Cantab
ASSET MANAGEMENT

# Investment Comment

03 July 2023

| Sterling denominated returns of major indices | Q2 2023 % | H1 2023 % | Year 2022 % | Year 2021 % | Year 2020 % | Year 2019 % |
|---|---|---|---|---|---|---|
| **Equities** | | | | | | |
| UK | -0.7 | 2.3 | 1.6 | 18.7 | -11.8 | 18.4 |
| World (ex UK) | 3.4 | 8.0 | -8.6 | 19.6 | 14.0 | 22.0 |
| Emerging Markets | -1.9 | -0.8 | -10.0 | -1.6 | 14.7 | 13.9 |
| **Fixed Interest** | | | | | | |
| Overseas Bonds (unhedged) | -4.1 | -3.9 | -6.4 | -4.4 | 5.6 | 2.7 |
| Index-Linked Gilts | -6.9 | -3.0 | -34.5 | 3.9 | 11.3 | 6.3 |
| Corporate Bonds | -3.4 | -1.1 | -17.8 | -3.0 | 8.0 | 9.5 |
| **Property** | -5.3 | -5.9 | -24.4 | 20.8 | -9.5 | 22.4 |
| **Commodities** | -5.7 | -13.2 | 30.8 | 28.2 | -6.1 | 3.6 |
| **Infrastructure** | -3.5 | -11.9 | -10.3 | 8.2 | 2.1 | 12.7 |
| **Cash** | 0.5 | 0.9 | 0.5 | 0.2 | 0.4 | 0.6 |

*Source: MSCI UK IMI, All Country World Ex-UK, Emerging Markets; ICE BofA Global Broad Market+, Bloomberg UK Government Inflation-Linked Bond, ICE BofA Sterling Non-Gilts; UK IMI Liquid Real Estate; Bloomberg Commodity Index (GBP Hedged); IT Infrastructure; Cash Equivalent (Moneyfacts Instant Access Notice 10K). Total Return, Sterling adjusted.*

Headlines in the US for much of second quarter were dominated by the ongoing talks between President Joe Biden and House speaker Kevin McCarthy, with the deadline to raise the US debt ceiling looming large to avoid a default on US debt. The eventual deal to suspend the US debt ceiling and limit spending for two years, which settles the trajectory for US fiscal policy until after the next election, provided some comfort for markets. In their June meeting, the Fed implemented a 'hawkish pause' where they chose not to raise interest rates, however signalled that there would be two further rate rises to come this year. Recession concerns seemed to have ebbed to a degree on the back of positive economic data: new orders for key US manufactured capital goods rose unexpectedly and new home purchases also surged, while US consumer confidence reached an 18-month high.

US and Global equity performance during the quarter (and year-to-date) has been largely driven by a narrow group of the largest stocks, the so-called 'super seven' or FANGMAT (Facebook/Meta, Apple, Nvidia, Google/Alphabet, Microsoft, Amazon, Tesla), bolstered by strong investor sentiment around Artificial Intelligence. Media comment around this market 'rally' has been significant, but outside of these names, performance has been pedestrian. We see significant risks associated with the concentration in index performance, which has reached levels not seen since the 1970s.

In Europe, economic data remained strong at the start of the quarter as business activity, factory data and the labour market consolidated gains. Labour market strength continues to pose a problem for the ECB, as the risk of resultant wage inflation could lead to higher inflation becoming entrenched in the Eurozone. Unemployment in the Eurozone fell to a new record low of 6.5% in

April, while wage growth reached 5.2% in Q1 and is forecast to remain at least double its historical average for the next two years. Such strength in the labour market has prompted the ECB to continue increasing interest rates, which now stand at 3.5%, with a further increase expected at the ECB meeting in July. In mid-May, European gas prices fell to their lowest levels since July 2021, before the start of the energy crisis. The European TTF benchmark hit a low of EUR35.2/MwH, down from a peak of over EUR340/MwH last summer and while prices have since risen from lows, this should provide Europe with ample opportunity to refill its gas storage facilities over the summer.

In the UK, inflation remains problematic as food inflation sits near 45-year highs and increases in mortgage rates are beginning to eat into consumers' disposable incomes. Nationwide housing data showed house prices relatively flat in June and following the decline in house prices in May which was the first seen on an annual basis since 2012, house prices now sit lower on average than a year ago. The Bank of England surprised markets in June, implementing a double rate hike to lift the base rate to 5%, pushing borrowing rates to the highest levels seen since the financial crisis. Concerns around the solvency of Thames Water present yet another example of the possible implications of rapidly rising interest rates, in this case compounded with aggressive capital management.

In Asia, semiconductors were firmly in focus in Japan. In addition to the Hiroshima Accord signed with the UK, 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. In signs of ever loosening ties between China and the West, exports from China to the US and EU plunged by 18.2% and 26.6% in May, respectively, while shipments to Russia rose 114%. By the end of 2023, China's proportion of US low-cost imports will have dropped below 50% to its lowest level in 10 years.

The second quarter of 2023, much like the first, presented ongoing challenges for investors in an uncertain economic environment. Conflicting economic indicators continue to confound the trajectory of central bank policy and the short-term investment picture for investors alike. Strong performance in concentrated pockets of the market has been seen to tempt investors into snap decisions where, in reality, it is with long-term investment objectives in mind that asset allocation in portfolios should be derived. On a global stage, the US remains further along in its monetary cycle than Europe and in particular the UK. Continued bond market weakness presents more attractive opportunities for balance in portfolios going forward.



**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