FlyingColours

Portfolio & Market Update

August 2023

Introduction

Following a favourable July, August proved to be a more challenging environment as equity markets performed negatively. Emerging markets remained under pressure due to worsening Chinese economic sentiment.

Although there were no major central bank meetings during August, it was a busy month for monetary policy. At the Jackson Hole symposium, Federal Reserve Chairman J. Powell alluded to the possibility of needing to further increase interest rates to combat inflation. In Europe, minutes from the last European Central Bank (ECB) meeting revealed a unanimous agreement in favour of prioritising higher interest rates over economic growth.

Markets

August presented a formidable challenge for global equity markets. The S&P 500 managed to eke out a meagre 0.13% return for the month, while the FTSE 100 showed a loss of 2.5% and the EuroStoxx 50 a gain of 3.88%, both lagging significantly behind the US market. Emerging markets bore the brunt of negative performance, with a loss of 4.77%. Meanwhile, the pound weakened against the US dollar due to the Federal Reserve's more hawkish stance on interest rates.

UK

August brought unfavourable outcomes for UK markets, with the FTSE 100 yielding a loss of 2.5% . Inflation, though gradually decreasing, remained high at 8.2% year-on-year, which is fueled by robust wage growth. The Bank of England initiated an interest rate hike of 0.25%, signaling expectations of potentially further increases given the persistent inflationary pressures. Within the Bank of England, a consensus began to form that more decisive measures are needed to rein inflation.

Europe

Europe faced disappointment in August as inflation data showed a slower decline than anticipated. Simultaneously, various economic sentiment indicators continued their downward slide, suggesting a deeper economic slowdown. An influx of negative news weighed down equity markets, with the Stoxx 50 experiencing a loss of 3.88%, primarily driven by cyclical sectors like technology, industrials, and consumer discretionary, while defensive sectors provided some buffer.

US

The S&P 500 registered a minor setback with a loss of 0.13%, driven by headwinds in large-cap stocks, particularly in the technology, telecommunications, and energy sectors. US economic data revealed a robust economy, with a 2.1% quarter-on-quarter growth rate and lower-than-expected inflation. However, after a strong first-half performance, data revisions and misses on consensus estimates began to emerge. While the Federal Reserve (Fed) increased rates by 0.25% in July, market expectations suggested the central bank might be approaching the end of its rate hike cycle. The Fed's future rate decisions will hinge on data outcomes, though analysts anticipate a prolonged period of elevated interest rates before any potential decrease.

Japan

Japan experienced mixed results, with a robust rebound of 6% quarter-on-quarter, indicating a potential exit from its prolonged deflationary phase. The Core Consumer Price Index stood at around 4.3%, and wage negotiations were expected to result in one of the largest increases in decades. Consequently, the Japanese Index exhibited resilience in Asia, recording a modest loss of 0.59%.

Asia & Emerging Markets

Concerns regarding China persisted in August, with deflationary signals and declining confidence. Efforts to bolster confidence proved unsuccessful, failing to prevent the MSCI Emerging Index, largely dominated by China, from falling by 4.72%.

Fixed income

Even in the context of weaker equity markets, fixed income investments failed to offer the customary level of protection, primarily due to the recognition that interest rates needed to rise to combat inflation. As a result, UK Gilts delivered a loss of 0.44%.

Outlook

Our outlook maintains the expectation of declining inflation across all regions, though at varying paces. We remain vigilant for potential economic slowdowns in the coming months and closely monitor market developments. Central banks face the challenging task of balancing inflation and economic growth.

At Flying Colours, our commitment is to continuously review the economic landscape and market signals to safeguard the best interests of our clients. Our portfolios are designed for long-term investment, prioritising the management of long-term risk over short-term trends that may prove costly for our investors. Our objective remains to achieve carefully managed, risk-adjusted returns, which are aligned with our investment philosophy.