

## Investment Comment

02 May 2023

Throughout April, investors searched for indications as to the likely path for macroeconomic policy, as many central banks have begun to taper interest rate rises. Economic data has for the most part maintained positive trends, which has clouded the picture for policymakers who worry that strong demand and tight labour markets may keep inflation higher for longer. Macroeconomic data and individual company data alike went under the microscope in April, with many major global players reporting first quarter earnings for the year.

April marked the return of earnings season in the US. Major financials were among the first to report their Q1 2023 results, which received perhaps greater focus than usual, following the collapse of Silicon Valley Bank and Signature Bank in March. Large financials had been expected to benefit as consumers moved funds from regional banks into large players for greater security, however, sizeable net outflows were expected as depositors sought higher returns on their cash from alternatives, such as money market funds. Earnings for JPMorgan, Citi and Wells Fargo all exceeded expectations, reporting bumper profits, fuelled by rising interest rates. Later in April, big tech names including Alphabet, Microsoft, Meta saw share price increases after beating earnings expectations, while results for Netflix were mixed as it missed subscriber estimates. Elsewhere in the US, President Joe Biden formally announced his bid to secure re-election in 2024, 36 years after his first attempt at the Presidency in 1988. If successful, and he were to see out a second-term, Biden would extend his record as the oldest President of the US to age 86.

In the UK, survey data painted a brighter picture for the consumer, with consumer confidence significantly exceeding market expectations as Britons took a more positive view on their personal finances and the health of the wider UK economy. House prices continue to cool as the cost of financing mortgages increases. Sterling started April as the best-performing developed market currency in 2023, and, thanks to a mix of recent signs of resilience in the economy and a general retreat for the Dollar, continued its rise to its highest level against the Dollar in ten months. Elsewhere, the Competition and Markets Authority blocked Microsoft's \$75bn acquisition of Activision Blizzard. The deal, which would make Microsoft the world's third largest gaming company by revenue, was cited by the CMA as problematic for the nascent market for cloud gaming. The decision was met with a heated response from Activision, which labelled Britain 'clearly closed for business' and said that the ruling 'contradicts the ambitions of the UK to become an attractive country to build technology businesses'. Activision and Microsoft have made clear their intention to appeal the CMA's decision.

Europe's economic data continued its recent strong trends, with business activity and factory output in April consolidating gains seen in recent months. French luxury goods company LVMH became the first European company to surpass \$500bn in market value, as the stock cemented gains after Chinese consumer spending received a boost, following Beijing's decision to scrap the last of its major Covid-19 restrictions. The EU also signalled further commitment to renewable energies, increasing its binding target for renewable energy consumption by 2030 from 32% to 42.5%. In Japan, new governor, Kazuo Ueda, signalled that he would stick to the ultra-loose monetary policy regime implemented by his predecessor throughout the past decade, stressing that negative interest rates and yield curve control remain appropriate given the current economic backdrop.

Record demand from investors for the issuance of a new inflation-linked gilt maturing in 2045 was indicative of the impact of inflation on investors, who are seeking to protect the purchasing power of their investments and obtain a real yield on investments in the current inflationary backdrop. UK inflation data for April coming in at 10.1%, with a significant increase in food costs continuing to drive an increase in the general price level. The Debt Management Office received £46.4bn in demand for the £4.5bn issuance of



the inflation-linked gilts, which will pay investors RPI+ 0.65% - the greatest real yield for any inflation-linked gilt sold via syndication since 2011. Record demand comes in the context of a 34.5% price fall for index-linked gilts in 2022.

April was, in aggregate a mixed month for equities as gains made by Sterling and the Euro against the Dollar, which was generally weaker, saw UK and European equities make modest gains in Sterling terms, while US equities ended the month marginally down. Macroeconomic and geopolitical uncertainties continue to cloud the picture for investors, particularly in Asia on the geopolitical side where China's pursuit of Taiwan continues to put strain on relationships between China and the US. Investors continue to place much focus on economic data and central bank speeches for an indication of the future direction of policy.

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