HYMANS ROBERTSON

Flash stats

Q2 2023

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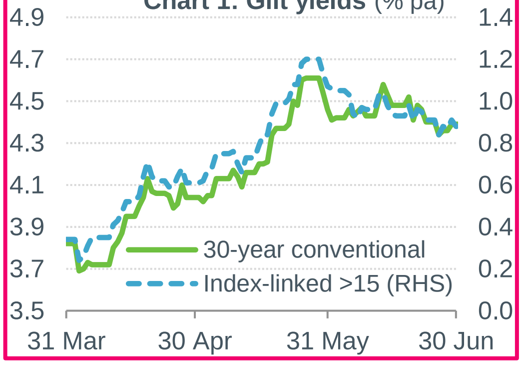
Global equities rose over the quarter; buoyed by better-than-expected earnings and AI-inspired optimism around the technology sector. Meanwhile, bond markets recorded losses as sovereign bonds yields rose on the back of expectations of higher-for-longer interest rates being needed to quell persistent inflationary pressures.

Sterling returns (%) to 30th June 2023

		3 mths	12 mths			3 mths	12 mths
EQUITY INDICES				**STERLING BOND INDICES**			
Global	*FTSE All-World*	3.4	11.7	Gilts (All)	*FTSE*	-5.4	-14.5
UK	*FTSE 100*	-0.3	9.1	Index-linked (All)	*FTSE*	-6.6	-17.0
	FTSE All-Share	-0.5	7.9	Corporates (All)	*iBoxx*	-3.3	-6.1
US	*S&P 500*	5.8	14.2	**MODEL PORTFOLIOS**			
Japan	*TOPIX*	2.5	12.9	70% equity		0.0	4.2
Europe ex UK	*FTSE Dev Europe*	0.6	19.4	50% equity		-1.2	0.3
Emerging	*FTSE Emerging*	-1.9	-3.2	30% equity		-2.4	-3.6

- Consensus forecasts for 2023 global GDP growth saw further upwards revisions in Q2, given unexpected resilience in labour markets and consumer spending. Nonetheless, with higher interest rates likely to weigh on consumer and business activity in the second half of 2023 and into 2024, growth forecasts remain relatively weak.
- Elevated inventories and weak global goods demand continue to bear down on the manufacturing sector. Meanwhile, consumer spending on services has been strong, supported by both the strength of labour markets and further drawdown from excess pandemic savings, which is now more focussed on services than goods. However, services growth has also started to slow, and June's composite PMI data suggest the recent upturn is easing, particularly in the eurozone.

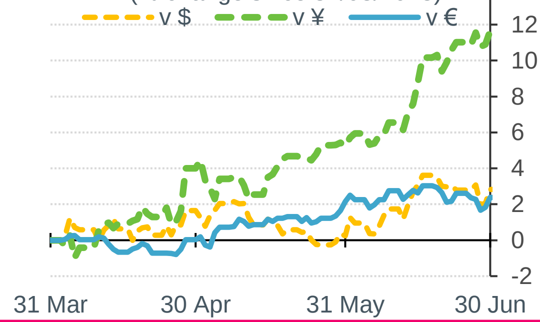
Chart 1: Gilt yields (% pa)



- Headline CPI inflation has continued to fall in the major advanced economies but remains well above central bank targets and core inflation, which excludes volatile energy and food prices, is proving more persistent.

- UK inflation data has been particularly disappointing, with headline CPI inflation remaining at 8.7% year-on-year in May and core inflation accelerating from 6.8% to 7.1%. Equivalent CPI inflation in the US and Eurozone fell to 4.0% and 6.1% in May, but core inflation registered smaller declines, easing slightly to 5.3% year-on-year in both regions.

Chart 2: Sterling exchange rates
(% change since 31/03/2023)



- Against this backdrop, the Bank of England (BoE) raised rates by 0.75% pa in Q2, to 5.0% pa, including a surprise 0.5% pa increase in June. The US Federal Reserve raised rates by 0.25% pa, to 5.25% pa, in May; pausing in June to evaluate the impact of prior tightening. The European Central Bank increased their deposit rate 3.5% pa Expectations of a shift to rate cuts evaporated over the quarter and rates are now expected to remain higher-for-longer across the major advanced economies.

