FlyingColours

# Portfolio & Market Update

February 2023

## Introduction

After January demonstrated strong results, February was a tough month across the globe for both equities and fixed interest assets. Whilst we had expected a pause in interest rate rises, there have been hikes from the Federal Reserve (Fed), European Central Bank and Bank of England due to persistent inflation.

## Markets

There have been inconsistencies regionally across the markets, with the US having a difficult month, but Europe and the UK showing greater resilience and performing well amid inflation concerns. The FTSE 100 and EUROSTOXX 50 returned 1.76% and 1.94% respectively. Across all major developed markets, central banks continued to increase interest rates and the potential for a short-term reduction of interest rates has now been priced out of the market. Globally, we witnessed a negative return across the board on fixed income assets, with rising yields and falling prices.

## UK

The UK had a stronger month than expected with the FTSE 100 reaching a new high driven by energy, healthcare and telecoms, alongside a renewed dollar strength. Positively, there was no GDP contraction in Q4 of 2022, therefore avoiding a technical recession, although the Bank of England is still expecting a recession in 2023, albeit potentially shallower than initially expected.

## Europe

European equities had a positive month due to communications, financials, industrials and consumer staples. The Purchasing Managers' Index (PMI) has reached 52.3, suggesting a strong expansion of business activity.

The European Central Bank increased interest rates by 0.5% in February and indicated that a further increase of 0.5% will be introduced in March; supported by preliminary data showing that inflation in France and Spain is still on the incline, suggesting persistent inflation.

## US

The US equity market struggled in February with the S&P 500 reporting a loss of 2.4% over the month. The Fed stated that they are starting to see policy working on inflation, but whilst the Federal Open Market Committee (FOMC) have agreed a slowdown in the pace of rate hikes, there is a general consensus that the peak is likely to be at a higher point than previously thought. January inflation was reported to have increased by 0.5% (0.1% in December) which is likely to be due to the energy component.

## Japan

In Japan, equities performed well alongside a weakening Yen. The surprise announcement of the new governor of the Bank of Japan and the 41-year high inflation rate raised queries as to the future of monetary policy.

## Asia

In Asia and Emerging Markets, equities performed negatively; in Asia this was driven by China and Hong Kong, partially due to a reversal of strong gains in January, and also due to escalating geopolitical tensions between the US and China following the Chinese balloon incident in US airspace.

## Outlook

We maintain our view that the main market issue is the re-emergence of inflation; we expect this to remain structurally higher over the longer term. We have positioned our portfolios appropriately for this environment and will continue to look for ways to ensure the best outcome for our clients.

Transitioning from a lower predictable inflation rate to a higher and less predictable one will be problematic for asset prices. But it will also create opportunities we can use, as discretionary managers, to help our clients achieve their objectives: maintaining relative wealth in weak markets and taking opportunities as they arise.

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