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YOUR MARKET REVIEW JANUARY 2023



Pension
TRANSFER
Gold Standard

INFOGRAPHIC: THE GLOBAL ECONOMY



Moderation in inflation could set the scene for broad EM economic recovery from 2024

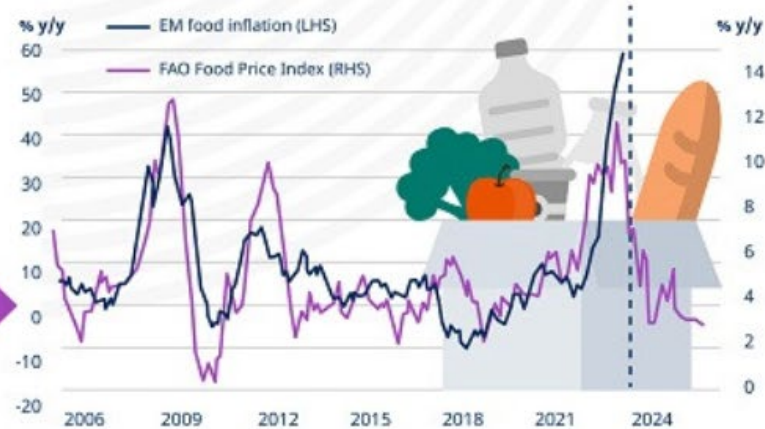
Emerging market food price inflation

Food prices are a key driver of emerging market (EM) consumer inflation. As they fall through 2023 so should inflation...



...this would relieve pressure on real incomes, probably allowing some central banks to lower interest rates again...

...this might set the scene for EM economic recovery heading into **2024**



Note: Expected path of Food and Agriculture Organization's (FAO) Food Price Index is based on futures prices and constant exchange rates. Source: Schroders Economics Group, Refinitiv, as at January 2023.



Source: [Schroders as at January 2023](#).

MULTI-ASSET INVESTMENT VIEWS

KEY

▲ Up from last month ▼ Down from last month

● Long / Positive
● Neutral
● Short / Negative

	Category	View	Comments	
Main Asset Classes	Equities	● ▲	The latest bear market rally seems to have ended but the apparent peak in interest rates leads us to a neutral stance.	
	Government Bonds	●	An imminent economic slowdown should provide support for yields, which are now trading at more realistic levels.	
	Commodities	● ▲	China's reopening should be positive yet improving supply dynamics and an impending economic slowdown may offset this.	
	Credit	●	We favour investment grade over high yield given recessionary fears, preferring Europe and EM over the US on valuation grounds.	
Equities	US	●	We see no catalyst for the recent rally continuing. While the US economy is proving remarkably resilient, we have strong doubts that current valuation levels are justified.	
	UK	●	Domestic issues are aplenty but we're remaining neutral on valuation grounds and projected weakness in sterling.	
	Europe	● ▲	Valuations are appealing, corporate balance sheets are strong, and China's reopening should provide a boost, with a near-term crunch in energy supply averted so far.	
	Japan	● ▲	Upgraded as the region should gain a boost with China's reopening accompanied by attractive valuations. However, projected yen strength may prove a headwind.	
	Global Emerging Markets ¹	● ▲	Recessionary risks are traditionally not supportive for emerging markets. Yet current valuations reflect this, and China's re-opening should help. A stable, and perhaps weaker, dollar would likely provide further support.	
	Asia ex-Japan & China	● ▲	China's reopening has been far quicker than most expected, and valuations have cheapened markedly.	
	EM Asia ex China	●	The region should get a boost from the Chinese reopening, but a global downturn may prove challenging for markets such as Taiwan and Korea.	
	Government Bonds	US	● ▲	The recent repricing has brought Treasuries back to fair value, and market concerns have now moved to slowing growth and away from risks of higher inflation.
		UK	●	Persistently high inflation, a cost-of-living crisis and a weakening domestic housing market are all weighing on the UK economy. We have doubts as to how far the Bank of England (BoE) can raise rates to control inflation, leaving us neutral.
Germany		●	While the European Central Bank (ECB) rhetoric turned noticeably hawkish, bund yields have moved to reflect this. Monetary policymakers are often described as hawkish when expressing concerns about limiting inflation.	
Japan		●	The Bank of Japan(BoJ) has (finally) turned slightly hawkish, and further policy changes in yield curve control (YCC) operations are expected. Absolute yields are, nevertheless, still unattractive compared to other markets. YCC is one method by which a central bank can control longer-term interest rates, by buying and selling bonds to hit the rate target.	
US Inflation Linked		●	The recent fall has moved inflation linked bonds towards fair value, with US 10-year real rates now at 1.25%.	
Emerging Markets Local		●	The recent rally has lessened the sector's appeal but current real yields versus developed markets present selective opportunities.	