- UK gilt yields surged as disappointing inflation data was compounded by heavy issuance and BoE gilt sales. UK 10-year gilt yields rose sharply by 0.8% pa to 4.4% pa, while US yields rose 0.2% pa to 3.8% pa, and equivalent German yields rose 0.1% pa, to 2.4% pa UK 10-year implied inflation, as measured by the difference between conventional and inflation-linked bonds of the same maturity, was unchanged at 3.6% pa, as real and nominal yields rose by similar amounts.

- The UK investment-grade credit market experienced negative total returns as the rise in underlying gilt yields more than offset a fall in credit spreads. Global investment-grade credit spreads decreased by 0.1% pa to 1.4% pa, and global speculative-grade credit spreads decreased by 0.5% pa to 4.5% pa, benefiting from steady economic growth, reduced pressures in the US banking sector, and a technical tailwind from low net new issuance.

- The FTSE All World Total Return index rose 6.7% in local currency terms in Q2. Japanese equities strongly outperformed, extending their year-to-date outperformance, as the exporter-heavy index benefitted from Yen weakness. North American equities also outperformed, given their disproportionate exposure to the technology sector, which outperformed on optimism around the impact of AI adoption on future earnings. Disappointing Chinese activity data dragged down emerging markets and Asia Pacific ex-Japan. The UK was the worst performing region, as the basic materials and energy sectors, to which the UK has above average exposure, underperformed on the back of commodity price declines and global manufacturing weakness. Sterling strength also weighed on the UK index, given the high proportion of overseas earnings in the index.

- In aggregate, UK commercial property values, as measured by the MSCI UK Property Index, had fallen by over 20% in the 12 months to end-May. Capital values have stabilised in recent months, with a modest rise in the retail and industrial sectors, although office values continued to decline in May. Alongside income, this led to a modest positive total return from the market over the quarter to end-May.

Chart 3: Q2 Regional equity returns
FTSE All-World Indices (%)

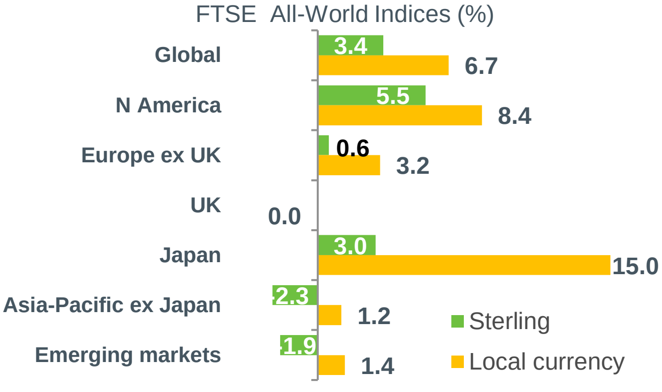
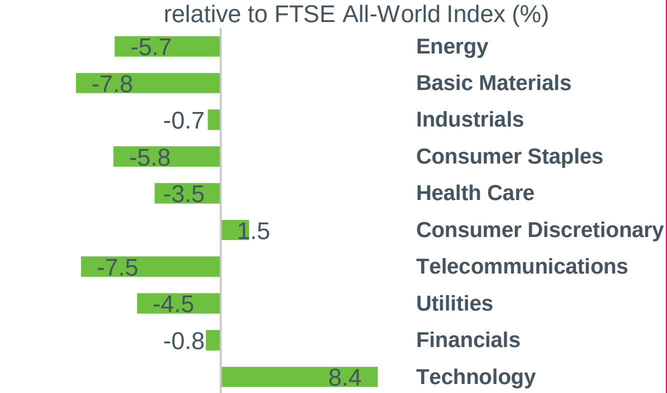


Chart 4: Q2 global sector performance
relative to FTSE All-World Index (%)



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