Portfolio & Market Update

September 2023

Introduction

It's been a challenging quarter for investors with equity markets declining further in September, and Fixed Income assets delivering negative returns.

The abrupt surge in bond yields and higher oil prices exerted downward pressure on equities. However, despite signs of an economic slowdown in major economies and indications that inflation had peaked in various regions, central banks maintained a cautious approach, signaling prolonged higher interest rates.

Markets

September was a reckoning month for global markets with higher yields weighing negatively on equities. With a weaker GBP (sterling), US equity performed showed a fall of 1.44%, though this was better than in US dollar terms. On the other hand, the FTSE 100, the MSCI Emerging Market, Asia Pacific and the Topix generated positive returns of 2.4%, 1.1%, 0.64% and 1.66% respectively.

UK

The UK markets achieved positive results in September with a return of 2.16% for the FTSE All-Share. The latest Purchasing Managers' Index (PMI) data signaled a significant slowdown of the UK economy with PMI below 50 at 46.8 – this indicates an economic slowdown.

The Bank of England (BoE) has hinted at a potential plateau in interest rates, with no rate hike occurring at the latest BoE meeting. This decision followed unexpectedly positive inflation numbers, with a decline to 6.7% in August 2023. This marked the lowest inflation rate in 18 months.

Europe

The Euro-Stoxx faced challenges during the month, resulting in a loss of 1.55%. In the Euro area, the inflation rate dropped to 4.3% year-on-year in the month, reaching its lowest level since October 2021. Despite this, the European Central Bank (ECB) continued its trend of rate hikes, reaching a 22-year high of 4.5% on 14 September. PMI readings indicated a significant monthly decline in business activity at the end of the third quarter.

US

The US experienced challenging conditions in September, with the S&P 500 generating a loss of 1.14% in US dollar terms but positive in terms of GBP. The Federal Reserve maintained the target range for the federal funds rate of 5.25% to 5.5% during its September 2023 meeting. This was in line with market expectations but still represents a 22-year high. However, the Fed signaled the possibility of another rate hike later in the year. Rising oil prices and base effects contributed to the increase in inflation.

Japan

Japan returned a positive performance of 1.66% for September. Its weaker currency is buoying the export sector and boosting confidence among Japanese businesses. After tweaking the yield curve control policy and increasing the band in which Japanese Bonds can be traded, the Bank of Japan (BoJ) Governor, Kazuo Ueda, hinted at a possible end to negative interest rates if supported by enough wage data.

FlyingColours

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Asia & Emerging Markets

EM countries had a positive month in GBP terms, performing at 1.1% following better than expected economic performance and positive sentiment coming from the Chinese government to support the faltering economy. The biggest property developer in China avoided defaulting on its US debt but worries still linger.

Fixed income

The fixed income market was negative during the month as yields continued to rise. The UK Gilt, while being negative, was relatively more insulated from the global sell-off. This was due to weaker than expected data pushing investors to revise their expectations.

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 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. In line with our investment philosophy, our aim is to achieve carefully managed risk-adjusted returns.