FINURA

YOUR MARKET REVIEW
APRIL 2023

Chartered Financial Planners

Pension TRANSFER Gold Standard

INFOGRAPHIC: THE GLOBAL ECONOMY

Source: [Schroders as at April 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	Short / Negative ▼	Negative as we believe that the likely fall in earnings, based on our expectations of a slowdown, is not reflected in current prices.
	Government Bonds	Long / Positive	Positive as signs of inflation peaking, labour markets starting to soften and growth slowing all suggest we are close to the peak in interest rates.
	Commodities	Neutral	Neutral as supply dynamics and inventory levels remain stable, creating a balanced outlook across commodities.
	Credit	Neutral	Neutral overall as cyclical indicators still point to a slowdown and valuations on offer are not sufficiently attractive.
Equities	US	Short / Negative ▼	Given current valuations, we prefer to maintain a cautious stance on US equities as we expect to see further signs of a slowdown in the economy.
	UK	Short / Negative ▼	The persistent tightness of the labour market, high levels of inflation and high interest rates are all likely to weigh on UK equity prices.
	Europe	Short / Negative ▼	Tight labour markets and rising rates create a risk for corporate margins (the ratio of profit to revenue) that will weigh on prices.
	Japan	Short / Negative ▼	Our cyclical models suggest that we are entering a 'slowdown' phase of the economic cycle. This poses a challenge for the market given its cyclical nature.
	Global Emerging Markets[1]	Neutral	We remain neutral as the combination of persistent inflation in the US and a global slowdown will limit opportunities for the asset class.
	Asia ex-Japan & China	Long / Positive	Economic activity has broadly improved, with early indications from high frequency data and PMI surveys suggesting service sector activity has rebounded strongly.
	EM Asia ex China	Short / Negative ▼	Given our expectation of a global economic slowdown, markets such as Taiwan and South Korea may struggle as they are highly dependent on the technology sector.

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

	Category	View	Comments
Government Bonds	US	Long / Positive	After the volatility in the banking sector in March, US rate expectations have been cut as the Federal Reserve (Fed) looks poised to raise rates by less than previously expected.
	UK	Neutral	Recent comments from the Bank of England point to a more balanced tone, and signal that the peak in interest rates could be in sight. Although inflation risks persist, gilts are trading at reasonable levels, meaning we prefer to maintain a neutral stance.
	Germany	Neutral	Despite support for higher interest rates from the European Central Bank (ECB) pushing bund yields higher, economic growth remains positive.
	Japan	Neutral	Japan is still battling high inflation and absolute yields remain unattractive in comparison to other markets.
	US Inflation Linked	Neutral	We prefer to take exposure through nominal bonds as we expect inflation to fall.
	Emerging Markets Local	Neutral	Given that any deterioration in sentiment tends to be negative for emerging market assets, we have retained our neutral stance.

	Category	View	Comments
Investment Grade Credit	US	●	With tightening financial conditions and a global slowdown, investment grade bonds should be insulated by high cash balances and better market access. However, after recent events in the banking sector, we prefer to stay cautious for now.
	Europe	●	We are monitoring opportunities to re-enter as European bonds are more attractively valued than elsewhere. However, given the current uncertainty, we remain neutral.
	Emerging Markets USD	●	We remain neutral as some of the world's poorest countries are facing a debt crisis that leaves emerging market sovereigns particularly vulnerable.
High Yield Bonds (Non-IG)	US	●	We have kept a neutral stance as we would like to avoid this part of the credit market, which tends to be more exposed to a tightening in financial conditions.
	Europe	●	Valuations, credit quality and yields are slightly more attractive than other regions, but given where we are in the economic cycle, we prefer to remain neutral.
Commodities	Energy	●	The medium-term outlook for oil markets remains balanced. While we anticipate a material uptick in Chinese jet fuel demand, Russian supply remains resilient. We also expect a deterioration in demand elsewhere as growth weakens in developed markets.
	Gold	● ▲	We upgrade our view to positive as weakening economic growth, signs of a peak in interest rates and a softer dollar should enable the current rally to continue.
	Industrial Metals	●	The combination of a cyclical slowdown in developed markets and moderating activity in China's construction sector (amidst slightly tighter supply) leaves us neutral.
	Agriculture	●	As we enter the planting season, the supply picture is robust and input costs are substantially lower than in 2022. We, therefore, believe any upside potential in prices from here is limited and so retain a neutral view.
Currencies	US $	● ▼	We have tactically downgraded, re-establishing our negative view on the dollar. We believe the Fed is more likely to pause monetary tightening before the ECB as US inflation data has started to fall and the European labour market is tighter.
	UK £	● ▲	We have upgraded our view to positive. The pound should benefit from stronger growth and stickier inflation compared to the US, and therefore has more room to surprise on the upside.
	EU €	● ▲	We upgraded to positive for similar reasons noted above for the UK. In addition, we expect interest rate differentials relative to the dollar to narrow.
	CNH ¥	●	We remain neutral on account of the trade cycle dynamics. The carry on offer (the return obtained from investing in assets in one currency versus the cost of borrowing in another currency) is not looking particularly attractive, so we remain on the side-lines.
	JAP ¥	●	As the narrative moves from inflation to slowing growth, the yen could be viewed as a safe haven. However, we remain cautious while we await any change in Bank of Japan policy.
	Swiss F	●	Like the yen, the Swiss Franc is often considered a safe haven and the Swiss National Bank is expected to continue raising rates. However, we remain neutral for now as we prefer the euro and pound relative to the dollar.

