, and at the same time all three central banks are continuing to reduce their accumulated bond holdings from the QE era, with an inevitable reduction in liquidity.

» In local currency terms the Japanese equity market has been the top performer among major markets this year, returning 25% YTD, but in USD terms this has been offset by weakness in the yen, down 7.8% against the dollar. The Bank of Japan's (BoJ) yield curve control policy (YCC), keeping 10Y JGBs at a yield of 0% with a 50bps tolerance range has been the main cause of yen weakness, as rates have increased substantially elsewhere, pushing the yield differential much more in favour of dollars.

» There has been growing speculation that the BoJ would end YCC, as growth and inflation have moved up in Japan, and the policy is becoming increasingly unsustainable. The BoJ finally made a substantive move in this direction in late July, giving itself more flexibility by effectively lifting the yield cap to 1%, seen as a step towards policy normalisation. The yen responded with a rise of 1.4% in the month, ahead of gains in the euro and sterling. This is a significant shift for the BoJ and could well underpin further gains in the yen in coming months, given how far the currency has fallen in the past 18 months and the improving fundamentals in Japan, as well as the significant undervaluation of the yen on a purchasing power parity basis.

» The biggest move in asset classes in July came from commodities, led by oil, up 14%. A combination of reduced supplies, from OPEC+ cuts and Saudi Arabia's voluntary reductions of a further 1m bpd, extended into August, and surprisingly strong demand arising from China's Covid reopening and more resilient growth elsewhere, have squeezed inventories and pushed prices significantly higher. Goldman Sachs reported that global oil demand hit a record high of 102.8m bpd in July. Agricultural commodities were also pushed up, triggered in part by Russia's collapse of the Black Sea grain export deal.

Since the mini banking crisis in March, bond yields have risen sharply, especially at shorter maturities, as the Fed and other central banks have continued to tighten policy and hike rates. The yield curve inverted to historic highs, with 2Y yields in the US at the end of June over 100bps higher than 10Y yields. This has made it increasingly difficult for longer term maturities to rally, with better value available at shorter maturities, rate cuts priced out of markets until 2024, and the economy resilient. Through July this combination of factors led to a narrowing of curve inversion, with yields on longer duration bonds rising while shorter term yields were broadly stable, a trend which could have further to go in the absence of a sharp slowdown in the economy.



Source: Bloomberg Finance L.P. as at 3 August 2023.

The immediate outlook calls for continuing caution in equities. Markets have risen sharply so far this year, and valuations in those mega-cap stocks which have largely driven the rally have become stretched. The dividend yield on the S&P 500 index has fallen to around 1.5%, while the yield on 10Y US Treasuries moved up to almost 4% by the end of July, the widest differential in favour of bonds since 2010. Monetary policy is now firmly in restrictive territory, and given its lagged effect, a significant slowdown in the economy remains a likely outcome. We therefore remain patient before adding to risk assets, while cautiously seeking opportunities to add to duration in fixed income, with peak rates in sight and real rates on US Treasuries at increasingly attractive levels.

"Since the mini banking crisis in March, bond yields have risen sharply, especially at shorter maturities, as the Fed and other central banks have continued to tighten policy and hike rates"

