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Q2 2023 Market Commentary

“AI helped boost technology stocks and led global equity gains. But rising bond yields saw prices fall as inflation remains persistent”

Global equities gained in Q2 2023, with the advances led by developed markets, notably the US, where investor enthusiasm for Artificial Intelligence (AI) boosted the technology sector. However, emerging markets lagged behind.

Major central banks raised interest rates during Q2 2023, although the US Federal Reserve elected to “pause” their rises in June. Government bond yields therefore rose, and consequently prices fell.

United Kingdom

FTSE All Share: 0.99%

UK equities fell during Q2 2023, as weakness in commodity prices and concerns over the outlook for the Chinese economy impacted investor sentiment. The strength of the Pound versus the US Dollar also weighed on UK equities.

The Bank of England (BoE) raised interest rates twice. The 0.5 % increase in June represented a re-acceleration in rate hikes after the decision to slow the pace in March to 0.25% increments. This decision came following stronger-than-expected UK jobs market numbers, wage growth and persistently high inflation readings.



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Gilt yields in the UK approached levels last seen during the “mini Budget” crisis of autumn 2022, as investors contemplated the outlook for UK inflation. However, investors are hopeful that the BoE is able to tame inflation, despite the possible cost of triggering a recession.

United States

S&P 500: 3.89%

US equities were led higher by the Technology

Banks performed well as near-term earnings are expected to be strong in the wake of higher interest rates. The European Central Bank (ECB) raised interest rates twice in Q2 2023, taking the interest rate to 4.0%. However, inflation declined during the period from 6.1% in May to 5.5% in June.

GDP data of -0.1% in Q4 2022 and Q1 2023 showed that the Eurozone experienced a

Discrete Monthly Performance as at 30/06/2023



Sector as the fervour around AI and related technology grew. Furthermore, inflation moderated to 4% as energy prices declined and GDP growth was revised upwards to 2%, from an initial estimate of 1.3%.

The US Federal Reserve (Fed) raised interest rates by 0.25% in May. However, it “paused” this process in June, which has led to forecasts of two further rate rises before the end of 2023.

The US economy remains resilient, albeit the unemployment rate unexpectedly increased more than predicted from 3.4% to 3.7% in May.

Europe

FTSE Developed Europe ex UK: 2.43%

Financial and technology sectors led Eurozone equities higher in Q2 2023. The Technology sector was boosted by semiconductor stocks, which came in the wake of higher-than-expected sales projections from US chipmakers.

technical recession. Forward-looking forecasts also indicate slowing momentum in the Eurozone economy, with the composite purchasing managers' index (PMI) falling to 50.3 in June from 52.8 in May. This represented a five-month low and suggests the economy may be close to stagnation.

China

CSI 300: -2.63%

As the economic rebound post Covid-19 reopening cooled, Chinese equities were markedly lower in Q2 2023. Factory output in China has started to slow due to lacklustre consumer spending and weak demand for exports. Hong Kong shares prices also fell in the quarter, as a cooling of the Chinese economy weakened sentiment towards stocks too.

Japan

MSCI Japan: 1.48%

There has been strong upward momentum for

Japanese equities and the TOIPX index rose by 14.4% in local currency terms during Q2 2023. Other equity indices, such as the Nikkei, reached its highest level in 33 years. However, weakness in the Yen impacted the returns achieved in foreign denominated currencies. The gains have come amid ongoing investor expectations of corporate governance reforms and structural shifts in the Japanese macro economy.

The Bank of Japan (BoJ) held the first policy meeting under new governor Kazuo Ueda in April and the second in June. There was no change to policy and the BoJ maintained their cautious stance on the continuity between inflation and wage growth in the economy.

Emerging Markets

MSCI Emerging Markets: 1.19%

Emerging market equities delivered a small gain over Q2 2023. Shares in India achieved strong gains, driven by foreign inflows and steady corporate earnings growth. Equities in Taiwan advanced, driven by gains in

technology stocks as investors rushed to buy AI-related shares. Investor enthusiasm for AI-related stocks also boosted share prices in South Korea, which also ended the quarter in positive territory.

Central European emerging markets performed well in the index, as investors anticipate lower interest rates as inflation has eased. Kuwait and Qatar lagged the wider index as oil prices fell. South Africa was among the worst performers as the country's power crisis deteriorated, impacting its economic growth.

Global Bonds

Bloomberg Barclays Global Agg: -2.52%
Government bond yields rose again in Q2 2023. With the exception of the BoJ, all major central banks kept raising interest rates over the quarter. However, the Fed was the first to pause in June, after more than a year of consecutive rate increases. 10 year yields rose in the US from 3.47% to 3.81%, similarly Germany and UK yields rose from 2.31% and 3.49% to 2.39% and 4.39%, respectively.

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 30/06/2023

	1 Year %	3 Years %	5 Years %	Volatility % ²
Global Bonds	-5.74	-16.58	-1.67	6.83
UK Equities	7.89	33.19	16.54	14.39
US Equities	13.66	44.21	80.73	14.85
European Equities	18.47	28.93	38.11	14.78
Japan Equities	12.85	14.77	21.14	12.48
Asia Equities	4.01	25.19	32.69	15.88
China Equities	-22.70	-7.02	15.48	17.61
Emerging Market Equities	-2.80	4.11	8.77	14.43
Global Equities	13.21	37.19	60.30	13.93

Data source FE Analytics 30/06/2023. 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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