Source: Schroders, April 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 on markets in April when equities notched up further gains.

THE QUARTER IN SUMMARY

Global shares rose in April, supported by some resilient economic data. Emerging markets underperformed developed market equities amid weakness in Chinese shares. In fixed income, all main credit markets generated positive returns.

THE US

US equities made limited gains in April. Investor optimism stemming from the Federal Reserve's (Fed) anticipated moderation of monetary policy was tempered by the central bank flagging that economic growth is likely to soften. Uncertainty in the banking sector also continued.

The collapse of First Republic looked unavoidable by the end of April, and its demise represented the largest casualty yet triggered by 2023's simmering banking sector stress. Ultimately acquired in a deal between the US government and JP Morgan, investors appeared to take the news in their stride; US banks in the S&P 500 index advanced in aggregate in April. Even so, some apprehension lingers over smaller banks.

Throughout the month it remained the consensus view that the Fed will raise rates in its May meeting by a further 0.25 percentage points, but that the central bank will then pause its policy tightening phase. The view was backed by economic data that indicated growth is waning, the labour market is showing signs of weakening, while inflation has appeared more controlled in recent months.

Equity market performance was influenced by gains from some of the index's largest companies, including some of the large tech stocks. Industrial and consumer discretionary stocks weighed, with automobiles notably weaker. Tesla shares fell as its results showed that profits had been hurt by increasingly ferocious competition in the global electric vehicles market.

EUROZONE

Eurozone shares made gains in April. All sectors advanced in the month aside from information technology (IT). Shares were supported by the release of some resilient corporate earnings. Top performing sectors included energy and real estate, which had previously underperformed so far this year. Utilities also saw gains. The IT sector fell after warnings from several semiconductor companies – both in Europe and elsewhere – that a slowdown in demand is lasting longer than previously expected.

Data showed that the eurozone economy returned to growth in Q1 with an expansion of 0.1% quarter-on-quarter after zero growth in the final three months of 2022. Germany's economy saw no growth but other economies such as Spain and Italy saw stronger expansion. The pace of inflation in Germany slowed with a rate of 7.2% year-on-year expected for April, compared with 7.4% in March.

In terms of forward-looking data, the flash eurozone purchasing managers' index (PMI) for April reached an 11-month high of 54.4. Growth was supported by the services sector but manufacturing output saw a decline. 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.

UK

UK equities rose over the month. Financials were the top contributor, driven in large part by the banking sector which recovered in line with global trends as fears around the health of US banks receded somewhat. The globally diversified energy groups were another top contributor, supported by a recovery in oil prices as Saudi Arabia announced a surprise decision to cut oil production.

Domestically focused sectors held up well despite disappointing inflation and wages data and a resulting marked rise in UK interest rate expectations. The Office for National Statistics (ONS) revealed that headline UK inflation had failed to fall back below 10% as anticipated. Consumer price inflation only slowed to 10.1% in March (versus Bank of England expectations for 9.2%), from 10.4% in February.

Core inflation – which strips out volatile items including energy and food to give a clearer picture of underlying trends – was unchanged from February. At 6.2% the March number was higher than January. This added to expectations the Bank of England may need to raise rates again after May's Monetary Policy Committee meeting in order to bring inflation down on a sustainable basis. Strong wages data published in April also did little to calm fears that the Bank may not be fully on top of inflation.

JAPAN

The Japanese stock market maintained its positive momentum during April with the TOPIX Total Return index up by 2.7% in local terms. The Japanese yen weakened further as the tone at the first policy meeting of the Bank of Japan (BOJ) under new Governor Ueda's leadership sounded dovish. Yen weakness continued to support investor sentiment but at the same time it reduced the return for sterling or USD based overseas investors.

Foreign investors purchased Japanese stocks at a high pace during the month. This momentum was supported by the Tokyo Stock Exchange's initiatives to boost corporate values and stock prices for companies with below 1x price to book ratio. There also seemed to be a "Buffett effect" after legendary investor Warren Buffett added to his Japanese equity investments.

