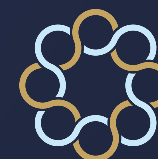
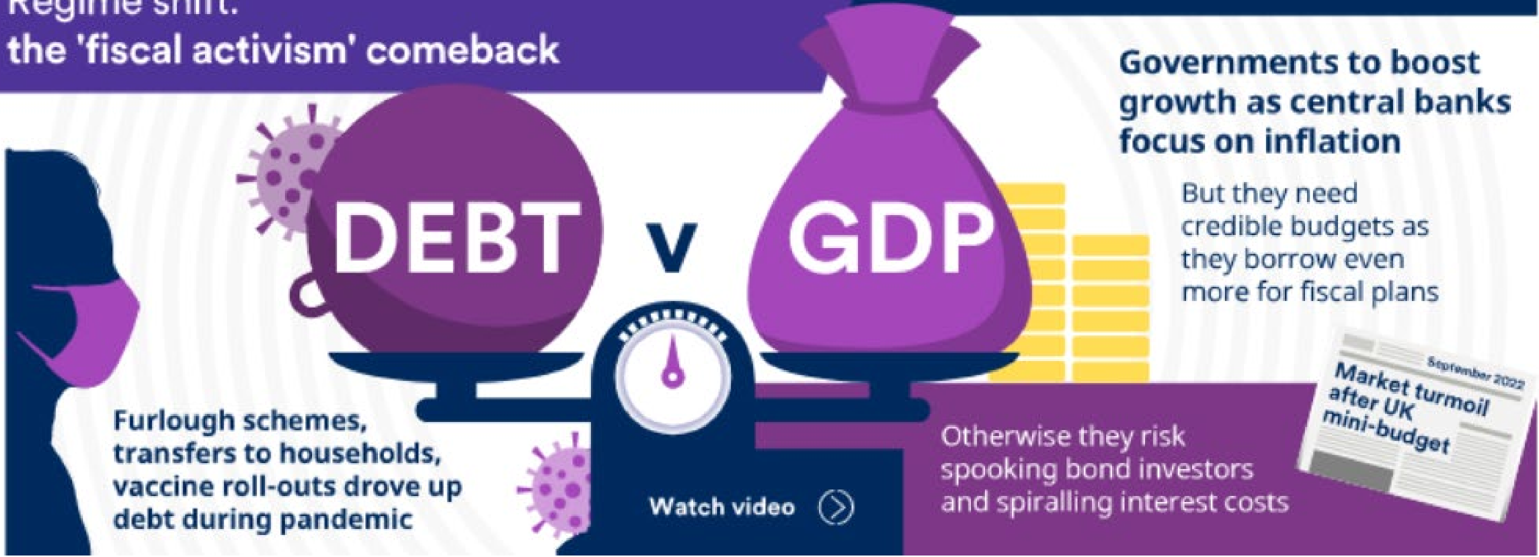


FINURA

YOUR MARKET REVIEW
MAY 2023

Pension
TRANSFER
Gold Standard

INFOGRAPHIC: THE GLOBAL ECONOMY

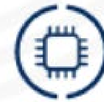


Regime shift: the end of globalisation?

15-25%

of global goods trade could shift to different countries over the next five years*

