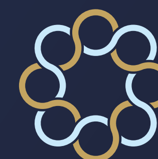


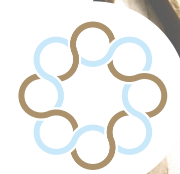
FINURA

YOUR MARKET REVIEW
MARCH 2023

Pension
TRANSFER
Gold Standard

INFOGRAPHIC: THE GLOBAL ECONOMY

Source: [Schroders as at March 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	Neutral	We remain neutral given the risk of further financial stress and expectations of a cyclical slowdown.
	Government Bonds	Long / Positive	We remain positive - data such as credit conditions suggest higher rates are starting to impact growth and as the Fed remains vigilant on inflation.
	Commodities	Neutral	We remain neutral as slowing global growth, combined with easing supply dynamics suggests limited upside.
	Credit	Neutral	Although wider spreads provide opportunities to buy, we remain neutral due to uncertainty over bank funding costs.
Equities	US	Neutral ▲	We believe that valuations are now fairer after the recent correction, therefore a neutral score is now more appropriate.
	UK	Neutral	Domestic issues are aplenty, but we remain neutral on valuation grounds.
	Europe	Neutral ▼	Downgrading to neutral as sentiment is less positive and valuations are not compelling.
	Japan	Neutral	Whilst valuations are fair, we remain neutral given the expectations of an economic slowdown.
	Global Emerging Markets[1]	Neutral ▼	We have downgraded to neutral as the combination of persistent inflation in the US and financial stress may, in the short term, put upward pressure on the US dollar and the asset class.
	Asia ex-Japan & China	Long / Positive	We continue to like China given its de-synchronised cycle and cheap valuations.
	EM Asia ex China	Neutral ▲	In line with our view on global emerging markets, we are tempering our positive view.
Government Bonds	US	Long / Positive	We remain positive as we believe we are now closer to the peak in rates. Strains in the banking sector, falling inflation and signs of peaking in labour market conditions should allow the Federal reserve (Fed) to step back from tightening in the next few months.
	UK	Neutral	We remain neutral. With gilt yields trading at reasonable levels, we see no strong reasons to take a positive or negative view.
	Germany	Neutral	We remain neutral as it remains unclear how high the European Central Bank will raise rates given growth is surprising on the upside.
	Japan	Neutral	Absolute yields are still unattractive compared to other markets, leaving us neutral.
	US Inflation Linked	Neutral	We remain neutral. We prefer to take exposure through nominal bonds as we expect inflation to continue to fall.
	Emerging Markets Local	Neutral ▼	Given that any deterioration in sentiment and strength in the US dollar tends to be negative for emerging market assets, we have downgraded to neutral.

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

	Category	View	Comments
Investment Grade Credit	US	● ▲	Credit spreads have widened to more attractive levels, and significantly so in the banking sector. We prefer to stay on the side-lines until the dust settles and we are more confident that spreads have stabilised. 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	●	We are monitoring opportunities to re-enter as bonds in the region are more attractive than elsewhere but given current uncertainty, we remain neutral.
	Emerging Markets USD	● ▼	Persistent inflation in the US and financial stress may put upward pressure on the US dollar in the short term. We have moved to neutral given this impact.
High Yield Bonds (Non-IG)	US	● ▲	We have upgraded to neutral for similar reasons to US investment grade (IG). Credit spreads have widened to more attractive levels, but we prefer to wait for now.
	Europe	●	We recognise the region offers better value and more upside compared to the US but prefer to remain neutral for now.
Commodities	Energy	●	Natural gas prices have found a floor following recent falls. Rebuilding of oil inventories in the US, slowing global growth and the continuation of Russian exports lead us to stay neutral.
	Gold	●	Weakening growth, an easing of inflation pressures and peaking real yields should support gold prices, but after recent price rises, we prefer to wait for better levels to buy.
	Industrial Metals	●	The lack of any stimulus combined with more moderate growth targets from China has weakened the case for metals. In addition, declining global growth will continue to limit the upside for prices.
	Agriculture	●	Increasing supply from both Ukraine and Russia and favourable crop conditions mean we stay neutral as prices are likely to remain rangebound.
Currencies	US $	● ▲	We have tactically upgraded to neutral as we recognise that persistent inflation in the US and Fed policy on rates may put upward pressure on the US dollar in the short term.
	UK £	● ▲	We have upgraded. Given growth relative to other regions appears to be troughing and politics could provide some upside, we have decided to neutralise our negative view.
	EU €	●	The region’s growth prospects appear slightly better than elsewhere but for now, we retain our neutral view.
	CNH ¥	●	Although positive moves on a China reopening should benefit the renminbi (offshore) and other related currencies, these are likely to be modest and so we remain neutral.
	JAP ¥	● ▼	Recent comments from the Bank of Japan implying that the cap on yields will not be raised have not been supportive for the currency, we have moved to neutral as a result.
	Swiss F	●	We remain neutral as we expect the Swiss franc to perform in line with the euro.

