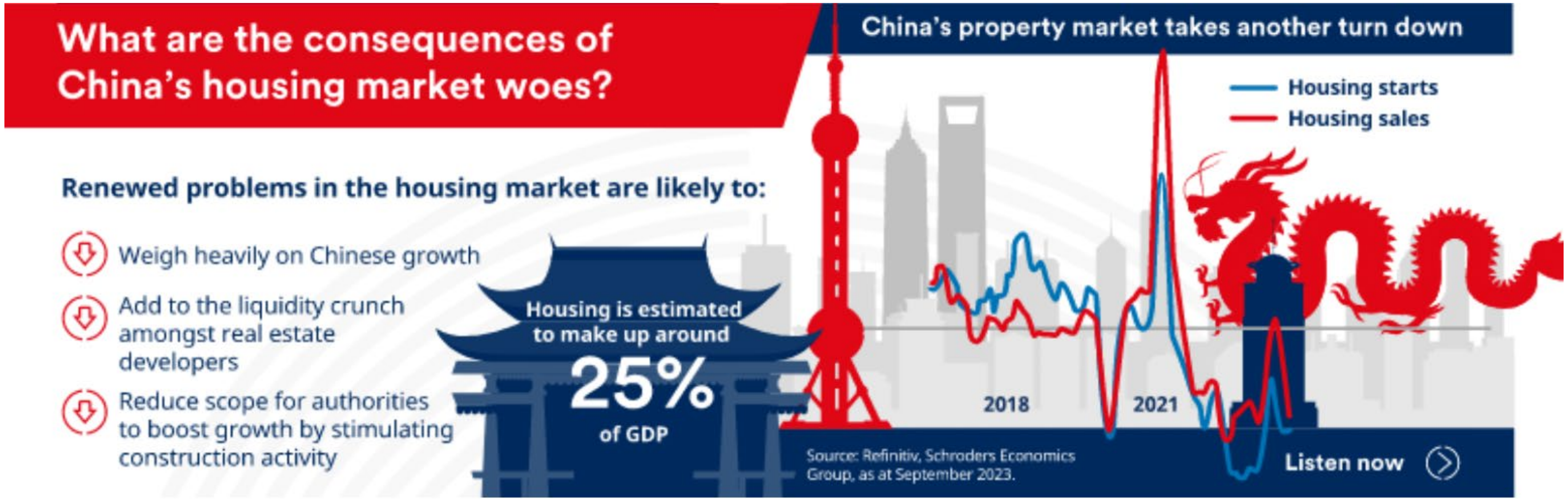
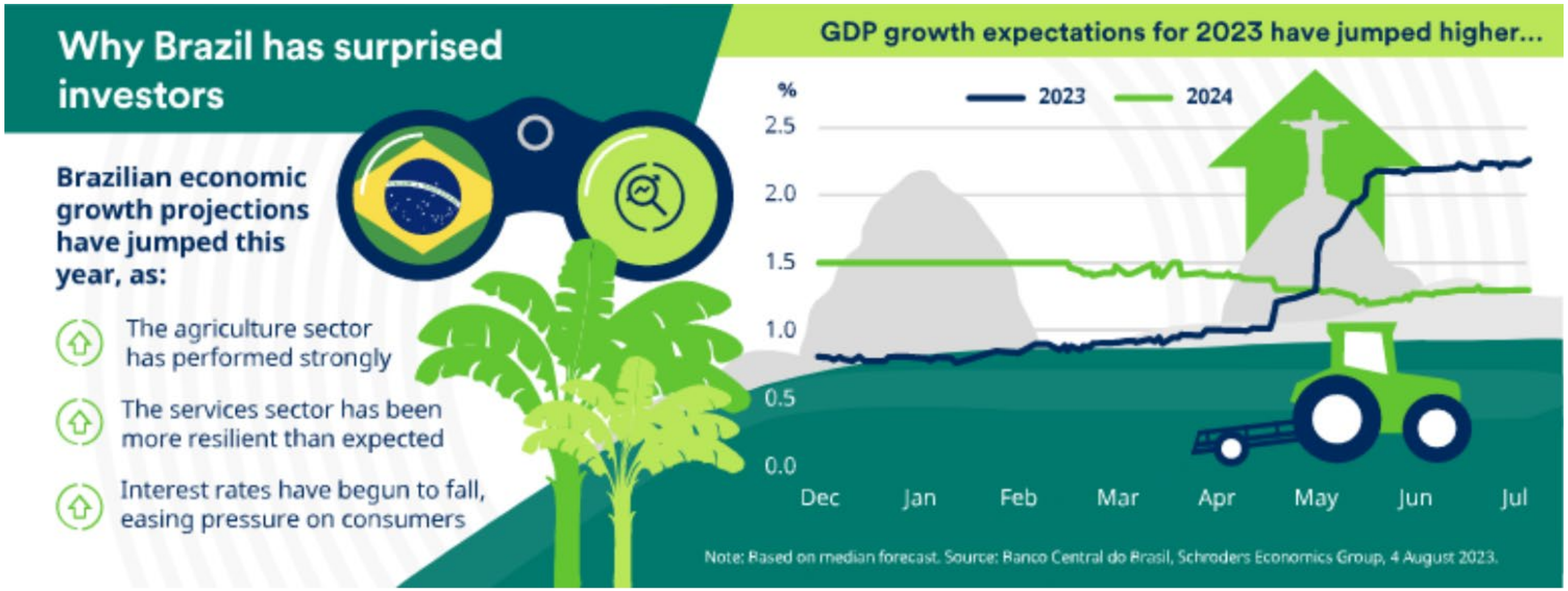
FINURA

