



## September 2023

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"Global equities fell as concerns about the Chinese property sector and the future direction of interest rates impacted investor sentiment"



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## August 2023 Market Commentary

The deteriorating economic data from China and renewed concerns over the weakness of its real estate sector weighed on global equities, which subsequently fell over the month. Emerging markets notably under performed developed markets due to negative investor sentiment towards China. Government bond yields continued to rise meaning their prices fell. However, the yield rises were less than in previous months, and in actual fact, global bonds (government and corporate) overall, produced a positive return.

### United Kingdom

FTSE All Share: -2.50%

UK equities fell as concerns around the outlook for the Chinese economy and weakening domestic economic data weighed on investor sentiment. Inflation data was mixed, as whilst the rate moderated to 6.8%, concerns that it could become entrenched were reinforced by wages rising by 7.9%. The Bank of England (BoE) raised interest rates to 5.25% and warned that they would need to remain "sufficiently restrictive for sufficiently long" to help tame inflation.

Other economic data was also mixed. The UK economy grew by 0.2% in Q2 2023, beating the consensus expectation of zero growth, but the

forward looking indicators of economic activity deteriorated, as the Purchasing Managers' Index (PMI) fell below 50, indicating economic contraction. Furthermore, house prices fell, which meant that the consumer discretionary and real estate sectors both under performed.

## United States

S&P 500: -0.13%

Uncertainty about whether the US Federal

amount to no more than 0.1% of a bank's assets. Inflation eased to 5.3%, but the unemployment rate remained unchanged at 6.4%. This data led to uncertainty about whether the European Central Bank's would continue its recent policy of interest rate rises.

## China

CSI 300: -6.46%

Equities in China experienced sharp declines in

### Discrete Monthly Performance as at 31/08/2023



Reserve's (Fed) interest rate rising cycle has ended with the last rise in July surfaced, as it became apparent that Fed policy makers are divided on the next steps. This led to US equities falling as investor confidence was affected.

The unemployment rate rose to 3.8%, which exceeded the market projection of no change. This indicates that the labour market is cooling which may give the Fed greater ability to pause the interest rate rising cycle. However, inflation rose slightly to 3.2%, which means the future of policy direction remains uncertain.

## Europe

FTSE Developed Europe ex UK: -2.58%

Eurozone equities fell in August. Bank shares experienced heightened volatility after Italy announced a tax on banks' excess profits. However, they largely recovered after the government later clarified that the tax would

August, with the property sector performing particularly poorly as investors are concerned whether the administration will deliver sufficient stimulus to put the world's second-largest economy back on track. Although China's manufacturing data has improved, it still remains in contraction, pointing to continued weakness. The government has sought to boost confidence in the stock market by cutting stamp duty levied on share transactions and slowing the pace of initial public offerings in Shanghai and Shenzhen.

## Japan

MSCI Japan: -0.92%

In local terms, the Japanese equity market rose. However, when converted to other currencies it fell due to continuing weakness in the Yen. Speculation remains that the Japanese government may intervene to strengthen the Yen. The Bank of Japan (BoJ) made a policy adjustment which saw

government bond yields rise, but this had a negative impact on larger companies whose share prices fell.

Corporate earnings remain solid with a number of upward revisions to estimates. However, market sentiment has been weakened by political tensions with China, but also domestically as the popularity of the Kishida administration has declined, largely due to persistent inflation affecting Japanese households.

## Emerging Markets

MSCI Emerging Markets: -4.72%

Emerging market equities fell in August against a backdrop of deteriorating investor risk appetite. This mainly related to concerns that the US Fed will keep interest rates higher for longer, but also due ongoing weakness in the Chinese economy and concerns about their property sector. Emerging Markets underperformed global equities, with the majority of markets posting declines over the month.

## Global Bonds

Bloomberg Barclays Global Agg: 0.15%

The US credit rating was downgraded by ratings agency, Fitch, in August. They cited the growing debt burden and an "erosion of governance" as reasons for the decision. The US Treasury's subsequent announcement of its higher-than-expected borrowing intentions, led to the 10-year Treasury yield briefly rising to a 9 month high before retreating. Overall, the yield rose to 4.10%.

Although the Federal Open Market Committee did not meet during August, Fed Chair Jerome Powell spoke at the annual Jackson Hole symposium, noting further work needs to be done on bringing inflation down to its target.

In Europe, growth dynamics remained weak, as manufacturing activity continued to contract. Germany's 10-year Bund remained at 2.47%.

The Bank of England raised interest rates to 5.25% as expected, noting that higher interest rates were already working to slow economic activity. The UK 10-year gilt yield rose to 4.36%.

**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 31/08/2023

	1 Year %	3 Years %	5 Years %	Volatility % <sup>2</sup>
Global Bonds	-8.26	-12.57	-3.48	6.82
UK Equities	5.23	34.95	18.39	14.41
US Equities	5.92	40.65	69.33	14.72
European Equities	14.44	26.85	32.09	14.70
Japan Equities	5.87	18.44	19.54	12.50
Asia Equities	-3.78	22.57	26.80	16.00
China Equities	-17.78	-17.18	20.84	17.91
Emerging Market Equities	-7.02	1.33	7.70	14.68
Global Equities	6.16	34.62	53.09	13.88

Data source FE Analytics 31/08/2023. 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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