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JULY 2023
MONTHLY COMMENTARY

During the month of July, financial markets shifted their attention towards economic fundamentals with particular focus on inflation, global growth and second quarter company earnings.
Global equities as measured by the MSCI World finished up 3%, while global bonds as measured by the Bloomberg US Aggregate index rose 1%.

In the US the resilience of the economy continued to surprise on the upside. June annual headline consumer price inflation (CPI) came down sharply to 3% from 4% in May. The closely watched core CPI which strips out food and energy remained sticky at 4.8% versus 5.3% in May. Key drivers were a fall in energy prices and airline fares, but shelter costs remain elevated.
US jobs growth numbers appeared to be cooling with non-farm payrolls adding 209,000 jobs for the previous month and the growth numbers for April and May were also revised down. The unemployment rate remains at a multi decade low falling back to 3.6% after a rise in May. Wage inflation remains strong at 4.4%.

Even with falling inflation and softening jobs growth the US Federal Reserve (Fed) pressed on with a 0.25% hike taking deposit rates to 5.25-5.5%. This perhaps isn't surprising considering the inflation target is 2% and unemployment levels are still too low. Furthermore, leading indicators of growth such as the manufacturing purchasing manager's index remain below the 50-level indicating contraction for the US economy ahead.

That aside, the recessionary risks in the US have softened with supporting data from the US second quarter GDP (Gross Domestic Product) coming in better than expected, and consumer sentiment remaining bullish near term.
Additionally, second quarter company earnings were in full swing with big tech names such as Microsoft and Google broadly in line with expectations and providing a cautious but optimistic outlook.

In the UK, inflation remains stubborn although the recent print of 7.9% in June came in lower-than-expected versus 8.7% the prior month. The housing markets appears to be cooling, although mortgage approvals were the highest level since October 2022 even with high costs of funding.

In Europe inflation slowed 5.3% in July with core inflation higher at 5.5% reflecting the price pressures of the region. On a more positive tone the Eurozone grew 0.3% in the second quarter.
In China growth continued to underperform with the economy growing 0.8% versus the prior quarter and at 6.3% on an annualised basis (forecast for 7.3%). Domestic and international demand continues to wane, compounded by worries about elevated youth unemployment and the property market, further intensifying the problem.

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Global equities continued their trend upwards. This year, names such as Microsoft, Apple, Nvidia, Amazon and Google have contributed to over 70% of the S&P 500 index performance (the index is up 21%). The key driver has been the buzz around artificial intelligence (AI) with language learning models such as Chat GPT (part owned by Microsoft) & Bard (Google owned) being the key players.

A rotation back into cyclicals over defensives and tech appeared to be in progress. Energy was the strongest performer up 7% on increased Chinese demand for oil and supply cuts by Saudi Arabia and Russia. Financials were up 6% on improving balance sheets and recovery in regional banking stocks while laggards were defensive sectors such as utilities and consumer staples.

Treasury bond volatility continued with increased sensitivity across the US government bond yield curve. Initially yields rose and fell sharply again on the positive US inflation data. 10-year yields rose from 3.76% to 4.02%. While at the front end the yields were broadly unchanged sitting at 5.6%.
Within commodities, WTI Crude and Brent crude rose 16% and 14% respectively for the month. Copper also improved rising 6%. Corn futures fell on the US government's view of ample supply in the commodity. However, withdrawal of Russia from the Black Sea grain initiative is expected to create volatility in the grain market. Overall, the global food price index was up 1.3% in June on rising prices for vegetable oils and a significant decline in sugar price index.

Cable, the slang term used for the price of British pound (GBP) against the Dollar (USD), sat at 1.28 after the GBP appreciated circa 2.5% against the USD in the month.

There appears to be a growing consensus particularly at the Federal Reserve that the US economy will avoid a recession. However, while inflation has come down materially the 2% target has not been reached meaning a further rate hike is likely. Furthermore, the lagged effects of the rate hikes are still to be felt by the US consumer.

The London & Capital mantra of high-quality investments shines ever brighter. Our asset allocation for multi asset balanced portfolios is defensive with an overweight to fixed income versus equities. Bond yields are extremely attractive, and our focus is on major corporations and systematically important financial institutions while our equity exposure focuses on high quality global brands with resilient cash flow generation across defensive sectors and structural growth sectors.