YOUR MARKET REVIEW
SEPTEMBER 2023

Chartered Financial Planners

INFOGRAPHIC: THE GLOBAL ECONOMY





Source: [Schroders as at September 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 on equities. Although we believe there may be short-term opportunities for value, this is counteracted by negative medium-term indicators.
	Government Bonds	Long / Positive	We maintain our positive view on government bonds, as interest rates should be close to peaking, and some central banks are pausing rate hikes.
	Commodities	Long / Positive	We have kept our positive outlook on commodities as we expect prices to rise, particularly in energy as Saudi Arabia and Russia have cut oil production.
	Credit	Neutral ▼	We have downgraded our view on credit to neutral as although valuations in the US have deteriorated, regions such as Europe continue to offer some value.
Equities	US	Neutral	Resilience in earnings means expectations have risen and allowed US equity prices to trade in a higher range. However, as inflation remains high, and the economy is expected to slow over the medium term, we remain neutral.
	UK	Neutral	UK equities have lagged other markets meaning valuations are now relatively attractive. However, concerns around stagflation lead us to remain neutral.
	Europe	Short / Negative	We remain negative on European equities, partly because of weak economic data coming out of Germany, as well as general weakness in the services and manufacturing sectors.
	Japan	Long / Positive	We remain positive on Japanese equities, as better fundamentals and a less restrictive monetary policy provide an opportunity for the market to outperform other regions.
	Global Emerging Markets[1]	Neutral	Emerging markets are often positively correlated with oil prices, which are currently rising. But as supply constraints will likely affect countries that are net importers of energy, we remain neutral.
	Asia ex-Japan & China	Neutral	Although we believe the market is too pessimistic on China, recent trade data has been worse than expected meaning we remain neutral.
	EM Asia ex China	Neutral	Despite slightly stronger global manufacturing data, we remain cautious, and therefore neutral.

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

	Category	View	Comments
Government Bonds	US	Long / Positive	We have remained positive on US Government bonds as we believe the Fed is approaching the end of its hiking cycle.
	UK	Neutral ▲	Although the Gilt market is expected to be more vulnerable than other developed market bonds in the medium term, the recent unexpected fall in inflation means, for now, we have upgraded our negative view to neutral.
	Germany	Neutral ▼	We downgrade to neutral, as despite hints from the European Central Bank (ECB) that it may pause in hiking rates, we don't believe German bunds will outperform other markets.
	Japan	Neutral	Although we expect the Bank of Japan (BoJ) to change its policy away from negative interest rates we remain neutral until any change in policy is announced.
	US Inflation Linked	Long / Positive	We remain positive because further falls in inflation require a weaker labour market, which US employment and wage data is not yet signalling.
	Emerging Markets Local	Neutral ▼	Although emerging market central banks are ahead in their hiking cycle, and inflation is falling, we have downgraded to neutral due to currency risks relative to the US dollar.