Market performance - *Global (local returns) as at 31 July 2023*

Asset Class / Region	Index	Ccy	1 month	3 months	YTD	12 months
Developed Markets Equities						
United States	S&P 500 NR	USD	3.2%	10.4%	20.3%	12.4%
United Kingdom	MSCI UK NR	GBP	2.3%	-1.8%	5.5%	6.8%
Continental Europe	MSCI Europe ex UK NR	EUR	1.9%	2.2%	14.8%	12.6%
Japan	Topix TR	JPY	1.5%	13.1%	24.5%	23.0%
Asia Pacific (ex Japan)	MSCI AC Asia Pacific ex Japan NR	USD	5.8%	6.5%	9.0%	6.6%
Global	MSCI World NR	USD	3.4%	8.5%	19.0%	13.5%
Emerging Markets Equities						
Emerging Europe	MSCI EM Europe NR	USD	10.0%	16.2%	24.2%	54.9%
Emerging Asia	MSCI EM Asia NR	USD	6.2%	8.0%	10.5%	6.6%
Emerging Latin America	MSCI EM Latin America NR	USD	5.1%	16.8%	24.6%	30.9%
China	MSCI EM China NR	USD	7.8%	8.6%	7.4%	5.9%
BRICs	MSCI BRIC NR	USD	10.8%	5.4%	4.7%	1.8%
Global emerging markets	MSCI Emerging Markets NR	USD	6.2%	8.4%	11.4%	8.3%
Bonds						
US Treasuries	JP Morgan United States Government Bond TR	USD	-0.4%	-2.2%	1.2%	-3.9%
US Treasuries (inflation protected)	BBgBarc US Government Inflation Linked TR	USD	0.1%	-1.4%	2.0%	-5.6%
US Corporate (investment grade)	BBgBarc US Corporate Investment Grade TR	USD	0.3%	-0.7%	3.6%	-1.3%
US High Yield	BBgBarc US High Yield 2% Issuer Cap TR	USD	1.4%	2.1%	6.8%	4.4%
UK Gilts	JP Morgan UK Government Bond TR	GBP	0.8%	-3.2%	-2.8%	-16.5%
UK Corporate (investment grade)	ICE BofAML Sterling Non-Gilt TR	GBP	2.1%	-1.3%	1.0%	-7.7%
Euro Government Bonds	ICE BofAML Euro Government TR	EUR	-0.2%	0.0%	1.9%	-8.7%
Euro Corporate (investment grade)	BBgBarc Euro Aggregate Corporate TR	EUR	1.1%	0.8%	3.3%	-3.4%
Euro High Yield	BBgBarc European High Yield 3% Constrained TR	EUR	1.1%	2.3%	5.6%	5.0%
Japanese Government	JP Morgan Japan Government Bond TR	JPY	-1.7%	-1.6%	1.1%	-2.3%
Australian Government	JP Morgan Australia GBI TR	AUD	0.5%	-3.2%	1.7%	-2.4%
Global Government Bonds	JP Morgan Global GBI	USD	0.2%	-2.2%	1.0%	-4.5%
Global Bonds	ICE BofAML Global Broad Market	USD	0.4%	-1.5%	2.0%	-3.4%
Global Convertible Bonds	ICE BofAML Global Convertibles	USD	2.8%	6.7%	10.6%	8.4%
Emerging Market Bonds	JP Morgan EMBI+ (Hard currency)	USD	1.8%	2.7%	5.2%	3.8%

Asset Class / Region	Index	Ccy	1 month	3 months	YTD	12 months
Property						
US Property Securities	MSCI US REIT NR	USD	2.8%	4.4%	7.7%	-6.9%
Australian Property Securities	S&P/ASX 200 A-REIT Index TR	AUD	3.8%	0.3%	5.5%	-4.4%
Asia Property Securities	S&P Asia Property 40 Index NR	USD	4.2%	-1.4%	-3.1%	-6.9%
Global Property Securities	S&P Global Property USD TR	USD	4.2%	3.0%	5.4%	-6.3%
Currencies						
Euro		USD	0.8%	-0.2%	2.7%	7.6%
UK Pound Sterling		USD	1.0%	2.1%	6.2%	5.5%
Japanese Yen		USD	1.4%	-4.2%	-7.8%	-6.4%
Australian Dollar		USD	0.8%	1.5%	-1.4%	-3.9%
South African Rand		USD	5.4%	2.3%	-4.8%	-7.1%
Commodities & Alternatives						
Commodities	RICI TR	USD	8.0%	6.1%	0.3%	-3.2%
Agricultural Commodities	RICI Agriculture TR	USD	3.8%	7.3%	4.3%	6.3%
Oil	Brent Crude Oil	USD	14.2%	7.6%	-0.4%	-22.2%
Gold	Gold Spot	USD	2.4%	-1.3%	7.7%	11.3%
Hedge funds	HFRX Global Hedge Fund	USD	0.6%	0.5%	0.5%	1.2%

Interest Rates	Current Rate
United States	5.50%
United Kingdom	5.00%
Eurozone	4.25%
Japan	-0.10%
Australia	4.10%
South Africa	8.25%

Source: Bloomberg Finance L.P. , Momentum Global Investment Management. Past performance is not indicative of future returns.