¹ Global Emerging Markets includes Central and Eastern Europe, Latin America and Asia.



	Category	View	Comments
Investment Grade Credit	US	●	Our long-term view remains reasonably positive but more attractive credit spreads can be found in Europe. The credit spread is the margin that a company issuing a bond has to pay an investor in excess of yields on government bonds and is a measure of how risky the market perceives the borrower to be.
	Europe	●	European investment grade (IG) credit spreads are close to levels last seen during the Covid outbreak and appear to have priced in too much bad news.
	Emerging Markets USD	●	We remain positive as emerging market fundamentals are looking relatively strong, and the region has priced in the recent rise in geopolitical tension.
High Yield Bonds (Non-IG)	US	●	The relative size of the US loans market make the sector vulnerable in the event of a sharp downturn in the US economy.
	Europe	●	In comparison to the US, European high yield (HY) credit is more attractively valued, while also exhibiting superior quality.
Commodities	Energy	●	Risks remain balanced. While natural gas prices have plummeted due to a mild winter, we should remember weather can be notoriously fickle, and Europe continues to have a longer-term problem with supply. Meanwhile, a Chinese reopening should prove positive, yet a wider global economic downturn should be negative.
	Gold	●	The relationship between US real yields and gold appears to have broken down and, perhaps surprisingly, gold has fallen since the start of the Russia/Ukraine war. Given our uncertainty on the path for the US dollar, we remain neutral.
	Industrial Metals	●	We remain neutral, pulled in one direction by China's reopening and the other by a wider economic downturn. Immediate spare capacity remains scarce although there appears to be supply coming online for copper in 2023.
	Agriculture	●	Sentiment amongst US producers has rebounded strongly, and fertiliser prices have notably fallen. Demand remains robust yet supply is on course to meet it.
Currencies	US \$	● ▼	We believe the US dollar has peaked and the divergence in global central bank policy should put pressure on the currency to weaken. We therefore downgrade our score.
	UK £	●	The deteriorating economic outlook and worsening stagflationary environment, coupled with domestic instability have weighed on the currency. We have doubts the BoE can raise rates as far as markets suggest given the economic outlook.
	EU €	●	While the outlook for growth is not positive, we believe that current extreme levels of negative sentiment and ECB hawkishness mean there is an opportunity for a tactical rebound in the currency.
	CNH ¥	●	Although positive moves on a China reopening should benefit the renminbi (offshore), as well as other Asia-focused currencies, we remain neutral.
	JAP ¥	● ▲	The recent move from the BoJ regarding its YCC operations may be the first of a series of monetary tightening moves, which would be supportive for the currency.
	Swiss F	●	The Swiss franc is better shielded from the energy crisis than the rest of Europe. As a result, the Swiss National Bank may not hike rates as aggressively as the ECB or US Federal Reserve, so we remain neutral.





MARKETS REVIEW

A look back on markets in January when stocks posted strong gains.

THE MONTH IN SUMMARY

Stock markets started 2023 on a strong footing with gains across global equities. China's re-opening after dropping the zero-Covid policy in late December helped propel the advance. Signs that inflation is easing from its autumn highs in several major regions also supported sentiment, amid hopes central banks may be close to the peak of their rate hiking cycle. Emerging markets outperformed their developed counterparts. In fixed income markets, bond yields fell (meaning prices rose). Commodities saw a negative return for the month.

THE US

US equities made robust gains in January. Investors' focus on inflation - which cooled for the sixth successive month in December - remains sharp. The headline consumer price index (CPI) dropped to 6.5% from 7.1% mainly due to energy and food cost moderation. In combination with a stronger-than-expected GDP print of 2.9% (seasonally adjusted annual rate), the inflation data led investors to position for slower rate rises from the Federal Reserve from here. Risk appetites picked up, despite expectations of a slightly softer earnings season compared to Q4 2021.