A decades-long process of globalisation is coming to an end



Emergence of a new world order set to disrupt global supply chains

These changes may deal a stagflationary blow to the global economy

*Estimates from the McKinsey Global Institute

Source: [Schroders as at May 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	We maintain our bearish stance on equities (we expect prices to be weaker) as inflation proves to be persistent and economic conditions are worsening.
	Government Bonds	● Long / Positive	We remain positive as we expect the global economy to slow and interest rates to peak soon. If inflation reduces in line with consensus, bonds should remain supported.
	Commodities	● Neutral	We stay neutral overall. As we start to see material cracks in the growth data, we anticipate a slowdown in commodity demand, with demand and supply broadly balanced.
	Credit	● Neutral	We maintain a neutral score as valuations are still not attractive. Given the macro backdrop we do not believe spreads are compelling.
Equities	US	● Short / Negative	We believe that there is now enough evidence to show that US economic conditions are deteriorating. The Federal Reserve (Fed) may not raise interest rates further but is not expected to pivot until the labour market softens meaningfully.
	UK	● Short / Negative	Although prices are low and have started to rise in recent weeks, we do not expect a full rebound to previous highs. We believe that the impact of a persistently tight labour market, high inflation and high interest rates have yet to be fully felt in the economy.
	Europe	● Short / Negative	We remain negative as we believe European equities are no longer cheap and the region's earnings growth forecast looks optimistic. The European Central Bank (ECB) is likely to remain in favour of higher interest rates for some time given persistent inflation and tight labour markets.
	Japan	● Short / Negative	As we prepare to enter the 'slowdown' phase of the economic cycle, Japanese share prices are likely to be significantly challenged given the market's cyclical nature.
	Global Emerging Markets[1]	● Neutral	We remain neutral as inflation continues to be persistent in the US, and with emerging markets (EM) ahead of developed markets in the battle against inflation it limits opportunities for the asset class.
	Asia ex-Japan & China	● Long / Positive	Valuations and economic activity have improved and early indications from high frequency data and PMI surveys suggest service sector activity has rebounded.
	EM Asia ex China	● Short / Negative	As our expectation of a global economic slowdown looms, markets such as Taiwan and South Korea are likely to struggle as they are highly dependent on the technology sector.
Government Bonds	US	● Long / Positive ▲	Although valuations appear slightly expensive, real yields are still relatively high, and some cracks in the labour market have started to emerge. We are comfortable remaining modestly positive.
	UK	● Long / Positive	We have upgraded UK gilts to positive as headline inflation should fall meaningfully in the next couple of months as last year's energy price rises drop out of the annual data. Gilts have also underperformed the recent rally in global bonds.
	Germany	● Neutral	We have seen a modest fall in core inflation signalling that a peak could be near. The ECB has slowed the pace of interest rate hikes but has indicated it has not finished yet. We remain neutral for now.
	Japan	● Neutral	We remain neutral as Japan is still battling high inflation, but the Bank of Japan's new governor pledged to keep loose monetary policy unchanged.
	US Inflation Linked	● Neutral	We still prefer to take exposure through nominal bonds as we expect inflation to begin to moderate.
	Emerging Markets Local	● Long / Positive ▲	We have turned positive as EM central banks are ahead of developed markets in their hiking cycle to contain inflation. EM inflation is falling, and we expect more cuts to come.

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

	Category	View	Comments
Investment Grade Credit	US	●	High cash rates are setting a high benchmark for investment grade credit. This is particularly acute in US investment grade which is unattractive to hedge (to offset the risk of any adverse price movements) for European investors.
	Europe	●	We remain neutral. European bonds appear more attractively valued than elsewhere, but it remains a tough market for credit as European financial conditions are tightening.
	Emerging Markets USD	●	A soft landing would favour EM debt, but until we have clearer signals, we prefer to stay away from this asset class.
High Yield Bonds (Non-IG)	US	●	US high yield (HY) spreads are expensive for an economy moving into slowdown or recession with tightening financial conditions. HY issuance has been low for some time and serves as a technical tailwind, leaving us neutral.
	Europe	●	Although there is still a premium for EU over US credit, this has narrowed, and we think largely reflects sectoral differences and real estate concerns.
Commodities	Energy	●	The latest sell-off in oil markets seems overblown but does point to anticipated weakness in demand. We expect that OPEC will step in with cuts to balance the market.
	Gold	●	We remain positive. Gold is favoured as we head into a slowdown, and the year-to-date rally allows us to be nimbler in increasing the allocation.
	Industrial Metals	●	With a dampening cyclical outlook, we remain on the side-lines as industrial metals are more cyclically exposed than precious metals. Fading developed market demand and a lack of activity growth in China does not support this market.
	Agriculture	●	Moderating input costs compared to 2022 point to a more robust supply picture as the planting Like last month, 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 still not looking particularly attractiveseason across many crops gets underway. We believe the upside potential in prices from here is limited and so retain our neutral view.
Currencies	US $	●	We retain our negative view as we believe the Fed is heading towards a pause in its monetary policy. Concerns around the US debt ceiling also acts as a headwind for the currency.
	UK £	●	We remain positive. We believe the pound will benefit from rates and inflation staying higher compared to the US, and therefore providing support for sterling.
	EU €	●	We stay positive for similar reasons as the UK. We also expect interest rate differentials relative to the dollar to narrow, and more rate hikes to follow.
	CNH ¥	●	Like last month, 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 still not looking particularly attractive.
	JAP ¥	●	As concerns shift from inflation to slowing growth, the yen could be viewed as a safe haven currency. However, we remain cautious as since the appointment of the new governor the yen has been weaker.
	Swiss F	●	Like the Yen, the Swiss Franc is also considered a safe haven currency. We remain neutral for now as we still prefer the euro and pound relative to the dollar.