Market performance - *UK (all returns GBP) as at 31 July 2023*

Asset Class / Region	Index	Local Ccy	1 month	3 months	YTD	12 months
Equities						
UK - All Cap	MSCI UK NR	GBP	2.3%	-1.8%	5.5%	6.8%
UK - Large Cap	MSCI UK Large Cap NR	GBP	1.5%	-2.5%	2.7%	6.0%
UK - Mid Cap	MSCI UK Mid Cap NR	GBP	5.4%	-0.2%	14.0%	6.8%
UK - Small Cap	MSCI Small Cap NR	GBP	4.8%	-0.5%	5.0%	-2.8%
United States	S&P 500 NR	USD	2.0%	7.9%	13.2%	6.4%
Continental Europe	MSCI Europe ex UK NR	EUR	1.6%	-0.3%	11.0%	15.0%
Japan	Topix TR	JPY	1.9%	5.9%	8.0%	9.2%
Asia Pacific (ex Japan)	MSCI AC Asia Pacific ex Japan NR	USD	4.6%	4.1%	2.5%	0.9%
Global developed markets	MSCI World NR	USD	2.2%	6.1%	11.9%	7.4%
Global emerging markets	MSCI Emerging Markets NR	USD	5.1%	6.0%	4.8%	2.5%
Bonds						
Gilts - All	ICE BofAML UK Gilt TR	GBP	0.8%	-3.5%	-3.1%	-17.0%
Gilts - Under 5 years	ICE BofAML UK Gilt TR 0-5 years	GBP	1.1%	-0.8%	-0.2%	-3.3%
Gilts - 5 to 15 years	ICE BofAML UK Gilt TR 5-15 years	GBP	1.3%	-3.5%	-2.1%	-13.8%
Gilts - Over 15 years	ICE BofAML UK Gilt TR 15+ years	GBP	-0.1%	-5.1%	-5.9%	-27.9%
Index Linked Gilts - All	ICE BofAML UK Gilt Inflation-Linked TR	GBP	-0.5%	-3.4%	-3.3%	-22.3%
Index Linked Gilts - 5 to 15 years	ICE BofAML UK Gilt Inflation-Linked TR 5-15 years	GBP	0.8%	-0.9%	1.5%	-10.6%
Index Linked Gilts - Over 15 years	ICE BofAML UK Gilt Inflation-Linked TR 15+ years	GBP	-1.8%	-6.1%	-7.5%	-32.6%
UK Corporate (investment grade)	ICE BofAML Sterling Non-Gilt TR	GBP	2.1%	-1.3%	1.0%	-7.7%
US Treasuries	JP Morgan US Government Bond TR	USD	-1.6%	-4.4%	-5.4%	-9.1%
US Corporate (investment grade)	BBgBarc US Corporate Investment Grade TR	USD	-0.8%	-3.0%	-3.2%	-6.6%
US High Yield	BBgBarc US High Yield 2% Issuer Cap TR	USD	1.4%	2.1%	6.8%	4.4%
Euro Government Bonds	ICE BofAML Euro Government TR	EUR	-0.2%	0.0%	1.9%	-8.7%
Euro Corporate (investment grade)	BBgBarc Euro Aggregate Corporate TR	EUR	1.1%	0.8%	3.3%	-3.4%
Euro High Yield	BBgBarc European High Yield 3% Constrained TR	EUR	1.1%	2.3%	5.6%	5.0%
Global Government Bonds	JP Morgan Global GBI	GBP	-0.9%	-4.4%	-5.0%	-9.6%
Global Bonds	ICE BofAML Global Broad Market	GBP	0.4%	-1.5%	2.0%	-3.4%
Global Convertible Bonds	ICE BofAML Global Convertibles	GBP	2.8%	6.7%	10.6%	8.4%
Emerging Market Bonds	JP Morgan EMBI+ (Hard currency)	GBP	0.7%	0.5%	-1.0%	-1.7%