	Category	View	Comments
Investment Grade Credit	US	●	We remain neutral as although relative to cash rates, yields look unattractive, corporate fundamentals remain strong.
	Europe	●	We have retained our preference for European investment grade bonds as they should benefit from any stability in yields.
	Emerging Markets USD	●	Valuations are stretched, and although fundamentals remain resilient, these markets are influenced by Chinese growth and the global commodity cycle, hence we remain neutral.
High Yield Bonds (Non-IG)	US	●	Limited issuance and a contracting market are supporting spreads. However, the increased dispersion[2] is creating a headwind for any significant tightening of spreads in the future.
	Europe	●	Whilst European valuations are more attractive than the US, European HY is starting to catch up with US HY in terms of defaults, albeit from a very low base.
Commodities	Energy	●	Despite higher moves in energy prices, we have remained positive. Although OPEC+ have persisted with their aggressive stance by cutting production, demand has remained firm and the impact of “shadow market supply” has reduced.
	Gold	●	We remain neutral as we prefer to hold a variety of commodities in the current climate.
	Industrial Metals	●	While the supply side for metals remains very tight, we remain unclear as to where an increase in demand would come from, and so remain neutral.
	Agriculture	●	Whilst crop conditions have improved in the US, the potential supply constraints from El Niño in the Southern Hemisphere leads us to believe that the balance of risks will keep prices supported. We therefore remain positive.
Currencies	US $	●	Although the dollar is vulnerable to unexpected inflation data it still serves as a valuable portfolio diversifier due to its low correlation with equities.
	UK £	●	The poor economic outlook and high levels of inflation continue to pose challenges for sterling, but with high levels of carry we remain neutral.
	EU €	● ▼	We have downgraded the euro to negative as it faces headwinds from weak growth, high inflation and record high interest rates negatively impacting European companies.
	CNH ¥	●	We maintain a neutral stance due to trade cycle dynamics and the lack of attractive carry.
	JAP ¥	●	While the recent policy tightening by the BoJ removed downward pressure, it is unlikely that the yen will appreciate in the near future.
	Swiss F	●	We maintain our neutral stance as growth in Switzerland is slowing down. However, the Swiss franc’s safe haven status continues to be attractive to investors.

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, September 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

We look back on a quarter in which commodities outperformed.

THE QUARTER IN SUMMARY

After strong gains for shares in the first half of 2023, global equities posted a negative return in Q3. Government bonds also declined in the quarter, with yields rising. Commodities were a notable outperformer with energy gaining amid oil production cuts from Saudi Arabia and Russia.

THE US

US equities were weaker in Q3. Investors entered the quarter optimistic that the Federal Reserve (Fed) had orchestrated a soft landing for the economy, and that the era of policy tightening rates would soon end. That enthusiasm withered over August and September, however, as the prospect of a sustained period of higher rates sank in. This followed a revised Fed "dot plot" (the dot plot is a chart showing each Fed policymaker's forecast for interest rates).

Overall, the US labour market remains very strong. However, according to the Bureau of Labor Statistics the unemployment rate rose by 0.3 percentage point to 3.8% in August. The number of unemployed persons increased by 514,000 to 6.4 million.

The US composite flash purchasing manager's index (PMI) fell marginally to 50.1 in September, down from 50.2 in August, emphasising the US economy is cooling. (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.)

Inflation, while ticking up in August, remains on a downward trend. Comments from Fed policymakers suggest a further rate hike is to come before the end of the year, while the dot plot now illustrates a higher median rate for 2024 (5.1% vs 4.6%).

Read more: Fed keeps rates steady, but expects policy to be tighter for longer

Energy stocks were relatively resilient over the quarter, and one of few bright spots in a quarter where few sectors avoided falls. Most of the so-called "Magnificent Seven" - Apple, Microsoft, Alphabet, Amazon, Tesla, Nvidia and Meta – declined, weighing on the overall market. The IT sector overall was one of the weakest areas over the quarter, along with the less influential sectors of real estate and utilities.

EUROZONE

Eurozone shares fell in Q3 amid worries over the negative effects of interest rate rises on economic growth. However, data released at the very end of the period showed eurozone inflation slowed to a two-year low of 4.3% in the year to September, down from 5.2% in August. This could potentially pave the way for the European Central Bank to put an end to interest rate rises.

Some of the steepest declines came in the consumer discretionary sector given concerns over the knock-on effects of higher interest rates on consumers' disposable income. The information technology sector was also under pressure. While there has been much enthusiasm this year around the long-term potential of artificial intelligence, nearer-term concerns over consumer spending are also affecting demand for chips.

The energy sector was a notable exception to the declines, notching up gains amid higher oil prices as some oil exporting countries cut production.

Read more: [What might oil back above $90 mean for inflation?]

Other sectors to outperform included financials, where quarterly results from the banks continued to show the benefit of rising rates on their top lines. Real estate also registered a positive return.

PMI data showed that the eurozone private sector was in contraction, although the composite reading edged up to 47.1 in September from 46.7 in August. The European Central Bank raised interest rates twice in the quarter.

UK

UK equities rose over the quarter. The large UK-quoted diversified energy and basic materials groups outperformed as they rebounded from weakness in the previous three-month period. They benefited from sterling weakness against a strong dollar. A sharp recovery in crude oil prices buoyed the energy groups in particular.

A number of domestically focused areas of the market also recovered following poor performances over Q2. This occurred amid signs of improving UK consumer confidence and hopes that base interest rates may have peaked. At the same time, market interest rates were relatively stable as the sell-off in long-dated gilts moderated somewhat and long-term fixed mortgage rates fell. These developments were in contrast with the government bond market sell-off seen in other major developed economies over the quarter.

