

# APRIL 2023

## MONTHLY COMMENTARY

So far in 2023, market attention and performance have revolved around key data releases. Following a subdued market sentiment in 2022, the introduction of optimistic data in the form of lower inflation figures has been driving market gains this year, and April was no exception to the pattern.

Despite the backdrop of ongoing stress in the banking sector, risk assets performed well during April. The US, eurozone and UK all posted better-than-expected performance in their Purchasing Managers Index (PMI) surveys posting figures north of 50. PMI figures above 50 are an encouraging indicator of economic expansion. As a bonus, Q1 GDP (Gross Domestic Product) figures from China surpassed expectations too.

Inflation, the unwelcome guest that continues to impose and drive market movements, brought some respite in April. Falling energy prices have helped to decrease headline inflation in major economies. This downward trend is expected to continue as OPEC (Organization of the Petroleum Exporting Countries) announced a production cut aimed at stabilising oil prices around \$80 per barrel. When compared to the high levels seen in 2022, this level will drag on headline inflation going forward, providing further relief.

For bond investors, markets were much calmer than the previous month with small movements in developed government yields; UK gilts lagged due to upside surprise inflation numbers. Globally, credit markets generated positive returns as spreads tightened in the recovery following recent events of Silicon Valley Bank and Credit Suisse and a slew of supportive earnings data. The Bloomberg Barclays Global Agg index returned  $\uparrow 0.44\%$ . Developed equities all gained in April: S&P 500  $\uparrow 1.56\%$ , MSCI UK  $\uparrow 3.60\%$ , MSCI World  $\uparrow 1.80\%$ . Gold edged up in April, benefitting from its safe-haven status, following the continued market uncertainties.

## UK

Equity markets increased over the month led by financials recovering from the latest fears sparked over the pond by US regional bank stress. Energy companies were also the benefactor of oil price recovery after Saudi Arabia announced cuts to oil production.

PMI data is made up of the services and manufacturing sectors. In the UK, the divergence between the two sectors grew over April, with a resilient services sector posting 55.90 and a struggling manufacturing sector figure of 47.80 leading to a composite PMI of 54.90 which is typical of an expanding economy.

The Bank of England's inflation target remained unachieved coming in at 10.1% for March versus a target of 9.2%. Furthermore, core inflation (with the more volatile numbers of energy and food stripped out) was stubbornly unchanged between February and March even though headline inflation decreased on the back of falling energy prices. With strong wage data doing little to alleviate fears that inflation is under control, the possibility of future rate hikes seeped into expectations.

## US

In the US, optimism surrounding the nearing suspected pivot in hiking policy from the Fed (Federal Reserve) was soured by concerns over the ongoing uncertainty in the banking sector. The collapse of First Republic, the largest US casualty triggered by the current banking stress, led to its acquisition in a deal by the US government and JP Morgan. Although US bank equities embraced the result, questions remain over the impact of the regional bank crisis to future growth, especially when considering these banks play a crucial role in providing leverage in the US economy.

The US debt ceiling, which sets a limit on borrowing, is set to be reached in June. Concern mounted in April over what could happen if there is a failure to raise or suspend it including loss of credit worthiness, economic turmoil, higher borrowing costs, market instability and potential job losses. Discussions froze leading to an unprecedented steepness in the Treasury Bill yield curve. This merely highlights the deep concern over the political deadlock that could feed into spending cuts in the future.

All eyes were on the labour market numbers, which have consistently proven to be a source of economic strength further fuelling the fed's ability to pursue aggressive interest rate hike policies. March figures brought signs of cooling in this space with wage growth softening despite a decrease in the unemployment rate. Looking ahead to May, most market participants are expecting a further 0.25% hike from the fed and then a short pause with rate reductions expected before the end of the year as inflation should come under control and attention turns to weakening growth. PMI data for the US was positive, posting a figure of 53.40 with both services and manufacturing coming in above 50.

### EUROZONE

Performance was mostly strong in Europe as corporate earnings showed resilience tempered by wobbles in the IT sector as semiconductor companies' guidance warned of continued demand slowdown. An issue which is not isolated to just European semiconductor companies but reflected globally.

Mirroring the UK, the PMI data in the eurozone illustrated a growing divergence between the services sector (56.20) and the manufacturing sector (45.80), but the overall composite was promising at 54.10. Core inflation showed a stubborn increase, even as headline inflation fell due the falling energy price impact, strengthening the European Central Bank's basis for further rate hikes this year.

Overall, economies demonstrated their resilience in April. However, the impact of global central bank tightening, an impending US debt ceiling, as well as a regional bank crisis in the US is still left to be fully understood and, perhaps, priced in. Diversification and risk management will be key for managing portfolios in this environment.

The material is provided for informational purposes only. No news or research item is a personal recommendation to trade. Nothing contained herein constitutes investment, legal, tax or other advice. Copyright © London and Capital Asset Management Limited. London and Capital Asset Management Limited is authorised and regulated by the Financial Conduct Authority of 12 Endeavour Square, London E20 1JN, with firm reference number 143286. Registered in England and Wales, Company Number 02112588. London and Capital Wealth Advisers Limited is authorised and regulated by both by the Financial Conduct Authority of 12 Endeavour Square, London E20 1JN, with firm reference number 120776 and the U.S. Securities and Exchange Commission of 100 F Street, NE Washington, DC 20549, with firm reference number 801-63787. Registered in England and Wales, Company Number 02080604. London and Capital Wealth Management Europe A.V., S.A. registered with the Commercial Registry of Barcelona at Volume 48048, Sheet 215, Page B-570650 and with Tax Identification Number (NIF) A16860488, authorised and supervised by the Comisión Nacional del Mercado de Valores ("CNMV"), and registered at CNMV's register under number 307 (<https://www.cnmv.es/portal/home.aspx>).