Economic data elsewhere was mixed but encouraging. Industrial activity - as measured by the S&P Flash Composite PMI - improved somewhat in January (to 46.6 from 45.0) but remains in contraction territory. (The PMI indices are based on survey data from companies in the manufacturing and services sectors. A reading below 50 indicates contraction, while above

50 signals expansion.) Employment data was more supportive, with weekly jobless claims below expectations. At 186,000, the weekly jobless claims was the lowest since April and well below expectations of 205,000.

The reversal in sentiment touched the majority of the market, with almost all sectors stronger over the month. Traditionally defensive areas of utilities, consumer staples and healthcare, were snubbed in favour of more growth oriented names. The strongest gains were linked to tech or consumer discretionary spending. Travel and auto stocks were amongst the month's strongest gainers, while entertainment and media stocks also advanced.

EUROZONE

Eurozone shares were among the best regional performers in January. Top performing sectors included economically-sensitive areas of the market such as information technology and consumer discretionary. Real estate also enjoyed a rebound after poor performance in 2022.

Within consumer discretionary, luxury goods stocks were particularly strong following the news of China's economic reopening. Energy was the weakest sector while defensive areas like utilities and healthcare also underperformed.

Eurostat data showed the eurozone economy eked out 0.1% of growth quarter-on-quarter in Q4, a slowdown from 0.3% growth in Q3. Forward-looking indicators raised hopes that the eurozone may continue to avoid recession. The flash eurozone composite purchasing managers' index for January registered a seven-month high, coming in at 50.2 after 49.3 in December.

Inflation edged lower again in December. The annual inflation rate was 9.2% compared to 10.2% in November. The highest contribution to inflation came from food, alcohol and tobacco, with energy in second place as natural gas prices remained below their elevated levels of 2022. European Central Bank President Christine Lagarde warned that further interest rate rises would still be needed to return inflation to the 2% target.

UK

UK shares posted gains in January although the advance was more muted than in some other regions. The consumer discretionary and financials sectors were among the top gainers. Laggards included more defensive sectors such as consumer staples and healthcare. Economically sensitive areas of UK equities outperformed in line with other markets. This occurred amid growing hopes that the US Federal Reserve might be in a position to 'pivot' to cutting interest rates in late 2023.

UK small and mid cap equities (smids) outperformed as domestically focused consumer stocks did particularly well, partly amid signs the UK economy is holding up better than expected. Consumer stocks generally delivered much more encouraging trading updates than had been feared. When combined with very low expectations this drove some very strong share price performances from the retail, travel & leisure and housebuilding sectors. Domestically focused banks also performed well, although more broadly the banking sector benefited from its emerging markets exposure amid China reopening hopes.

Recent UK macroeconomic data suggested underlying growth has been more resilient than previously thought, partly helped by an easing of energy prices, driving hopes for a milder-than-feared

recession. The latest updates on monthly GDP for November revealed that the UK economy unexpectedly grew in November, expanding by 0.1%.

JAPAN

The Japanese stock market rose throughout January, reversing the decline seen in December. The total return for the month was 4.4% in local terms. The yen initially strengthened against the US dollar, in line with the trend seen from November, before giving back some of the gain in the second half of the month.

Investors' attention remained focused on the Bank of Japan, following the surprise adjustment to the yield curve control policy which was announced in mid-December. In early January, with 10-year bond yields testing the Bank of Japan's new upper limit, there was some speculation that more changes could be made at the January policy committee meeting. In the event, policy was left unchanged and discussion moved instead to the likely candidates to replace Mr Kuroda as governor of the Bank of Japan. The prime minister, Mr Kishida, is likely to nominate the new governor in the first half of February.

The debate continued over inflation and whether it will be sustained at a level above the Bank of Japan's 2% target. Preliminary surveys of the spring wage negotiations suggest that moderate wage growth is probable, but it may not be sufficiently high to provide a definitive trigger for any policy change at the central bank. At the very end of January, the corporate results season began for the quarter ending in December. Only a minority of companies had reported before the end of the month. Early indications suggest a positive tone, especially as service companies should see a benefit from improved demand after the final lifting of Covid restrictions and a resumption of travel subsidies.