The macroeconomic environment has been on track for recovery mainly thanks to inbound consumption. Inflation, as measured by CPI, remained at a historically high level while wage growth was also shown to have accelerated upon the spring wage negotiation between major companies and trade unions.

Retailers announced positive results for quarterly earnings and, in the last week of April, the full annual results for the Japanese fiscal year started to come out. These generally had a resilient tone. The upward momentum from the macro environment, yen weakness, and increasing focus on corporate governance reforms supported the positive outlook for corporate profits.

ASIA (EX JAPAN)

Asia ex Japan equities recorded a negative performance in April, with sharp declines in China, Taiwan and Thailand offsetting share price gains in Indonesia and India.

China was the weakest index market in April, despite economic growth expanding at a faster rate than expected in the first quarter. Ongoing tensions with the US and other Western nations over Taiwan weakened investor sentiment towards the country.

Share prices in Taiwan also ended the month in negative territory as demand for semiconductors, one of Taiwan's main exports, declines due to weaker growth in other parts of the world.

Indonesia was the best-performing index market in April as the country accelerates its efforts to become a major player in the global electric vehicle (EV) supply chain by tapping its nickel reserves, a key raw material used for making EV batteries. Indian equity prices also achieved robust gains in April, driven by gains in real estate and information technology stocks.

EMERGING MARKETS

Emerging market (EM) equities declined in April, and underperformed developed market equities, as renewed US-China tensions arose. These concerned Taiwan, as well as potential new restrictions from the US administration on foreign direct investment into China.

China was the worst performing index market, despite some positive macroeconomic data which included better-than-expected Q1 GDP growth and export performance. Taiwan was also notably weak.

Turkey, where political uncertainty is rising ahead of May's presidential elections, declined for a second month. Voting polls indicate opposition leader Kemal Kilicdaroglu is proving meaningful competition for President Erdogan.

Chile underperformed on the announcement of a national lithium policy, in which the government will partner with the private sector to share the benefits of the country's abundant reserves. Korea also fell, although by less than the index, as the local currency's depreciation against the dollar weighed on returns.

South Africa recorded a small positive gain in the month, finishing behind the Latin American markets of Mexico, Brazil and Colombia. India outperformed too, supported by some positive macroeconomic data including better industrial production and easing inflation, which meant the central bank kept monetary policy unchanged. Saudi Arabia posted a positive return as oil prices rose after OPEC production cuts were announced. Indonesia, where the rupiah appreciated against the US dollar, also outperformed.

The CE3 markets of Czech Republic, Hungary and Poland delivered strong returns, particularly Poland which was up double-digits in US dollar terms and was the best-performing index market in the month. European gas prices fell again in April as concerns over the Russia-Ukraine war faded and the European winter ended with gas storage near record highs.

GLOBAL BONDS

The drop in bond yields seen in March as markets reacted to banking sector stresses did not continue into April, with yields beginning to creep up once more. Overall, markets were calmer compared to the previous month.

Markets are anticipating further near-term rate hikes from the Federal Reserve, Bank of England and the European Central Bank. The UK gilt market underperformed others as activity data was resilient and inflation surprised to the upside.

The Bank of Japan's (BoJ) new governor pledged to keep the loose monetary policy unchanged for now, maintaining very low interest rates, but announcing plans to review past monetary policy moves.

US bond yields were largely flat with the US 10-year yield edging down from 3.47% to 3.42%, with the two-year dropping very slightly from 4.03% to 4.01%. Germany's 10-year yield increased from 2.29% to 2.31%. The UK 10-year yield rose from 3.49% to 3.72% and two-year increased from 3.44% to 3.78%.

All main credit markets generated positive returns in April, as markets rebounded following a volatile March. Spreads tightened as markets recovered from an indiscriminate sell-off following the events surrounding Silicon Valley Bank and Credit Suisse, resulting in positive total returns across investment grade and high yield. 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 dollar was weak against the euro and sterling. The Japanese yen weakened against the dollar after the BoJ's announcement. Overall, the US dollar index was largely unchanged.

Convertible bonds could not benefit from the stock market tailwinds and the Refinitiv Global Focus convertible bond index was down -1%. Compared to global equities, the information technology bias in convertibles and the underweight in financials held back the asset class in April. It was another good month for primary market activity with $5.7 billion of new paper coming to the market. The US remained the dominant region but there was also strong issuance in Asian convertibles.

COMMODITIES

The S&P GSCI Index recorded a negative performance in April as weaker prices for agriculture, industrial metals and energy offset price gains in livestock and precious metals. Agriculture was the worst-performing component of the index, with sharp falls in the price of wheat and corn. Within industrial metals, the price of zinc, copper and aluminium all fell in the month, while lead and nickel gained.

Within the energy component, heating oil, gas oil and unleaded gasoline all recorded price declines, while crude oil, Brent crude and natural gas all achieved modest price gains. The Opec+ nations, a group of 23 oil-exporting countries, announced production cuts of more than one million barrels per day. Livestock was the best-performing component. Within precious metals, the price of silver and gold both gained in the month.

