

## Investment Comment

01 October 2023

<b>Sterling denominated returns of major indices</b>	<b>10Yr %</b>	<b>5Yr %</b>	<b>1Yr %</b>	<b>Q3 2023 %</b>
<b>Equities</b>				
UK	67.2	18.0	13.9	2.4
World (ex UK)	181.4	47.1	10.3	0.6
Emerging Markets	61.5	10.0	2.2	1.1
<b>Fixed Interest</b>				
Overseas Bonds (unhedged)	25.9	-2.9	-6.9	0.1
Index-Linked Gilts	10.2	-24.9	-13.5	-5.2
Corporate Bonds	22.3	-4.6	7.4	2.2
<b>Property</b>	18.5	-9.0	-1.3	1.4
<b>Commodities</b>	24.0	42.0	-9.7	9.1
<b>Infrastructure</b>	58.3	-1.7	-14.5	-3.9
<b>MSCI PIMFA Income</b>	64.8	14.5	7.6	1.3
<b>MSCI PIMFA Balanced</b>	77.2	18.3	8.5	1.2
<b>Cash</b>	6.5	3.6	1.8	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.*

The main financial event of the third quarter at the economic symposium at Jackson Hole, saw Fed Chair, Jerome Powell, state that while headline inflation has dropped considerably from its peak, it remains uncomfortably high. The Chair stated the Fed's readiness to raise rates further still if required and their intention to 'hold policy at a restrictive level until we are confident that inflation is moving sustainably down toward our objective'. Inflation data in the US for August came in at 3.7%, with core inflation at 4.3%, largely as expected, while August's month-on-month inflation figure was 0.6%, the largest in 14 months, largely due to higher oil prices. At the September meeting, the Fed held interest rates, while projections pointed to one further rise this year, with two decreases in 2024, indicating the Fed may hold rates higher for longer. Alongside the rates projections, the Fed also sharply revised up its economic growth for 2023, with GDP now expected to rise by 2.1%.

Towards the end of Q3 there was a weakening in general macroeconomic indicators across Europe. The services sector experienced its first decline of the year in August and, while the manufacturing sector improved on its July reading, figures were still weak and remained in contractionary territory as new orders and new export business declined at record rates. Economic sentiment in the Euro Area also decreased notably in September, painting a bleaker outlook in Europe. GDP figures released for Q2 showed slender growth of 0.1% in the Eurozone, following downward revisions. At a country level France and Spain expanded by 0.5% and 0.4%,



respectively, while German growth stalled and Italy experienced a contraction of 0.4%. The European Commission recently downgraded its growth forecast for the EU to 0.8% this year and 1.4% in 2024. After weighing up the negative economic indicators, the ECB persisted with a tenth consecutive rate hike, bringing the benchmark borrowing rate to 4%, though signalled that it is likely finished with its monetary tightening. Elsewhere, the European Parliament voted to increase the target for share of renewable power in the EU's energy mix from 30% to 42.5%, but not after last minute concessions were made to France and eastern European countries on nuclear power.

The third quarter in the UK has seen the appearance of weaknesses in the housing market, as higher borrowing rates become an increasing constraint on affordability for first-time buyers and those renewing mortgages. After an initial 3.8% year-on-year decrease in July, the Nationwide Housing Price Index fell further to a 5.3% decline in August. This is the largest decrease in house prices since 2009 and mortgage approvals were 20% below their pre-pandemic levels. At the end of the quarter, a surprise easing of UK inflation, from 6.8% in July to 6.7% in August, against expectations of an increase to 7%, swayed the Bank of England to hold rates at 5.25% in their September meeting, the first hold of rates in nearly two years. Immediately after the vote, swaps markets implied a roughly 70% chance of a final quarter-point increase to 5.5%. Sterling lost 3.5% against the Dollar across the quarter. Over the past twelve months however, sterling has gained 9.2%, creating drag for UK investors investing globally.

A poll of eight investment banks forecast China's median expected growth rate for the year to come in at 4.75%, below the government's 5% GDP growth target. In further signs of economic struggle, data in July showed bank lending in China falling sharply to levels not seen since November 2009, less than half of the lending that had been expected. GDP data for the second quarter showed Japan's economy expanding 1.2% in the three months to end of June and there was positive news as exports rebounded from a 3.8% decline in the previous quarter to a 3.1% expansion in Q2.

The third quarter of 2023 ended with diverging outlooks for major global economies: as the US revised their growth expectations sharply upwards, there were downgrades to growth forecasts in Europe and the outlook for UK growth remains feeble. The rate-hiking cycle will likely draw to a close by the end of the year, however the persistence of core inflation readings and tightness in labour markets mean rates are expected to remain higher for longer and well into 2024. Bond markets remain weak and this has continued to impact infrastructure holdings. This present weakness offers opportunities for portfolios going forward.

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