ASIA (EX JAPAN)

Asia ex Japan equities recorded a positive performance in January. Chinese shares achieved robust gains after Beijing loosened its Covid-19 restrictions that have constrained the country's economic growth since early 2020. Government measures to support the country's property market and a loosening of the regulatory crackdown on China's technology companies also bolstered investor sentiment.

Other Asia Pacific markets also gained after Hong Kong and China resumed quarantine-free travel, signalling the end of China's zero-Covid policy which had kept borders closed for nearly three years. Shares in South Korea and Taiwan achieved significant growth in the month on renewed investor optimism, while gains in Hong Kong were slightly more muted. In Hong Kong, technology, travel and consumer stocks were particularly strong. Singapore also ended the month in positive territory after an upbeat global forecast for Asian markets helped allay investor fears of an economic slowdown. Property, financial and industrial stocks performed particularly well in the month.

The Philippines, Thailand, Indonesia and Malaysia also achieved solid growth. India was the only index market to end the month in negative territory, amid a sell off by foreign investors and investor caution as economic growth stalls.

EMERGING MARKETS

Emerging market (EM) equities benefited from January's risk-on environment. Signs of cooling inflation in the developed world fuelled optimism that interest rates may soon peak, with potentially positive consequences for growth. Developments in China also boosted investor sentiment. These included

the ongoing re-opening of the economy, easing of regulatory pressure on the internet sector, more policy support for the real estate sector and better-than-expected Q4 GDP growth of 2.9% year-on-year. The MSCI EM Index outperformed the MSCI World Index over the month.

The Czech Republic was the best-performing index market as a state-owned power utility company rallied strongly. Mexico followed close behind, despite a slowdown in economic activity indicators, including weaker manufacturing data, and a slight rise in inflation. Meanwhile, Taiwan and Korea both outperformed, supported by strong returns in their tech sectors, as the outlook for global growth and trade improved. Chile and Peru performed better than the index too, helped by higher copper prices as optimism about China's re-opening drove industrial metals prices higher. While Hungary was ahead of the index, and Poland, just behind, both markets continued to rebound following months of poor performance in 2022 after Russia's invasion of neighbouring Ukraine.

Brazil underperformed. Macroeconomic data softened while inflation rose and anti-government riots in Brasilia, the country's capital, damaged government buildings. South Africa lagged the index amid an ongoing energy crisis, with the state-owned power supplier announcing permanent rolling blackouts for at least the next two years. Thailand, Indonesia and Malaysia posted returns behind the index, as did Qatar and Saudi Arabia, with the latter two impacted by generally weaker energy prices.

India generated negative returns amid allegations of fraud and share price manipulation at a major conglomerate. Turkey was the biggest underperformer as investors booked profits after very strong returns in recent months.

GLOBAL BONDS

Global government bond yields fell in January (i.e. prices rose) on encouraging news on inflation – particularly out of the US. The month was light on central bank meetings, but the market began anticipating a slower pace of rate hikes by the Federal Open Market Committee (FOMC). The Bank of Canada hiked rates by 25 basis points (bps) but signalled a pause in its hiking cycle, while the Bank of Japan made no further adjustments to its yield curve control policy, despite a sharp rise in core inflation.

Credit markets did well and outperformed government bonds both in the US and Europe and across both high yield and investment grade markets. (Investment grade bonds are the highest quality bonds as determined by a credit rating agency; high yield bonds are more speculative, with a credit rating below investment grade.)

Risk sentiment improved as signs of moderating inflation and better-than-expected growth (especially across the eurozone and China) saw investors dial back some of their worst recessionary fears.

Meanwhile activity data in the US pointed to further weakness. The better-than-expected fourth quarter GDP was driven by a significant build up in inventories, while other near-term and forward looking indicators, including retail sales and industrial production, fell.

Headline inflation rates in both the US and the eurozone continued to ease, driven by retreating energy prices. While there was a modest uptick in month-on-month US core inflation, the general disinflationary trend here is clear. In contrast, core

inflation across the eurozone has remained sticky and is likely to prompt a further hawkish response from the European Central Bank (ECB).

The US 10-year yields fell from 3.88% to 3.51%, with the two-year falling from 4.42% to 4.21%. Germany's 10-year yield declined from 2.57% to 2.29%. The UK 10-year yield fell from 3.67% to 3.34% and 2-year dropped from 3.56% to 3.46%.

