Cantab
ASSET MANAGEMENT

Investment Comment

05 June 2023

In May, politics took centre stage in markets as investors waited for a resolution on US debt ceiling negotiations while, elsewhere, leaders of major economies convened in Hiroshima for a meeting of the G7 nations. The G7 meeting focused on geopolitics, including Russia's invasion of Ukraine, but also on food security, finance and the global economy.

The impending deadline for the raising the US debt ceiling to avoid a debt default has rattled markets, with day-to-day volatility around the general sentiment of talks between President Joe Biden and House speaker Kevin McCarthy. After days of tense negotiations, a two-year deal to raise the debt ceiling and limit spending was reached, in a pact which settles the trajectory for US fiscal policy until 2025. The US labour market remains strong: 40% more jobs were added in April than had been forecast and the unemployment rate decreased marginally, in contrast to expectations for an incremental increase. Slowing labour market demand to rein in wage growth remains a key objective in the Fed's battle against inflation, which itself fell marginally against forecasts that it would hold steady at 5%. Consumer demand did however show signs of cooling, as April data showed a smaller than expected rise in retail sales.

In the UK, the Bank of England continues to grapple with stubbornly high inflation, as food inflation remains close to 45-year peaks and core inflation, which excludes food and energy prices, unexpectedly rose in April. In response, the BoE increased rates from 4.25% to 4.5% at their meeting in May. Positively, data for April showed a welcome expansion in services, the largest in a year. Consumer spending in the UK improved during May, boosting business activity, particularly in tourism and leisure. This was coupled with signs of continuing improvements in consumer confidence in the UK, with data improving for a fourth consecutive month as households are becoming more confident about their finances despite persistently high inflation.

Rishi Sunak and Japanese Prime Minister, Fumio Kishida, penned an agreement, the Hiroshima Accord, declaring a global strategic partnership between the two countries. The Accord aims to increase co-operation between the nations on semiconductors and the emerging areas they support. It is hoped that the Accord will help increase semiconductor supply chain resilience. As demand for semiconductors has continued to strengthen throughout 2023, propelled by ongoing developments in the fields of AI, the sector remains firm.

There were mixed signals from Europe throughout May. Initially, inflation data for April showed an increase in the general Eurozone price level, the first in six months. At the end of the month there was some relief however, as early inflation data for Spain and France showed a considerable slowdown, as price increases slowed across most categories. There was a notable decrease in energy prices, whereby contracts for European gas fell to their lowest levels since July 2021 and in mid-May sat at around a tenth of their price a year earlier. This offers European economies an opportunity to refill storage ahead of the winter and should offer increased stability.

Semiconductors were firmly in focus in Japan in May. In addition to the Hiroshima Accord, heads of chipmakers TSMC, Samsung, Intel and Micron met with Fumio Kishida to outline plans to increase manufacturing and deepen partnerships with western allies. Japan signalled that it would put restrictions on exports of 23 types of crucial chipmaking equipment to China from July. Japan's stock market reached 33 year highs in May on the back of considerable foreign direct investment which amount to $30bn in a five week period. China placed a ban on national infrastructure operators purchasing products from US based Micron Technology in a tit-for-tat move following US measures against the Chinese chipmaking industry, as tensions between the US and China continue to bubble

under the surface. Business activity in China has proven strong this year, with IPOs in China having raised more than five times as much money as those in the US.

May was another mixed month in aggregate for markets. The eventual breaking of the deadlock between the US Democrat and Republican parties should offer some comfort to investors and provide foresight on the path for US fiscal policy beyond the next election. As has been the case for much of the last 18 months, a great deal of uncertainty remains in markets, again emphasising the importance of prudence in portfolio construction, but also offering a great deal of opportunity to investors who can pick out mis-pricings in the market.

cantabam.com

Cantab Asset Management Ltd
50 Station Road, Cambridge CB1 2JH
01223 52 2000
advice@cantabam.com

5th Floor, 8 Angel Court, London EC2R 7HP
020 3651 0570
advice@cantabam.com