Portfolio & Market Update

May 2023

Introduction

The global market returned mixed results in May, with developed markets struggling in the face of stubborn inflation. There was a large disparity between growth and value, with growth stocks returning positive results following momentum in the tech industry around the future of Artificial Intelligence. Central banks unanimously raised interest rates an additional 25 basis points as data demonstrated that inflation was more resilient than previously thought.

Markets

Over the month of May, most developed markets had negative results with the UK FTSE 100 returning losses of 4.9% and the EuroStoxx 50 was down by1.8%. Conversely, the S&P 500 and Nikkei 225 both performed positively returning 0.4% and 7%. Globally, bonds had a difficult month; only European High Yield and European Government Bonds saw growth in May.

UK

The UK equity market was down for the month of May with the FTSE All-Share returning losses of 4.6%. Energy and materials declined following weakness in commodities, but technology and financials fared the best. The Bank of England (BoE) increased rates to 4.5% following an increase in core inflation to 6.8% (the highest since 1992); the BoE maintained that additional tightening may be required, and markets are expecting an interest rate peak of 5.5%.

Europe

European markets faced a challenging May with all sectors down except Technology. Data showed that Germany was in a recession following Q4 2022 and Q1 2023, as momentum slowed alongside a weakening manufacturing PMI (purchasing managers index) which reached a 3-year low. As with other markets, the Euro area saw an increase in inflation month-on-month in April, leading the European Central Bank (ECB) to raise interest rates again to 3.25%. Markets are now pricing in an expected interest rate peak of 3.75%.

US

Amidst concerns surrounding the US debt ceiling, the US economy remained fairly muted; by the end of the month, an increase in the borrowing limit had been agreed. The S&P 500 increased by 0.4% over the month whilst the true performers were tech stocks, with the NASDAQ 100 gaining 7.6%. The US labour market continued to tighten with unemployment down to 3.4%, putting further pressure on inflation which increased by 0.4% month-on-month.

Japan

Japan had another successful month in local currency with the TOPIX returning 3.6% in May. Large-cap growth and semiconductor demand led to the Nikkei 225 reaching its highest level in 33 years, further cemented by good earnings reports. Japan reported that visitor spending is back to pre-Covid levels.

Asia

Asia markets suffered in May following poor performance in Hong Kong and China as both imports and investment in property were down. Conversely, South Korea and Taiwan performed well due to the growth in technology stocks.

Outlook

We are beginning to see inflation falling in some economies, but we maintain the view that inflation will remain stubbornly high, and this is being reflected in the Central Banks continuing to increase interest rates. When inflation begins to decrease consistently, we are likely to see banks considering whether to reduce rates to manage the severity of an economic slowdown. Fixed income assets continue to expect a recession, and whilst there is turbulence in the equity markets, they don't appear to have the same outlook at the moment.

As portfolio managers, we aim to be aware of these risks and tailor the portfolios as needed in response 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.