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Monthly Market Update

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"Interest rates are expected to stay higher for longer following resilient economic data, which led to a general decline in global equities"

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February 2023 Market Commentary

After the strong returns in January, global equities declined in February. Investors became concerned that the resilient economic data published during the month will mean that interest rates will continue to rise for the foreseeable future. The US Federal Reserve (US Fed), European Central Bank (ECB) and Bank of England (BoE) all raised interest rates in the month, which lead to bond yields rising and prices falling.

United Kingdom

FTSE All Share: 1.52%

The FTSE 100 Index achieved a new record high as UK equities held up well during February. The energy, healthcare and telecoms sectors performed well as they benefited from a period of renewed strength in the US Dollar as investors anticipated US interest rates rising further than expected. Companies in these sectors tend to earn a large part of their income abroad, thus, a strong US Dollar benefits them.

The UK economy also performed more resiliently than expected. The latest GDP data from the Office for National Statistics revealed that the UK economy had not contracted in Q4 2022 and therefore avoided a technical recession after the decline in GDP in Q3 2022.

The BoE has stated that it expects the country to fall into recession in 2023. However, it also said that the downturn should be shallower than predicted. The BoE also raised interest rates by 0.50%, however it noted that rates may have reached their peak.

United States

S&P 500: -0.84%

US equities fell in February as the US Fed indicated that policy intervention was starting to work on curbing inflation, but that interest rates may peak higher than previously predicted especially as US economic data remains robust. Members of the Federal Open Market Committee were almost unanimous in their agreement to slow the pace of interest rate rises to 0.25%, but conceded further rate rises may be needed to bring inflation under further control.

Inflation rose by 0.5% in January after falling the previous month. The increase was attributed to a rise in energy costs. Furthermore, Q4 2022 GDP was revised down, but was recorded at 2.7% per annum, which represents a strong reading and signs of a robust economy.

Europe

FTSE Developed Europe ex UK: 0.79%

Eurozone shares gained in February on the back of encouraging economic data. In particular, the Purchasing Managers' Index for February rose to 52.3 indicating the strongest expansion in business activity since May 2022.

The ECB raised interest rates by a further 0.50%, taking the interest rate to 3.0%. A further increase is expected in March. In January markets interpreted signs of easing inflation in January as meaning that the pace of interest rate hikes could soon moderate. However, the preliminary data for February indicated that inflation had ticked up again in both France and Spain, casting doubt on hopes of an end to interest rate rises.

China

CSI 300: -3.04%

There were strong declines in Chinese equities in February as geopolitical tensions escalated. However, some of the decline can also be attributed to some profit taking after the strong performance in January sparked by China's reopening.

Japan

MSCI Japan: -2.21%

As the Yen strengthened equities declined. Furthermore, Prime Minister Kishida's decision to nominate Kazuo Ueda as the Governor of the Bank of Japan (BoJ) surprised the market. Consensus had been that the role would go to Masayoshi Amamiya, the current Deputy Governor, who reportedly declined it.

Discrete Monthly Performance as at 28/02/2023

Economic data has been encouraging, especially as inbound tourism has recovered sharply with the number of foreign visitors in January back to 60% of the pre-Covid levels. Furthermore, strong demand boosted sales of retailers, hotels and services, which was demonstrated in the strong Q4 earnings results for domestic companies.

Inflation in Japan has continued to steadily increase, and was recorded at 4.3% the highest level in the last 40 years. To cope with this historically high inflation environment, the Japanese government and BoJ are pushing companies to raise wages at the annual wage negotiations in March.

Emerging Markets

MSCI Emerging Markets: -4.90%

Emerging markets were impacted by concerns over interest rates, the global economic slowdown, and a stronger US Dollar. This all led to equities in the region posting a negative return. Indian equities were particularly weak as Q4 2022 GDP growth came in lower than expected and domestic inflation remained high. South Africa was also behind the general index too as the country was 'grey-listed' by the Financial Action Task Force given the deficiencies in its processes to combat money laundering and terrorist financing.

Global Bonds

Bloomberg Barclays Global Agg: -1.69%

Global government bond yields were higher in February as the US Fed hiked interest rates by 0.25% following, strong economic data and markets concluded that interest rates would likely need to remain higher for longer.

The ECB also hiked interest rates by 0.50% and signalled a further 0.50% rise is due in March. The message was construed as dovish, given acknowledgement of the improving inflation profile from energy prices.

The 10-year government bond yields rose from 3.51% to 3.92% in the US and followed suit in Germany and the UK by rising from 2.29% to 2.65% and 3.34% to 3.71% 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 28/02/2023

	1 Year %	3 Years %	5 Years %	Volatility %2
Global Bonds	-4.24	-9.95	4.23	6.81
UK Equities	7.30	28.86	29.18	14.40
US Equities	1.79	46.67	77.08	15.15
European Equities	8.68	33.91	36.38	14.77
Japan Equities	0.52	16.71	14.14	12.62
Asia Equities	0.81	33.02	34.06	16.01
China Equities	-8.39	16.72	16.78	18.01
Emerging Market Equities	-6.11	8.60	3.58	14.56
Global Equities	2.70	40.04	58.75	14.15

Data source FE Analytics 28/02/2023. Indices used: Global Bonds: Boomberg 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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