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, May 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 May when global shares fell but the technology sector outperformed.

THE QUARTER IN SUMMARY

Global shares fell in May, in US dollar terms. However, there was a marked difference between sectors, as enthusiasm over AI (Artificial Intelligence) boosted technology stocks. In economic news, survey data indicated further weakness in manufacturing sectors, with services still proving robust. Worries over the US debt ceiling made headlines although a deal was reached shortly after month-end. Government bond yields climbed (meaning prices fell).

THE US

US equities struggled to make headway overall in May, in a month of highly varied sector returns. While economic data remained broadly supportive, the looming prospect of a government default made investors jittery. The Federal Reserve (Fed) enacted another rate rise of 25 basis points, as expected. Read more here.

The US labour market remains tight. The headline unemployment rate fell to 3.4% from 3.5% in March. Inflation (as measured by the consumer price index - CPI) rose 0.4% month-on-month in April following a 0.1% uptick in March. Excluding the volatile food and energy categories, core CPI saw a repeat 0.4% increase, also as expected.

Industrial activity – according to initial composite purchasing managers' index (PMI) data – improved slightly in May. 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.

As such, while the Fed's rate hike was anticipated, there was a slight but significant adjustment to messaging. The central bank expressed uncertainty in its May meeting about future policy tightening and the need to retain flexibility.

Discussions around the debt ceiling were the focal point for much of the month. With Democrats and Republicans having found a compromise, a deal was agreed on the final weekend of the month to raise the country's borrowing limit, which needs to pass through Congress.

Energy and materials stocks were among the weakest performers in May, with concerns over the demand outlook weighing. The performance contrasted starkly with the stocks in the technology sector, which made strong gains. Fervour around artificial intelligence and the potential for a boom in related technology drove chipmakers, in particular, higher. Read more here.

EUROZONE

Eurozone shares were weaker in May after a generally positive year so far. The MSCI EMU index returned -2.5%. All sectors fell aside from information technology which was boosted by semiconductor stocks. This was in the wake of higher-than-expected sales projections from some US chipmaker peers, which helped demonstrate the growth potential stemming from AI. Revised figures showed that the German economy did not in fact escape recession over the winter. After GDP for Q4 2022 fell -0.5% quarter-on-quarter (q/q), there was another decline of -0.3% (q/q) in Q1 2023.

More recent data pointed to slowing momentum in the current quarter. The flash eurozone composite purchasing managers' index fell to 53.3 in May from 54.1 in April. That represents a fifth consecutive month of growth in business output but the reading was a three-month low amid weakness in the manufacturing sector.

Eurostat data showed euro area annual inflation rate was 7.0% in April 2023, up from 6.9% in March. The European Central Bank (ECB) raised all three of its key interest rates by a further 0.25%. Read more here.

However, there were some encouraging signs of easing price pressures in preliminary data for May. Germany was among several countries reporting a drop in inflation, with a fall to 6.3% in May from 7.6% in April. France also reported a slowdown in price growth, boosting hopes that eurozone rate rises may soon end.

