



June 2023

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May 2023 Market Commentary

“Positive sentiment towards AI stocks helped some markets post positive returns, but others fell on the basis of negative economic data”

There was a mixture of returns within equity markets as positive investor sentiment for Artificial Intelligence (AI) stocks and robust survey data from the service sector boosted US, Japanese and some Asian indices. However, disappointing manufacturing survey data and falling commodity prices saw indices fall in the UK, Europe, China and Emerging Markets. Market volatility caused by the US debt ceiling negotiations subsided after it was clear a deal would be struck. Government bond yields continue to rise, which meant prices fell.



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United Kingdom

FTSE All Share: -4.63%

During May, UK equities fell. Furthermore, the Bank of England (BoE) announced a 12th consecutive monthly interest rate rise, with the rate going up to 4.5%. However, the bank also upwardly revised its growth forecast, shortly after which, it was confirmed that the UK economy had grown by 0.1%, in Q1 2023. This supported the view that the UK economy may avoid recession this year.

Inflation slowed less than expected, from 10.1% to 8.7%, in April. The consensus view from this data was that further rises in UK interest rates are expected to bring inflation down.

United States

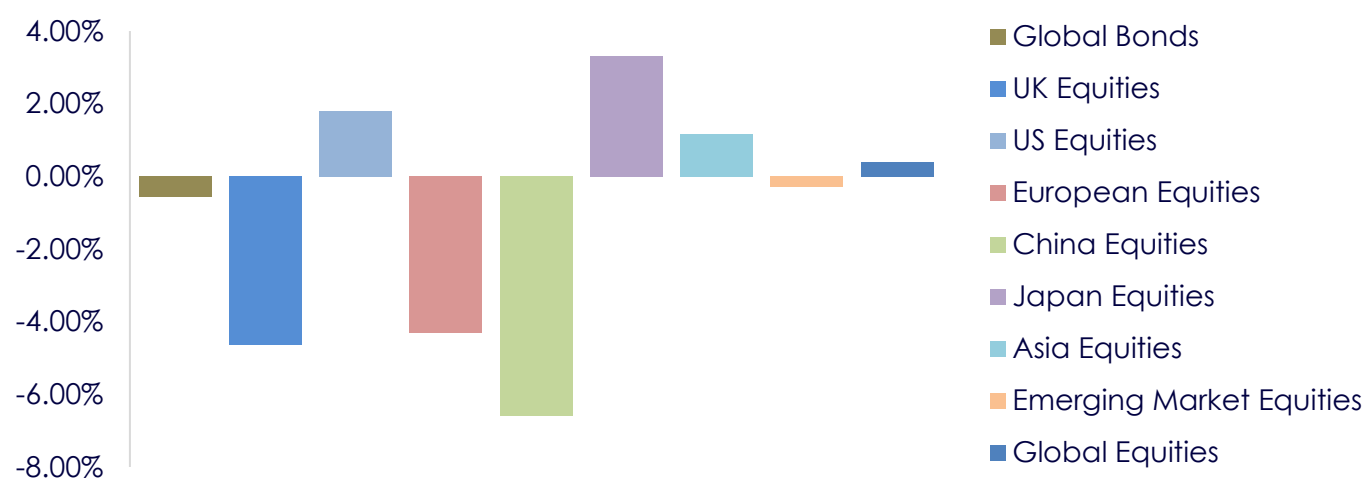
S&P 500: 1.80%

Discussions around the debt ceiling were the focal point for May. Democrats and Republicans eventually found a compromise and a deal was agreed to raise the country's borrowing limit. That said, US equities rose in May, albeit the returns were predominantly dominated by the technology sector. While

which was up slightly on the previous month.

As expected, the European Central Bank (ECB) raised interest rates by 0.25%. However, there were some signs of easing price pressures in preliminary data for May. Germany was among several countries reporting a drop in inflation. France also reported a slowdown in price growth, boosting hopes that Eurozone rate rises may soon end.

Discrete Monthly Performance as at 31/05/23



economic data remained broadly supportive, the prospect of a government default made investors jittery.

