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ASSET MANAGEMENT

Investment Comment

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February was a mixed month for global markets. UK and European equities rose in value, however the MSCI ACWI ended the month 2.0% lower on modest US equity declines and more notable drags in Asia and Emerging Markets on the back of renewed tensions between the US and China. Global bonds performed similarly to their equity counterparts, losing 2.1% over the month, according to the ICE BofA Global Broad Market index.

The MSCI USA index ended January 1.8% lower. The former Governor of South Carolina, Nikki Haley, announced that she will run for the Republican Party nomination, however Ron DeSantis, Governor of Florida, remains the favourite to most closely challenge Donald Trump for the Republican candidacy. As expected, the Federal Reserve increased interest rates from 4.5% to 4.75% and Chair Jerome Powell reaffirmed his commitment to higher rates to tackle inflation after CPI declined less than expected to 6.4%, from 6.5% the month prior. The US labour market was notably stronger, reversing a four month trend of slowdowns in jobs added, with 517,000 new jobs in February compared to expectations of 185,000. The housing market remained resilient, with new home sales exceeding expectations, rising to 670,000 from 625,000 in January. GDP figures for Q4 2022 were revised to 2.7% from 2.9%, which, coupled with weaker consumer confidence data and downbeat guidance from retailers, indicate that the US still has macroeconomic challenges to overcome.

The MSCI Europe ex-UK index rose marginally in February, ending the month 0.2% higher. Sentiment remained positive on the continent in February; the European Commission revised their growth forecasts for 2023 upwards to 0.8% from 0.3% and business activity was significantly stronger than expected, despite manufacturing suffering a downturn. Business confidence improved for a fifth consecutive month, rising to its highest level in over a year. Inflation showed further signs of easing; January's reading of 8.5% was down from December's 9.2%. Core inflation is proving more sticky, however, and stagnated at 5.2%. Inflation data from France and Spain at the end of February surprised to the upside, which, combined with the stronger economic sentiment has fuelled speculation that the ECB will need to keep interest rates higher for longer.

The MSCI UK index climbed 1.9% in February. December's GDP data showed a 0.5% fall month-on-month, its first fall for three months, as the impact of strikes over the Christmas period dragged services lower, though falls were partially offset by a strong month for car sales and cold weather increasing energy generation. By the end of February, however, general consensus on the UK's outlook was more positive: where a 1% fall in GDP through 2023 had been forecast at the end of last year, revisions were made to a fall of just 0.6%. This was attributed to lower energy costs, positive output data for February and the Treasury receiving an unexpected windfall of £30bn, which was generated from a roughly equal split between higher than expected tax revenues, reduced borrowing and lower government subsidies. The Public Sector registered a £5.4bn surplus in January, against a forecast deficit of £7.8bn, this gives Chancellor Jeremy Hunt more headroom when he delivers the Budget in March. Prime Minister Rishi Sunak signed a new trade deal with the EU, the 'Windsor Framework', designed to remedy problems caused by the Northern Ireland Protocol. The Prime Minister also reshuffled his cabinet, introducing four new departments, including the department for energy security and net zero and the department for science, innovation and technology, reflecting his priorities to promote science and the environment.

The MSCI Asia Pacific ex-Japan and MSCI Emerging Market indexes ended February 6.2% and 5.8% lower, respectively. US-China tensions dominated the headlines throughout the month, as the US shot down suspected Chinese surveillance balloons over the Atlantic Ocean and President Biden warned China over threats to US sovereignty in his State of the Union address. Chinese media have claimed the high-altitude aircraft was simply blown off course while collecting meteorological data. The postponement of the

meeting of US Secretary of State and Xi Jinping, which would have been the first in six years, did nothing to soothe tensions. China continues to position itself as neutral in the Russia-Ukraine war, calling for a ceasefire at the end of the month. Mounting debt among property developers has led to a protracted downturn in the Chinese housing market, as average new home prices in China's 70 major cities recorded a ninth straight month of decreases and now lie 1.5% lower than a year ago. Hong Kong announced that it would be dropping its mask mandate after almost 1,000 days, as the government seeks to revive the city as a financial hub.

The MSCI Japan index posted a monthly loss of 2.6%. Prime Minister, Fumio Kishida announced Kazuo Ueda as the BoJ's next Governor, when current Governor, Haruhiko Kuroda, who has overseen Japan's monetary policy for more than a decade, steps down in April. The 71 year-old academic and former BoJ board member is tasked with overseeing the unwinding of the country's ultra-loose monetary policy. Ueda, widely regarded as a safe pair of hands, has previously warned against an early exit from the current monetary policy regime, so radical policy changes are not anticipated in the immediate term. Retail data was positive, showing sales rising 3.8% year-on-year in December, marking the tenth consecutive month of increases. Such data, alongside record wage growth and persistent price prices, will all prove important factors in determining how quickly Japan seeks to unwind its monetary policy position.

After a widely positive start to the year for global equities in January, the US, Asia and EM pared back gains throughout February. Global equities remain 3.4% higher than at the start of the year, however losses in February mean Asia and EM equities are now close to flat year-to-date. Markets continue to place much weight on central bank interest rate decisions and rhetoric on controlling inflation, accordingly stronger than expected economic data has been received with a degree of apprehension, for fear that policymakers will raise and hold rates higher for longer than markets are currently pricing in, which will further constrain growth. The picture is ever-changing and as such, balanced, well-diversified portfolios will be crucial to manage risk in the pursuit of long-term returns.

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