



## Market review: April 2023

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- Investor sentiment stabilises in April after the jitters around the financial sector
- Data pointing to resilient economies helped developed market equities deliver positive returns, although emerging markets and Asia saw moderate declines
- Central banks' monetary policies remain a key focus for investors

**Investor sentiment stabilised in April after the jitters around the financial sector in March and data pointing to resilient economies helped developed market equities deliver positive returns, although emerging markets and Asia saw moderate declines.**

Fixed income also delivered mixed results, led by investment grade and US high yield bonds, although central banks' fight against inflation remained firmly on investors' radars, especially in Europe, where yields rose on government bonds.

### Mixed earnings in the US

The US looked further ahead than other developed markets in terms of tackling inflation. Falling energy prices reduced pricing pressures and latest data showed headline inflation was 5.0% in March, although core inflation, which excludes energy and food prices, rose to 5.6% in April. There was no Federal Reserve meeting in April but a 25-basis-point hike in May was widely expected.

The US Q1 earnings season was mixed: the financials sector started with some leading names such as JPMorgan and Bank of America beating estimates, while some other institutions faltered. In the technology sector, Tesla announced its worst gross profit margin in 13 quarters on weakening demand and semiconductor companies pushed back expectations for a market recovery. But technology giants Meta, Microsoft and Alphabet all delivered strong results.

Although business survey data was positive, new data from Moody's showed the impact of higher interest rates. The ratings agency said that corporate defaults in the US doubled to 20 in Q1, and that slowing economic growth and limited market liquidity could spur more defaults among lower-rated debt issuers in the months ahead.

### Outlook raised on European equities

Economic data surprised positively in the eurozone, with GDP rising by 0.1% on the quarter, although manufacturing was substantially weaker than the service sectors. Falling energy prices also helped drive down headline annual inflation, which fell to 6.9% in April versus 8.5% in March. Core inflation rose slightly, however, from 5.6% to 5.7%, highlighting the task still facing the European Central Bank and pushing European government bond yields higher. European equities were among the leaders in developed countries, however, and we raised our outlook on them in Q1. Europe is most at risk from the Ukraine conflict and parts of the eurozone have been heavily reliant on Russian energy supplies. Arguably, the region's equities have been impacted disproportionately now, but we remain neutral towards them.

## **UK equities outperform**

The UK continues to face the severest inflation challenge among developed nations. Headline inflation remained in double digits in April at 10.1%, having declined from 10.5% the month before thanks to fuel costs falling. Core inflation remained persistent at an annual 6.2%, the highest among developed regions. This reinforced higher-for-longer expectations of interest rates and pushed gilt yields higher, although the UK's stock market led the way higher among developed nations, thanks to its greater exposure in value-style equities. The UK is one of the regions to which we are most favourable for equities, including small caps. It remains a cheap market despite outperforming other developed regions in 2022.

One fund manager thought the Q1 UK earnings season had been reassuring. He said: "The more economic sensitive businesses such as the recruiters and consumer discretionary have seen a slowdown. But to some degree that was already reflected in their valuations. So the share price reactions have been OK in those names. I do think that the valuations of these businesses are interesting for long-term investors who can see through the cycle."

## **New governor takes up role at BoJ**

Japan's equities received an unexpected PR fillip in April on news that Warren Buffett visited Tokyo with a view to expanding his investments there. At present, we are neutral on Japan, however, having become less favourable towards it in recent quarters. It depends heavily on exports, so softening global growth could be problematic for it, although the weak yen could provide some support here.

The new Bank of Japan (BoJ) governor, Kazuo Yueda, also took up his role in April and his first board meeting took the first step towards unwinding its ultra-loose monetary policy by scrapping a key part of its forward guidance. He announced a review of the BoJ's policies but refrained from changing its yield curve control measures. Japan's headline inflation rate reached a 41-year high of 4.3% in January, partly due to higher cost of imports on yen weakness.

## **Data confirms China recovery**

The two worst-performing equity regions in April were Asia ex-Japan and emerging markets. As much as Q1 GDP data for China confirmed the country's recovery after lifting its Covid restrictions, Chinese equities were weakened by geopolitical tensions with the US and declined overall during the month. An emerging market equities fund manager said he has changed how he prices Chinese and Taiwanese stocks – increasing the cost of equity – compared to last year because of the geopolitical risks. An Asian equities manager also observed that international companies are now willing to pay a premium to incorporate non-Chinese technology into their own products.

Although the latest data indicated China was on track to meet or exceed its 5% economic growth target this year, commentators did warn there are pitfalls. China's property sector is still riven with problems, including liquidity issues, while unemployment, especially among youths, remains high.

We maintain a positive outlook on Asian and emerging market equities. Both regions are benefiting from loose monetary policies and, for some countries, links to commodities. But for Asia, a lot will depend on how China supports its economy in the coming months.

## **Uncertainty keeps markets in check**

Although global financial markets have made a good start to 2023, the mini-banking crisis in March was a reminder to investors that the world economy is still vulnerable to upsets and there is still uncertainty ahead this year. But the uncertainty that keeps markets in check now may one day be seen as having created opportunities for investors who took a long-term view and diversified their portfolios. It is the discipline and patience that a long-term process brings that provides the perspective to look for opportunities through the short-term noise.

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