Cryptocurrency

Digital asset markets performed well in April with Bitcoin and Ethereum returning 2.9% and 3.5% respectively. Digital assets are one of the best performing asset classes in 2023; Bitcoin is up 71% year-to-date. Bitcoin's outperformance was idiosyncratic as liquidity shifted in the face of bank insolvencies.

The next milestone for the Ethereum upgrade was successfully completed this month allowing locked tokens to be removed for the first time in years. The extra liquidity didn't have a negative price impact.

The US regional banking crisis has raised questions about how the digital asset industry should interact with the traditional banking system. All three banks that shut down in Q1 were involved in the industry. US regulators continued to focus on the industry and ultimately this is likely to lead to more clarity on the regulatory front.

TOTAL RETURNS (NET) % – TO END APRIL 2023

	1 MONTH			12 MONTHS		
Equities	**USD**	**EUR**	**GBP**	**USD**	**EUR**	**GBP**
MSCI World	1.8	0.1	0.1	3.2	-1.4	3.1
MSCI World Value	1.9	0.3	0.3	1.8	-2.7	1.7
MSCI World Growth	1.6	-0.0	-0.1	4.0	-0.6	3.9
MSCI World Smaller Companies	-0.1	-1.7	-1.7	-1.8	-6.2	-1.9
MSCI Emerging Markets	-1.1	-2.7	-2.7	-6.5	-10.7	-6.6
MSCI AC Asia ex Japan	-2.1	-3.6	-3.7	-5.9	-10.1	-6.0
S&P500	1.6	-0.1	-0.1	2.7	-1.9	2.6
MSCI EMU	3.1	1.5	1.4	17.1	11.9	17.0
FTSE Europe ex UK	4.0	2.3	2.3	13.3	8.3	13.2
FTSE All-Share	5.1	3.4	3.4	6.2	1.4	6.0
TOPIX*	0.4	-1.2	-1.3	5.9	1.2	5.8

	1 MONTH			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	1.6	0.0	-0.0	-4.4	-8.6	-4.5
Corporate Bonds	**USD**	**EUR**	**GBP**	**USD**	**EUR**	**GBP**
BofA ML Global Broad Market Corporate	1.2	-0.4	-0.4	-0.1	-4.5	-0.2
BofA ML US Corporate Master	0.8	-0.8	-0.8	0.6	-3.9	0.5
BofA ML EMU Corporate ex T1 (5-10Y)	2.5	0.9	0.9	-1.8	-6.1	-1.9
BofA ML £ Non-Gilts	1.6	0.0	-0.0	-7.7	-11.8	-7.8
Non-investment Grade Bonds	**USD**	**EUR**	**GBP**	**USD**	**EUR**	**GBP**
BofA ML Global High Yield	1.0	-0.6	-0.7	1.0	-3.5	0.9
BofA ML Euro High Yield	1.6	0.0	-0.0	4.7	0.0	4.5

Source: Thomson Reuters DataStream.
Local currency returns in April 2023: *2.7%, **0.3%.
Past performance is not a guide to future performance and may not be repeated.

Source: [Schroders, April 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.

Important Information: This communication is marketing material. The views and opinions contained herein are those of the named author(s) on this page, and may not necessarily represent views expressed or reflected in other Finura communications, strategies or funds. This document is intended to be for information purposes only and it is not intended as promotional material in any respect. The material is not intended as an offer or solicitation for the purchase or sale of any financial instrument. The material is not intended to provide, and should not be relied on for, accounting, legal or tax advice, or investment recommendations. Information herein is believed to be reliable but Finura does not warrant its completeness or accuracy. The data has been sourced by Finura and should be independently verified before further publication or use. No responsibility can be accepted for error of fact or opinion. This does not exclude or restrict any duty or liability that Finura has to its customers under the Financial Services and Markets Act 2000 (as amended from time to time) or any other regulatory system. Reliance should not be placed on the views and information in the document when taking individual investment and/or strategic decisions. Past Performance is not a guide to future performance. 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. Exchange rate changes may cause the value of any overseas investments to rise or fall. Any sectors, securities, regions or countries shown above are for illustrative purposes only and are not to be considered a recommendation to buy or sell. The forecasts included should not be relied upon, are not guaranteed and are provided only as at the date of issue. Our forecasts are based on our own assumptions which may change. Forecasts and assumptions may be affected by external economic or other factors. Issued by Finura Partners Limited, registered in England under Companies House number 09560937, 15 Bowling Green Lane, London, England, EC1R 0BD.

FINURA

5th Floor, 20 Old Bailey, London EC4M 7AN
T: +44 (0)20 8057 8004 E: hello@finura.co.uk W: finura.co.uk