The US dollar was weaker against most other developed market currencies. The Australian dollar was the strongest performer among G10 currencies, following much stronger than expected inflation and supported by optimism around China's re-opening. There was broad-based strength across emerging market currencies, given indications that US interest rates would soon peak.

Convertible bonds benefitted from the equity market tailwinds, but once more failed to convince in their upside participation. The Refinitiv Global Focus gained 4.8% in US dollar terms, lagging the advance of the MSCI World index. January turned out a good month for primary market activity. We saw USD 5.4 billion of new paper was issued with a good regional split between the US and Europe. Convertibles are trading about 1% below their fair value with Asia remaining the cheapest region.

COMMODITIES

The S&P GSCI Index recorded a negative performance in January. Energy and livestock were the worst-performing components of the index, while industrial metals and precious metals achieved strong gains. Within energy, the price of natural gas was sharply lower in the month, Within industrial metals, the price of lead fell in January, while zinc, aluminium and copper





all achieved robust gains. Within agriculture, wheat and cocoa prices fell in January, while sugar and coffee recorded significant price growth. Within precious metals, the price of gold was significantly higher than a month earlier, while silver fell back slightly.



TOTAL RETURNS (NET) % – TO END JANUARY 2023

Equities	1 MONTH			12 MONTHS		
	USD	EUR	GBP	USD	EUR	GBP
MSCI World	7.1	5.2	4.6	-7.5	-4.5	0.9
MSCI World Value	4.7	2.9	2.3	-0.9	2.3	8.0
MSCI World Growth	9.7	7.8	7.2	-14.4	-11.6	-6.7
MSCI World Smaller Companies	9.3	7.4	6.8	-4.0	-0.9	4.7
MSCI Emerging Markets	7.9	6.0	5.4	-12.1	-9.3	-4.2
MSCI AC Asia ex Japan	8.2	6.3	5.7	-10.3	-7.4	-2.2
S&P500	6.3	4.5	3.9	-8.2	-5.3	0.0
MSCI EMU	11.6	9.6	9.0	-3.7	-0.6	5.0
FTSE Europe ex UK	9.2	7.3	6.7	-4.0	-0.9	4.7
FTSE All-Share	7.0	5.1	4.5	-3.5	-0.4	5.2
TOPIX*	6.0	4.1	3.5	-5.2	-2.1	3.4


Government Bonds	1 MONTH			12 MONTHS		
	USD	EUR	GBP	USD	EUR	GBP
JPM GBI US All Mats	2.6	0.8	0.2	-8.4	-5.4	-0.1
JPM GBI UK All Mats	5.1	3.3	2.7	-26.0	-23.6	-19.3
JPM GBI Japan All Mats**	1.2	-0.6	-1.2	-16.0	-13.3	-8.5
JPM GBI Germany All Traded	3.8	2.0	1.4	-17.5	-14.8	-10.1
Corporate Bonds	USD	EUR	GBP	USD	EUR	GBP
BofA ML Global Broad Market Corporate	3.9	2.1	1.5	-10.8	-7.9	-2.8
BofA ML US Corporate Master	3.9	2.1	1.5	-9.3	-6.4	-1.2
BofA ML EMU Corporate ex T1 (5-10Y)	4.7	2.9	2.3	-17.0	-14.4	-9.6
BofA ML £ Non-Gilts	6.0	4.2	3.6	-19.5	-16.9	-12.3
Non-investment Grade Bonds	USD	EUR	GBP	USD	EUR	GBP
BofA ML Global High Yield	4.3	2.4	1.9	-7.0	-4.0	1.3
BofA ML Euro High Yield	1.8	0.0	-0.6	-3.1	0.0	5.6

Source: Thomson Reuters DataStream.


Local currency returns in January 2023: *4.4%, **-0.3%.

Past performance is not a guide to future performance and may not be repeated.





Source: [Schroders, January 2023](#): The value of investments and the income from them may go down as well as up and investors may not get back the amounts originally invested. Past performance mentioned is not a guide to future performance and may not be repeated. The sectors, securities, regions and countries shown are for illustrative purposes only and are not to be considered a recommendation to buy or sell.



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