Past performance is not a guide to future performance and may not be repeated. 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. Source: Schroders, March 2023. The views for equities, government bonds and commodities are based on return relative to cash in local currency. The views for corporate bonds and high yield are based on credit spreads (i.e. duration-hedged). The views for currencies are relative to US dollar, apart from US dollar which is relative to a trade-weighted basket.

MARKETS REVIEW

A look back at markets in Q1 when stocks rose despite turmoil in the banking sector.

THE QUARTER IN SUMMARY

Global equities gained in Q1, buoyed by receding recession worries in developed markets. Gains came despite the collapse of Silicon Valley Bank, which caused significant volatility in bank shares. Growth stocks outperformed value in the quarter. In fixed income, government bond yields were fell (meaning prices rose).

THE US

The short-lived market turbulence that followed the collapse of Silicon Valley Bank (SVB) in March did not prevent investor optimism leading US stocks higher over the quarter. The Federal Reserve (Fed) raised rates twice, and data indicated that inflation is cooling, leading to expectations the hiking cycle could shortly come to an end.

The collapse of SVB, followed shortly by further financial sector disruption in Europe, caused stocks to dip sharply in March before recovering to finish the month and quarter higher. The Fed expressed confidence in the resilience of the US banking system and raised the policy rate by 25 basis points in both February and March. This took borrowing costs to the highest point since 2007. However, inflation – as measured by the core personal consumption expenditure (PCE) index – climbed less than expected in March, leading to speculation that further rate hikes will be limited.

The financial sector, perhaps surprisingly, largely shrugged off the events surrounding SVB as investors concluded that the systemic risk was minimal. It was stocks in the energy and healthcare sectors which lagged the most over the quarter. Tech stocks made some of the strongest gains.

EUROZONE

Eurozone shares notched up strong gains in Q1 despite volatility in the banking sector. Gains were led by the information technology, consumer discretionary and communication services sectors. Laggards were real estate and energy.

Financials had a turbulent time in March following the failure of US lender Silicon Valley Bank. A week later, troubled lender Credit Suisse was bought by UBS in a deal brokered by the Swiss authorities. However, the eurozone financials sector posted gains for the quarter overall, with Credit Suisse's problems largely seen as being contained. The real estate sector saw significant falls amid worries over higher financing costs and weaker occupancy rates.

The European Central Bank raised interest rates by 50 basis points in both February and March. Eurozone inflation declined to a one-year low in March. Consumer prices rose by 6.9%, down from 8.5% in February. However, core inflation (excluding food and energy costs) rose to 5.7% from 5.6%. The Markit flash purchasing managers' index reached a 10-month high of 54.1 in March, although growth was powered by the service sector with the manufacturing index below 50. (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.)

In France, government plans to raise the retirement age saw extensive protests across the country. President Macron's government narrowly survived a no-confidence vote over the issue.

UK

UK equities rose over the quarter. Economically sensitive areas outperformed, in line with other markets. This occurred amid hopes that central banks might be in a position to 'pivot' to cutting interest rates in late 2023. Industrials outperformed as did the consumer discretionary sector. The latter reflected a very strong recovery in many domestically focused areas. These bounced back as it transpired the UK economy had performed resiliently during the energy crisis.

The latest quarterly GDP data from the Office for National Statistics revealed that the UK economy had not contracted in Q4 2022, contrary to consensus expectations. As a result, the economy dodged a technical recession by avoiding two consecutive quarters of decline (following the contraction recorded for Q3 2022). In its latest quarterly forecasts, the Bank of England (BoE) said it still expected the country to fall into a recession later in 2023.

The recession, however, is expected be shallower than the BoE had been predicting at the time of striking its previous forecasts back in November 2022. Since that time, wholesale energy prices have fallen considerably as the European energy crisis has abated. The BoE's Monetary Policy Committee voted to continue to raising interest rates as inflation remained the main concern. Inflation proved stronger than expected, in part due to the resilience of the domestic economy.

