

Introduction

April was a positive month for global economies as economic data demonstrated resilience against high interest rates and strong inflation. Some major developed countries are starting to see the impact of the interest rate hikes, with inflation beginning to fall in the US and Eurozone. Whilst falling energy prices have helped these markets, the UK is yet to see the impact of this due to a lag from the energy price cap.

Markets

Developed markets had a strong month in April with the UK FTSE All-Share returning 3.4%, followed by Japan TOPIX at 2.7%. Europe and the US also posted positive returns of 2.3% and 1.6% respectively. Conversely, Emerging Markets and Asia ex-Japan returned negative results for the month. Globally, bond markets had a relatively neutral month; investment grade performed best at 1.2% whilst European Government bonds fell by 0.1%.

UK

In the UK, economic data demonstrated that inflation has remained stubbornly high with the latest result of 10.1% (down from 10.4% previously). Core inflation has remained level, proving that true disinflation is yet to be seen. Purchasing Managers Index (PMI) results have shown a disconnect between services and manufacturing, with manufacturing dropping further at 47.8, indicating a recessionary environment, whilst services increased further above 50.

In terms of the markets, the UK performed well with the FTSE 100 achieving growth of 3.1% and the FTSE 250 returning 2.6%. This was largely driven by financials and global energy groups.

Europe

As with the UK, European PMI data showed conflicting results with manufacturing under 50

(showing signs of contraction) whilst services continue to increase. Whilst the sectors demonstrated differing views, GDP in the Eurozone increased by 0.1% over the previous quarter.

Headline inflation in Europe has started to fall (down 1.6%), but core inflation increased over the month. Markets are expecting the European Central Bank (ECB) to continue with the rate hikes over the following months.

US

Economic data from the US supported a strong economy, with both the unemployment and inflation rates falling in the month. The Federal Reserve Bank (FED) has continued to increase interest rates, but the market consensus is that the end of rate hikes is near, as the impact on inflation is starting to take effect. The FED is aware of the challenge that lies ahead; balancing interest rates with the risk of recession, and they have issued a warning about growth softening.

In terms of market performance, the NASDAQ-100 gained 0.5% whilst the S&P 500 achieved 1.6%.

Japan

The Japanese TOPIX returned strong results for April with growth of 2.7% (in local currency). The Yen weakened following the first Bank of Japan meeting under its new Governor. Inflation remains at a historical high, alongside wage growth.

Asia

Asian economies had a challenging month in April with China leading with a weak index market (5% down) despite positive economic growth in the first

quarter of 2023; this is likely to be due to the ongoing geopolitical tensions.

Outlook

Our outlook remains unchanged in the face of current economic conditions. Whilst inflation is beginning to fall in certain economies, we are expecting that inflation is here to stay and will remain stubbornly high for the foreseeable future.

As inflation begins to ease, banks will, more than likely, consider interest rate decreases in order to manage economic slowdown. As it stands today, we expect there to be a slowdown, but the extent is uncertain. Fixed income assets are behaving in a manner that demonstrates the expectation of a recession, but the equity markets so far seem unperturbed.

As portfolio managers, we aim to be aware of these risks, and tailor the portfolios as needed to react to market events. We continue to look for opportunities as they arise, whilst closely monitoring risk and return to ensure that we are achieving our aim of risk adjusted returns for our clients.