UK

UK equities fell in May. The large UK-quoted diversified energy and basic materials groups were among the most significant fallers amid broad-based weakness in commodity prices. Technology was the only sector to record a positive return, although financials also fared relatively well, helped by the banks sector which held its value over the month.

The Bank of England (BoE) announced a 12th consecutive rise in the base rate, hiking 25 basis points, from 4.25% to 4.5%. The bank also upwardly revised its growth and inflation forecasts, shortly after which the Office for National Statistics (ONS) confirmed that the UK economy grew by 0.1% in Q1 2023. All of this data further supported the view that the UK economy would avoid a recession this year. Read more here.

Consumer price inflation slowed less than expected to 8.7% in April, from 10.1% in March, revealed the ONS. Core inflation – which strips out volatile items including energy and food to give underlying trends – rose versus March, and at 6.8% was the highest since 1992. There was a further rise in UK interest rate expectations with it generally accepted that the BoE has more work to do to tame underlying inflation.

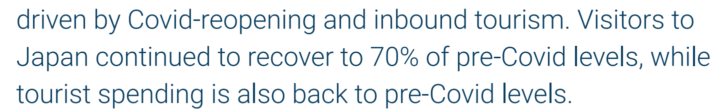
JAPAN

The Japanese stock market continued its strong momentum during May and the TOPIX Total Return index rose by 3.6% in local terms. The momentum behind the Japanese yen also continued and it weakened against the US dollar, reaching the 140 yen level.

Foreign investors continued to purchase Japanese stocks and that drove the market trend in favour of large cap growth. An improvement in investor sentiment towards the semiconductor industry also supported the market. As a result, the Nikkei 225, consisting of large cap stocks, climbed above the 31,000 yen level and it exceeded its post-bubble economy peak for the first time in 33 years.

Results for the full-year earnings season were solid. A key positive aspect was the fact that many companies announced an increase in shareholder returns by increasing dividends as well as share buybacks, in response to initiatives by the Tokyo Stock Exchange. Stock prices for such companies with low valuations went up strongly, in addition to the strong rally in large cap growth stocks.

With regard to the macroeconomic trend in Japan, Q1 GDP growth figures were positive with solid domestic demand being



driven by Covid-reopening and inbound tourism. Visitors to Japan continued to recover to 70% of pre-Covid levels, while tourist spending is also back to pre-Covid levels.

ASIA (EX JAPAN)

Asia ex Japan equities recorded a negative performance in May, with sharp declines in Hong Kong and China offsetting share price gains in South Korea, Taiwan and India.

Hong Kong was the weakest index market in May, closely followed by China, as the investor optimism seen earlier in the year following the reopening of China's economy after the Covid-19 crisis faded due to disappointing economic data and weakening demand. In China, the economic recovery has been weaker than analysts had expected, with the latest factory activity reading coming in below the mark that separates growth from contraction. Service sector activity, while still positive, expanded at the weakest pace in four months in May. Share prices also declined in Thailand, Singapore and Indonesia in May.

Taiwan was the best-performing index market, driven by gains in technology stocks as investors rushed to buy AI-related shares. Investor enthusiasm for AI also boosted share prices in South Korea, which ended the month firmly in positive territory. India stocks also achieved modest gains in May, as encouraging economic data boosted sentiment towards the country.

EMERGING MARKETS

Emerging market (EM) equities underperformed the MSCI World Index in May. Within EM, South Africa was the weakest market, posting a double-digit loss in US dollars. Allegations that the country sold arms to Russia, the worsening electricity situation, and the rand's slide to an all-time low against the US dollar weighed heavily on the market.

The Czech Republic came in close behind South Africa amid ongoing signs that consumption is under pressure. China also underperformed significantly as the recovery showed signs of moderating. Retail sales and industrial production contracted month-on-month in April, while year-on-year fixed asset investment was dragged down by real estate, and export activity slowed month-on-month in April.