JAPAN

Japanese stocks rose strongly in Q1 with the Topix up 7.2% in yen terms. Throughout January, investors' attention remained focused on the Bank of Japan (BoJ), following the surprise adjustment to the yield curve control policy which was announced in mid-December. Contrary to investors' speculation, BoJ governor Mr Kuroda left policy unchanged at the January policy meeting. Discussion moved to the policy stance of new governor, Mr Kazuo Ueda, who is scheduled to replace Mr Kuroda in early April.

Quarterly earnings results announced from late January to mid February were mixed. Exporters had a difficult time due to yen appreciation during Q4 2022, and a slowdown in production mainly affecting technology sectors. Domestically-oriented companies recorded better-than-expected sales numbers but suffered from cost increases, including the electricity price hike.

In March, the turmoil triggered by SVB's collapse and the bailout of Credit Suisse by UBS dragged down market sentiment. Japanese financial stocks were severely hit by concerns. However, the market rebounded toward the end of the month. Yen weakness supported cyclical stocks.

Tokyo Stock Exchange was expected to announce its guidance to urge companies with a price-to-book ratio of below 1 to make plans to boost corporate value. The guidance has attracted global attention to Japan, especially for those stocks announcing enhanced shareholder remuneration.

ASIA (EX JAPAN)

Asia ex Japan equities recorded a positive performance in the first quarter, with strong gains by Taiwan, Singapore and South Korea offsetting weaker performances by Hong Kong, India and Malaysia.

Chinese shares achieved robust gains at the start of the quarter after Beijing loosened its Covid-19 restrictions that had

constrained the country's economic growth. Supportive property market measures and a loosening of the regulatory crackdown on China's technology companies also bolstered investor sentiment.

South Korea and Taiwan achieved robust gains in January, while India ended the month in negative territory, amid a sell off by foreign investors and investor caution as economic growth stalled.

Fears of a global recession weakened investor sentiment towards the region in February, with Thailand, Malaysia and South Korea experiencing sharp falls as investors took profits following a strong performance in January on investor optimism sparked by China's reopening.

However, equities were broadly higher in March, with all index markets achieving a positive performance as fears of market contagion following the collapse of Silicon Valley Bank eased.

EMERGING MARKETS

Emerging markets (EM) posted positive returns over the quarter, but lagged the MSCI World Index. The start of the year brought with it renewed optimism about EM, given the re-opening of China's economy. However, February and March saw US-China tensions re-escalate and a widespread loss of confidence in US and European banks. Central banks continued to raise interest rates, with US rates reaching their highest level since 2007 in March.

The best-performing market was the Czech Republic. Mexico outperformed against a backdrop of improving economic data while Taiwan and Korea were beneficiaries of optimism about global growth. Peru, Indonesia and Chile outperformed too.

China was ahead of the index. Although US-China tensions resurfaced during the quarter following the shooting down of a Chinese high altitude balloon in US airspace, optimism about the re-opening of the economy and an apparent easing of regulatory pressure on the internet sector were positive for the market.

South Africa lagged the index with Poland and Thailand behind too. South Africa continues to suffer from the electricity crisis. The country was also was 'grey-listed' in February by the Financial Action Task Force given deficiencies in its processes to combat money laundering and terrorist financing.

Brazil was down in dollar terms against a backdrop of softening economic data and anti-government riots that damaged government buildings in January. India generated negative returns amid allegations of fraud and share price manipulation at a major conglomerate early in the quarter. Economic data released over the period was also below consensus.

GLOBAL BONDS

The first quarter of the year began with positive sentiment on the growth outlook as energy costs fell and China's economy reopened. But there was also evidence that the encouraging inflation picture was starting to reverse as core inflation measures ticked higher once more. However, the collapse of Silicon Valley Bank in mid-March dwarfed concerns over re-accelerating inflation and prompted a sharp rally in government bond markets.

As markets reacted to fears of a banking crisis, government bond markets went from pricing in rate hikes to discounting sizeable rate cuts in some markets.

During Q1, growth improved as headwinds from higher inflation on consumers' real incomes, stemming from energy prices, started to abate. While there were signs that hiking cycles were already biting (particularly in housing markets), the full spill-over effects to the broader economy are yet to come. Core measures of CPI delivered upside surprises to inflation in both the US and Europe.

Central banks continued with their interest rate hikes, though some adjusted their stance. The Federal Reserve (Fed) announced two rate hikes in the quarter of 25bps each, marking a slowdown. The Bank of England (BoE) approved two rate hikes of 50bps and 25bps, respectively. The European Central Bank (ECB) remained more hawkish by comparison and hiked rates twice in 50bps increments.