As expected, the US Federal Reserve (Fed) implemented another rate rise of 0.25%. Whilst this was anticipated, there was a slight but significant adjustment to the tone of the announcement as the Fed expressed uncertainty about future policy tightening and the need for it to retain flexibility.

Europe

FTSE Developed Europe ex UK: -4.31%

Eurozone equities were weaker in May after a generally positive 2023 so far, with investor sentiment being impacted by the revised German GDP figures, which showed that the economy was in recession after consecutive negative readings in Q4 22 and Q1 23.

Inflation in the Eurozone was 7.0% in April,

China

CSI 300: -6.60%

China was one of the weakest markets in May, as investor optimism faded, as economic data disappointed and demand weakened following the rally from the easing of Covid restrictions earlier in 2023. The economic recovery has been weaker than analysts had expected, as the latest factory activity reading contracted. Furthermore, whilst service sector activity is still positive, it expanded at the weakest pace in the year so far.

Japan

MSCI Japan: 3.30%

Japanese equities posted positive returns in May, partly aided by the weakening of the Japanese Yen which led to an inflow of foreign investors. The main beneficiary was the semiconductor industry, which enabled the Nikkei 225 Index to climb above a level that it

had not exceeded for 33 years.

Corporate earnings reports were solid, with many companies announcing an increase in dividends as well as further share buybacks. This trend was in response to recent initiatives by the Tokyo Stock Exchange.

Q1 GDP growth figures were positive, with solid domestic demand being driven by Covid-reopening and an increase in inbound tourism. Visitors to Japan continued to recover to 70% of pre-Covid levels, while tourist spending is also back to pre-Covid levels.

Emerging Markets

MSCI Emerging Markets: -0.29%

Emerging market equities underperformed a broader spectrum of global equities. South Africa was the weakest market, as investor sentiment was impacted by allegations that the country sold arms to Russia, the worsening energy crisis, and the Rand's slide to an all-time low against the US Dollar. The Arab nations of Kuwait, UAE and Saudi Arabia also underperformed as oil prices weakened.

Greece was the top-performing emerging market in May, as the ruling New Democracy party secured a 41% share of the vote in the country's national election. This better-than-expected outcome eased fears of a multi-party coalition. Another round of voting is scheduled for 25 June as the party's win did not give it a parliamentary majority.

Global Bonds

Bloomberg Barclays Global Agg: -0.57%

Government bond yields generally climbed during May. The US 10-year yield increased from 3.42% to 3.63%, and the UK 10-year yield saw the largest hike as it rose from 3.72% to 4.18%. However, Germany's 10-year yield decreased slightly from 2.31% to 2.27%.

The UK bond market underperformed the US and Europe, mainly due to the higher than expected inflation which meant further interest rate rises for longer than its developed market peers, especially as UK policy makers face the issue of a tight labour market and the resultant wage pressures this brings.

All investment involves risk. It is important you understand that past performance is not a guarantee of future performance. The value of investments and any income derived from them may go down as well as up and you might not get back the full amount you invested.

Cumulative Performance and Annualised Volatility as at 31/05/2023

	1 Year %	3 Years %	5 Years %	Volatility % ²
Global Bonds	-2.87	-13.61	1.22	6.74
UK Equities	0.44	33.90	15.18	14.39
US Equities	4.11	41.59	76.35	14.79
European Equities	7.39	31.99	35.22	14.76
Japan Equities	6.29	13.14	17.29	12.51
Asia Equities	-4.25	35.34	29.63	15.94
China Equities	-9.53	4.70	7.41	18.10
Emerging Market Equities	-6.94	10.51	3.84	14.51
Global Equities	3.79	36.28	56.20	13.88

Data source FE Analytics 31/05/2023. Indices used: Global Bonds: Bloomberg Barclays Global Aggregate, UK Equities: FTSE All Share, US Equities S&P500, European Equities: FTSE Developed Europe (Ex UK), Japan Equities: MSCI Japan, Asia Equities: FTSE World Asia Pacific (Ex Japan), China: CSI 300, Emerging Markets Equities: MSCI Emerging Markets, Global Equities: MSCI World. Volatility annualised over 5 years.

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