Kuwait, UAE and Saudi Arabia underperformed amid a backdrop of weakening oil prices. Colombia, Peru and Chile lagged the index too. Colombia was also impacted by rising political uncertainty and concerns about the country's possible reclassification to frontier market status. Thailand and Mexico were also behind the index in the month.

Brazil and Qatar posted small positive gains and outperformed, as did India even as the rupee depreciated against the dollar. Hungary also gained, supported by positive sentiment regarding the central bank's bigger-than-expected reduction in interest rates. Taiwan and Korea outperformed strongly, led by technology shares on the back of optimism about the AI theme.

Greece was the top-performing market in May as the ruling New Democracy party secured a 41% share of the vote in the country's national election. This better-than-expected outcome eased fears of a multi-party coalition. Another round of voting is scheduled for 25 June as the party's win does not give it a parliamentary majority.

GLOBAL BONDS

Government bond yields generally climbed during May but there was divergence between markets, with weaker data across the eurozone leading to the market's outperformance. The month

kicked off with the US Federal Reserve (Fed) announcing its 10th interest rate hike in just a little over a year. The 0.25% increase brought the Fed funds rate to a target range of 5% to 5.25% - the highest since August 2007. Both the Bank of England (BoE) and European Central Bank (ECB) followed suit by raising interest rates 0.25% each. The ECB also announced that it expects to end reinvestments under its Asset Purchase Programme (APP) from July 2023, while acknowledging significant risks to inflation.

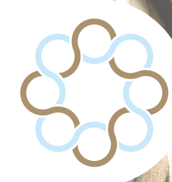
The US 10-year yield increased from 3.42% to 3.63%, with the two-year rising from 4.01% to 4.40%. Germany's 10-year yield decreased slightly from 2.31% to 2.27%. The UK 10-year yield saw the largest hike as it rose from 3.72% to 4.18% and two-year increased from 3.78% to 4.34%.

Global growth concerns re-emerged, with activity data in China showing a marked slowdown. Manufacturing activity was weak across all major economies, but was most notable in the eurozone, where the purchasing manager index showed a deep contraction and was significantly below expectations. Service sectors across major economies showed continued resilience. It was this resilience, particularly in light of continuing wage pressures, that prompted a hawkish response by a number of Fed members as the month progressed. Towards month end, it appeared that a deal on the US debt ceiling would be reached. This assuaged market concerns and dampened volatility.

The UK bond market underperformed the US and Europe mainly due to stickier-than-expected inflation that might drive the BoE to raise rates longer than its developed market peers. A tight labour market and resultant wage pressures continue to be a concern for UK policy makers. The end of the month brought more positive news for the eurozone, with some of the regional inflation prints coming in significantly lower than expected.

The performance of credit markets was mixed over the month, with the US underperforming the European market in both investment grade and high yield. European high yield performed well, with both positive total returns and excess returns over government bonds, while total returns were negative in the US. 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.

With the weakening global backdrop the dollar performed well against all G10 currencies. The Swedish krona was the notable underperformer, driven by very weak activity data.



Convertible bonds, as measured by the Refinitiv Global Focus Index, broke away from the negative stock market trend and finished the month with a slight gain of 0.2%, although valuations continue to reflect the risk-off market mood.

COMMODITIES

The S&P GSCI Index recorded a negative performance in May with all components of the index ending the month in negative territory. Energy was the worst-performing component of the index in May, with sharp falls in the price of natural gas and crude oil.

Within industrial metals, nickel and zinc prices were sharply lower in the month, while price falls for aluminium, copper and lead were more muted. In agriculture, weaker prices for soybeans, sugar and coffee offset modest price gains for cocoa, cotton and corn. Within livestock, a significant fall in the price of lean hogs offset more modest gains in the price of feeder cattle and live cattle. In precious metals, silver and gold both ended the month in negative territory.

DIGITAL ASSETS

Trends in the digital asset space very often start in the largest and most liquid tokens, specifically Bitcoin. As the trend matures, profits are taken and allocated into more risky assets such as Ethereum (ETH), followed by other smaller tokens. After exceptional year-to-date performance, this "catch-up" phenomenon was clearly seen in May which saw ETH almost flat on the month (-0.5%) while Bitcoin was down -7.2%.