The Bank of Canada enacted a rate hike of 25bps but signalled a pause immediately upon doing so, while the Bank of Japan (BoJ) made no further adjustments to its yield curve control policy, despite core inflation rising. The BoJ also appointed a new governor, a development markets are assessing for any implications for monetary policy, particularly with respect to yield curve control.

Against this backdrop markets have been volatile with widening credit spreads. US and European investment grade posted positive returns towards quarter end, but high yield was negative with poor performance from the banking sector dominating. 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.

The US 10-year yield fell from 3.92% to 3.47%, with the two-year going from 4.82% to 4.03%. Germany's 10-year yield decreased from 2.65% to 2.29%. The UK 10-year yield fell from 3.71% to 3.49% and two-year decreased from 4.07% to 3.44%.

The US dollar was weaker against most G-10 peers, driven by changes in rate hike expectations. (G-10 currencies are ten major currencies used in international markets).

Convertibles could only partially benefit from the tailwind provided by equity market gains. The Refinitiv Global Focus convertible bond index advanced 2.9% in US dollar terms. Convertibles protected well from losses in February and again during the days when liquidity in the financial sector dried up. However, the asset class only participated in 40% of the equity upside. Total new issuance volume stands at US$22.5 billion for the first quarter – a sharp contrast to the record lows of last year.

COMMODITIES

The S&P GSCI Index recorded a negative performance in the first quarter. Energy and livestock were the worst-performing components of the index, while precious metals and industrial metals achieved price gains. Within energy, prices for natural gas, gas oil and heating oil were all sharply lower. In precious metals, gold achieved a robust price gain while silver achieved a more modest price uplift. Within industrial metals, the price of nickel was sharply lower in the first quarter, while the decline in the price of lead was more muted. Copper and aluminium prices both advanced in the quarter.

TOTAL RETURNS (NET) % – TO END MARCH 2023

	3 MONTHS			12 MONTHS		
Equities	**USD**	**EUR**	**GBP**	**USD**	**EUR**	**GBP**
MSCI World	7.7	5.8	4.8	-7.0	-4.8	-1.0
MSCI World Value	0.9	-0.9	-1.8	-5.0	-2.8	1.1
MSCI World Growth	15.1	13.1	12.0	-9.8	-7.7	-4.0
MSCI World Smaller Companies	4.3	2.4	1.5	-9.4	-7.2	-3.5
MSCI Emerging Markets	4.0	2.1	1.1	-10.7	-8.6	-4.9
MSCI AC Asia ex Japan	4.3	2.5	1.5	-8.9	-6.7	-3.0
S&P500	7.5	5.6	4.6	-7.7	-5.5	-1.7
MSCI EMU	14.2	12.2	11.1	5.6	8.1	12.4
FTSE Europe ex UK	11.7	9.7	8.6	2.1	4.6	8.7
FTSE All-Share	6.0	4.1	3.1	-3.4	-1.0	2.9
TOPIX*	6.3	4.4	3.4	-3.5	-1.2	2.8

	3 MONTHS			12 MONTHS		
Government Bonds	**USD**	**EUR**	**GBP**	**USD**	**EUR**	**GBP**
JPM GBI US All Mats	3.1	1.3	0.3	-4.4	-2.1	1.8
JPM GBI UK All Mats	5.1	3.2	2.2	-21.8	-19.9	-16.7
JPM GBI Japan All Mats**	1.5	-0.2	-1.2	-10.4	-8.3	-4.6
JPM GBI Germany All Traded	3.7	1.9	0.9	-13.5	-11.5	-7.9
Corporate Bonds	**USD**	**EUR**	**GBP**	**USD**	**EUR**	**GBP**
BofA ML Global Broad Market Corporate	3.4	1.6	0.6	-6.9	-4.6	-0.8
BofA ML US Corporate Master	3.5	1.6	0.6	-5.2	-2.9	1.0
BofA ML EMU Corporate ex T1 (5-10Y)	3.9	2.0	1.1	-12.5	-10.4	-6.8
BofA ML £ Non-Gilts	5.2	3.4	2.4	-15.7	-13.7	-10.3
Non-investment Grade Bonds	**USD**	**EUR**	**GBP**	**USD**	**EUR**	**GBP**
BofA ML Global High Yield	3.6	1.8	0.8	-4.4	-2.1	1.8
BofA ML Euro High Yield	1.8	0.0	-1.0	-2.4	0.0	4.0

Source: Thomson Reuters DataStream.
Local currency returns in Q1 2023: *7.2%, **2.4%.
Past performance is not a guide to future performance and may not be repeated.

Source: Schroders, March 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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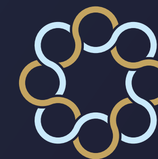

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