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MONTHLY COMMENTARY

2023: MARKET RETURNS SO FAR

With the month of June now behind us we look back at the first half of 2023 and how markets have behaved.

On the back of a difficult year in 2022, equity returns have certainly rewarded loyal investors so far. Developed equity markets are up: MSCI World is up +15.4% with regional postings of S&P 500 +16.9% in the US and MSCI UK +2.5%. Specifically, mega cap 'tech like' growth stocks have continued their outperformance on the back of Artificial Intelligence optimism with the top 9 names of the S&P 500 accounting for 74% (12.6%) of the 16.9% return (you can read more about the narrowness of equity returns in the S&P 500 index here). June, itself, brought signs of a broadening in equity performance, perhaps signalling an end to the narrowness in equity returns as the same names represented only 32% of the overall gain.

For bond investors, the first half the year has been more challenging with the Bloomberg Global-Aggregate index returning a muted +1.43%, as prices reflected the changes in interest rate expectations. Commodities, top of the class last year, have lagged the market returning -10%.

After a long-anticipated counteroffensive from Ukraine, Putin faced challenges at home with a rebellion of a subset of The Wagner Group, a paramilitary organisation threatening military leadership and advancing to Moscow. China-US tensions seemingly softened after U.S. Secretary of State Antony Blinken's visit to speak with Chinese President Xi Jinping. This is the first U.S. Secretary of State to visit China since 2018 and it was previously scheduled for February before the trip was abruptly postponed after the U.S. military shot down a suspected Chinese spy balloon. At the OPEC+ (Organisation of the Petroleum Exporting Countries) meeting, Saudi Arabia announced additional oil production cuts in an effort to boost prices leading to a 3.2% increase in Brent crude.

US

In the US, the inflation story is increasingly looking more likely to have a fairy tale ending after the nightmares of last year. CPI (Consumer Price Index) data released for May reported just a 0.1% increase for the month, and 4% annually which was the smallest annual increase since March 2021. Early signs of a weakening labour market were visible in a higher-than-expected unemployment rate of 3.7% compared to expected 3.5% level. Despite this uptick, the jobless rate remained at historically low levels, reflecting that the labour market remains tight. Other positive economic signals of supportive consumer sentiment and durable goods orders showed signs of strengths.
After a continuous period of 15 months, the Federal Reserve paused on rate hikes. A pause that has been referred to as a "hawkish pause" given the updated dot plot paved the way for two additional 0.25% hikes later in the year.

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UK

In the UK, inflation remains a persistent issue with CPI holding steady at 8.7% in May coming in higher than the market expectations of 8.4%. The Bank of England (BoE) responded by raising interest rates for the thirteenth consecutive time, implementing a 0.5% hike to reach 5%. This move aims to tackle both high inflation and alleviate the cost of living crisis. The new interest rate marks a 15-year high, and markets are now predicting that there will be at least four more rate hikes by the end of the year.

EURO ZONE

Inflation in the euro zone declined again for a third month to 5.5% year-on-year from 6.1% in May and coming in slightly lower than many expected. Comments from ECB (European Central Bank) President Christine Lagarde acknowledged that although “significant progress” has been made to fight high inflation, policymakers “cannot declare victory yet”, suggesting that future interest rate hikes remain on the table whilst upcoming data continues to be released.