A number of idiosyncratic factors further contributed to this outperformance. May was the first full month post the Ethereum "Shapella" upgrade, where users can now easily stake and un-stake their ETH, causing demand to increase. A resurgence of activity on NFTs (non-fungible tokens) also contributed to this increased demand. This has led to growing staking yields (8.0% per annum) and a more deflationary path for the ETH token (-1.4% annualised rate in May).

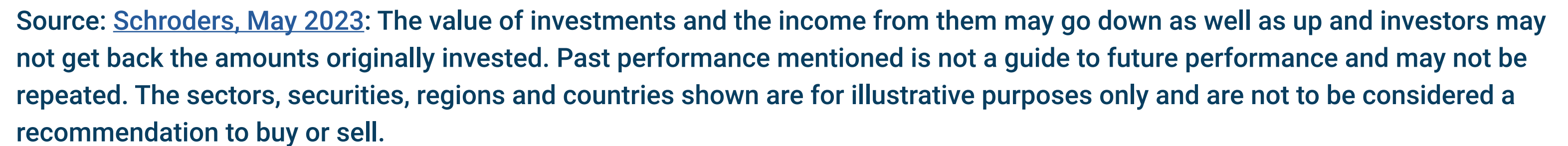
The correlation of Bitcoin and other digital assets to macro events/risk assets has fallen this year after excess liquidity and leverage was removed from the market during 2022. This trend has continued in recent months, with three-month correlation to equities currently standing at 0.15. The three-month realised volatility has decreased to 50% in a context of diminishing liquidity across most markets as certain large market makers are pulling back.

TOTAL RETURNS (NET) % – TO END MAY 2023

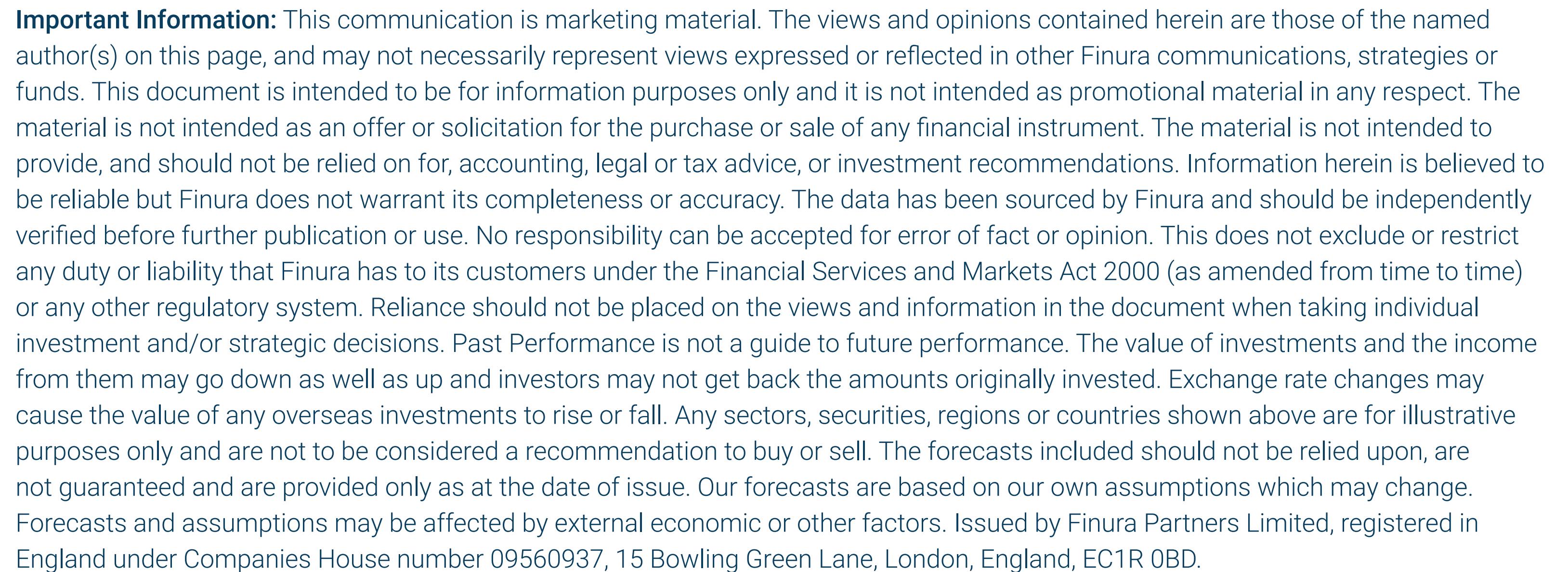
	1 MONTH			12 MONTHS		
Equities	**USD**	**EUR**	**GBP**	**USD**	**EUR**	**GBP**
MSCI World	-1.0	2.5	0.4	2.1	2.6	3.8
MSCI World Value	-4.6	-1.2	-3.2	-4.8	-4.4	-3.2
MSCI World Growth	2.4	6.0	3.8	9.0	9.5	10.8
MSCI World Smaller Companies	-2.8	0.7	-1.4	-4.3	-3.9	-2.7
MSCI Emerging Markets	-1.7	1.8	-0.3	-8.5	-8.1	-6.9
MSCI AC Asia ex Japan	-1.8	1.7	-0.4	-8.1	-7.6	-6.5
S&P500	0.4	4.0	1.9	2.9	3.4	4.7
MSCI EMU	-5.8	-2.5	-4.5	8.0	8.5	9.8
FTSE Europe ex UK	-5.3	-1.9	-4.0	6.7	7.2	8.5
FTSE All-Share	-6.0	-2.6	-4.6	-1.2	-0.8	0.4
TOPIX*	1.0	4.6	2.4	5.4	5.9	7.2