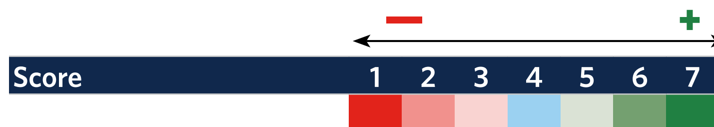
Asset Class / Region	Index	Local Ccy	1 month	3 months	YTD	12 months
Property						
Global Property Securities	S&P Global Property TR	GBP	3.1%	0.8%	-0.8%	-11.3%
Currencies						
Euro		GBP	-0.3%	-2.3%	-3.2%	2.1%
US Dollar		GBP	-1.1%	-2.1%	-5.7%	-5.1%
Japanese Yen		GBP	0.3%	-6.3%	-13.1%	-11.1%
Commodities & Alternatives						
Commodities	Rogers International Commodity (RICI) TR	GBP	6.8%	3.8%	-5.6%	-8.4%
Agricultural Commodities	Rogers International Commodity (RICI) Agriculture TR	GBP	2.7%	5.0%	-1.8%	0.6%
Oil	Brent Crude Oil	GBP	13.0%	5.2%	-6.3%	-26.4%
Gold	Gold Spot	GBP	1.3%	-3.4%	1.4%	5.3%

Interest Rates	Current Rate
United Kingdom	5.00%

Source: Bloomberg Finance L.P. , Momentum Global Investment Management. Past performance is not indicative of future returns.

June 2023

Asset allocation views



Score	Change	1	2	3	4	5	6	7
MAIN ASSET CLASSES	▲/▼/—							
Equities	▼			X				
Fixed Income	—				X			
Alternatives	—					X		
Cash	—				X			

Our Overall View

We have downgraded our outlook on equities in terms of our overall asset class weightings. The lack of depth in this year's market rally is a cause for concern with fears of a recession still high. Our fixed income view remains neutral due to higher rates and although the threat of a recession requires an element of caution with certain fixed income assets, good opportunities are still prevalent. Alternative assets remain a good diversifier of returns, especially favourable should market volatility increase.

Score	Change	1	2	3	4	5	6	7
EQUITIES	▲/▼/—							
Developed Equities	▼			X				
UK Equities	—						X	
European Equities	—				X			
US Equities	—			X				
Japanese Equities	—						X	
Emerging Market Equities	—					X		

Our downgraded view on equities is driven largely by a more challenging outlook for developed market corporates. Last year's aggressive rate hikes continue to show signs of pushing developed economies towards recession and there are concerns regarding complacency in risk markets. US equities in particular have shown a worrying lack of breadth in this year's rally. Valuations look positive in European equities, but the most compelling opportunities remain in the UK and Japan where valuations are still attractive.

Score	Change	1	2	3	4	5	6	7
FIXED INCOME	▲/▼/—							
Government	—				X			
Index-Linked	—				X			
Investment Grade Corporate	—				X			
High Yield Corporate	—			X				
Emerging Market Debt	—					X		
Convertible Bonds	—			X				

Rates remaining elevated so far in 2023 mean that bonds continue to provide attractive selective opportunities. Although rates remain high there are still concerns that the spreads offered today on investment grade and riskier high yield corporate bonds do not offer a suitable risk premium over safer sovereign bonds. The possibility of a recession and rising default rates suggest that an element of caution is necessary. We continue to prefer shorter duration bonds in both developed and emerging markets. Improving real yields and weak growth expectations have also improved the appeal of inflation linked bonds.

Score	Change	1	2	3	4	5	6	7
SPECIALIST ASSETS/ALTERNATIVES	▲/▼/—							
Commodities	—				X			
Property	—				X			
Infrastructure	▲					X		
Liquid Alternatives	—				X			
Private Equity	—						X	
Specialist Financial	▲						X	

Commodity prices are likely to be challenged against a slowdown in global growth. With expectations of a more turbulent period ahead in markets, alternatives continue to offer diversification benefits at attractive valuations after a period of poor investor sentiment. Discounts in NAVs in private equity continue to appear overly pessimistic while secular trends in infrastructure and specialist financials have boosted our outlook for both asset classes. Our liquid alternatives continue to offer attractive diversification benefits especially during periods of market uncertainty.

Score	Change	1	2	3	4	5	6	7
CURRENCIES vs. USD	▲/▼/—							
GBP	—					X		
EUR	—				X			
JPY	—					X		
Gold	—			X				

Against long term valuation metrics, Sterling and Yen continue to remain cheap relative to the Dollar. The Bank of Japan's ongoing policy of yield curve control policy holds the Yen back, for now. Recession expectations in the US and inflation in Europe could mean divergent rate expectations in support of the Euro. Gold's status as a haven asset has been beneficial in the face of recent market uncertainty and remains a good diversifier.

The asset allocation views are updated quarterly unless otherwise stated.

"With the recent rise in global rates, bonds now provide a more attractive opportunity"

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