

## Introduction

After the success of June, July followed in a similar vein with all equity regions returning positive results, although weaker than last month. Unlike previous periods, emerging markets had a successful month and outperformed developed markets; market sentiment drove risky equities higher and small-cap stocks achieved a return of 4.9%.

After the Federal Reserve (FED) paused its rate hike regime last month, in July they increased interest rates by 0.25%, and the European Central Bank (ECB) and Bank of England (BoE) also followed with the same increases.

## Markets

July demonstrated good results globally. The US led growth with the S&P 500 returning 3.21% over the month. The growth of the FTSE 100 and EuroStoxx 50 was behind the US market, but still returned 2.35% and 1.77% respectively (in local currency terms).

## UK

The UK markets achieved positive results in July with a return of 2.6% for the FTSE All-Share. The latest data results show that inflation is decreasing but remains sticky as wages grew by 7.3% year-on-year.

The BoE moved to increase interest rates by 25 basis points again and further increases are expected as inflation is not yet moving downward at a sufficient rate. Markets are now expecting a peak of 5.75%, which is lower than the 6% that was predicted last month.

## Europe

July provided the Euro zone with some economic respite as inflation decreased, and GDP marginally increased. This improved economy helped the Eurostoxx 50 return

1.77%, led by real estate and energy. The ECB increased interest rates in line with other central banks, with the target rate now at 3.75%. Conversely, the manufacturing Purchasing Managers Index (PMI) continued to fall, with the latest data coming in at 42.7 (less than 50 demonstrates signs of contraction).

## US

The S&P 500 led global markets with a return of 3.21% in the month. The strongest results were seen in the energy sector, alongside larger tech companies. Data released in the US demonstrated a strong economy as results showed higher growth (2.4% quarter on quarter) and lower inflation than expected. Whilst the FED raised rates by 0.25% in July, markets are expecting that they are near the end of the rate hike. The FED has stated that future rate increases will be data dependent, but analysts are predicting that the central bank will keep interest rates higher for longer, before starting to decrease.

## Japan

Results were mixed in Japan as the economy was supported by the strengthening of the US, but investors were cautious whilst awaiting the next Bank of Japan policy meeting. The TOPIX index returned 1.5% over the month, but the Nikkei struggled with a negative return.

## Asia & Emerging Markets

Concerns regarding China continued into July as data showed that GDP growth was less than expected in the second quarter, but the Government confirmed that it is committed to helping the economy through boosts to its weaker sectors. Emerging markets outperformed developed markets over the month with many countries posting positive returns including Turkey, Poland, Brazil, Mexico & South Africa.

## Outlook

We continue to expect inflation to fall in all regions, albeit at varying rates. Our outlook is that there is still the potential for an economic slowdown in the coming months and we are closely monitoring markets. Central banks will continue the challenging task of balancing inflation and economic growth.

At Flying Colours, we will continue to review the economic outlook and market signals to ensure that we are positioned in the best interests of our clients. Our portfolios are designed for long-term investment so we manage our portfolios with this in mind, managing the long-term risk and not being influenced by short-term trends which could be costly for our investors. Our aim is to achieve carefully managed risk-adjusted returns, following our investment philosophy.