	1 MONTH			12 MONTHS		
Government Bonds	**USD**	**EUR**	**GBP**	**USD**	**EUR**	**GBP**
JPM GBI US All Mats	-1.1	2.4	0.3	-2.2	-1.7	-0.5
JPM GBI UK All Mats	-5.0	-1.6	-3.6	-17.7	-17.3	-16.3
JPM GBI Japan All Mats**	-2.7	0.8	-1.3	-9.0	-8.6	-7.5
JPM GBI Germany All Traded	-3.2	0.2	-1.9	-7.4	-6.9	-5.8
Corporate Bonds	**USD**	**EUR**	**GBP**	**USD**	**EUR**	**GBP**
BofA ML Global Broad Market Corporate	-1.9	1.6	-0.5	-2.3	-1.8	-0.7
BofA ML US Corporate Master	-1.3	2.2	0.1	-1.3	-0.8	0.4
BofA ML EMU Corporate ex T1 (5-10Y)	-3.2	0.2	-1.9	-4.7	-4.2	-3.1
BofA ML £ Non-Gilts	-3.5	-0.1	-2.1	-10.0	-9.5	-8.5
Non-investment Grade Bonds	**USD**	**EUR**	**GBP**	**USD**	**EUR**	**GBP**
BofA ML Global High Yield	-1.3	2.2	0.1	-0.3	0.2	1.4
BofA ML Euro High Yield	-3.4	0.0	-2.1	-0.5	0.0	1.2

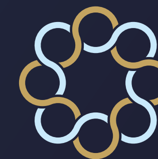
Source: Thomson Reuters DataStream.
Local currency returns in May 2023: *3.6%, **-0.1%.
Past performance is not a guide to future performance and may not be repeated.



Source: Schroders, May 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

Finura Partners is an Appointed Representative of Evolution Wealth Network Limited who are authorised and regulated by the Financial Conduct Authority and based at Holmwood House, Broadlands Business Campus, Langhurstwood Road, Horsham, West Sussex, RH12 4QP.

Finura Partners Limited are registered in England under Companies House number 09560937, 15 Bowling Green Lane, London, England, EC1R 0BD.