As a result of these top-down trends a number of mid cap consumer discretionary areas recovered well, the housebuilders in particular. At the same time, certain travel and leisure companies, such as pub groups and transport operators, outperformed over the quarter, Meanwhile, more broadly, domestically focussed banks and UK-exposed real estate companies also recorded reasonable share price performances.

While inbound merger and acquisition activity overall remained in a hiatus, there were quite a few deals among the small caps. This acted as a further support to UK small and mid cap equities over the period.

JAPAN

The Japanese equity market demonstrated resilience during the market correction in the quarter. This correction was triggered by rising interest rates and bond yields in the US and Japan. In Japan, large growth stocks were impacted by the correction, resulting in a decline of 4.0% for the Nikkei 225 index. However, smaller stocks held up well, and value stocks experienced a surge. As a result, the TOPIX Total Return index generated a modestly positive return of 2.5% for the period. The performance gap between growth stocks and value stocks widened significantly, reflecting an extreme shift in the market trend.

Quarterly earnings results, announced from late July to August, showed solid figures, and the revision index for earnings estimates remained in positive territory. This was supported by the weakening of the yen and strong domestic demand. In late July, the Bank of Japan (BOJ) made policy adjustments that endorsed a gradual increase in Japanese government bond (JGB) yields. There were also suggestions that BOJ Governor Ueda could announce an end to negative interest rates by the

end of the year, or before the next spring wage negotiation. Inflation remained solid, and the continued weakness of the yen further supported such market expectations.

With rising rates in Japan, and potentially more from the US, there were noticeable corrections in the stock prices of higher-valued stocks. This particularly affected growth stocks, including those in semiconductor-related sectors. Financial stocks performed well, including lowly valued stocks such as regional banks. The energy and auto sectors also contributed to the market's resilient performance.

Domestic-oriented stocks in the mid and small-cap space performed well until August. However, political tensions between China and Japan regarding the release of wastewater from Fukushima affected expectations for Chinese tourist demand in September.

ASIA (EX JAPAN)

Asia ex Japan equities declined in the third quarter. Most markets in the MSCI Asia ex Japan Index ended the quarter in negative territory as concerns over the Chinese economy and fears over global economic growth weakened investor sentiment. Hong Kong, Taiwan, and South Korea were the weakest index markets, while Malaysia and India achieved growth in the quarter.

Chinese stocks experienced sharp declines in August, with the country's property sector performing particularly badly as investors doubted that Beijing will deliver enough stimulus to put the world's second-largest economy back on track. Although China's official PMI manufacturing index rose in August it marked the fifth straight month of contraction as the reading remained below the 50-point threshold. China has sought to boost confidence in the country's flagging stock market by cutting stamp duty levied on share transactions and slowing the pace of initial public offerings in Shanghai and Shenzhen, which can draw liquidity away from the wider market and weigh on share prices.

Read more: China: "it may not be as bad as you think"

Hong Kong shares were also sharply lower in the third quarter, with trading of shares in embattled Chinese property company Evergrande suspended in Hong Kong in September following sharp price falls. South Korea also witnessed a fall in share prices, as weaker factory output and slowing retail sales in the country spooked investors, particularly overseas investors. Shares in Taiwan tumbled on investor fears that the debt issues engulfing several Chinese property companies could trigger a financial crisis and send regional currencies lower against the US dollar.

EMERGING MARKETS

Despite a strong start, the MSCI Emerging Markets (EM) Index ended the quarter in negative territory, albeit ahead of the MSCI World. Concerns that strength in the US economy will keep interest rates higher for longer had a negative impact on risk appetite. This was combined with ongoing weakness in the Chinese economy and concerns about the property sector.

Podcast: Is this China's "Lehman Brothers moment"?

Poland and Chile posted the biggest declines among index markets. Chile was hurt by falling lithium prices. In Poland, political uncertainty ahead of October's parliamentary elections prompted an unexpected interest rate cut that was poorly received. Taiwan and Korea were also notably weak. Mexico underperformed against a backdrop of mixed macroeconomic data while South Africa continued to be plagued by its ongoing electricity crisis. Thailand lagged the index, as did Saudi Arabia.

China underperformed as indicators continued to point to a lacklustre economic recovery and as problems in the property sector resurfaced. Limited policy stimulus has been announced to address both issues, but macroeconomic data released towards the end of the quarter was more positive than anticipated. Brazil was another laggard even as economic data improved and the central bank cut policy rates.

Colombia, Hungary and Czech Republic all gained and outperformed the index, with India and UAE also posting strong performances. The best returns were from Egypt and Turkey. In the latter, two rate rises in the quarter were viewed as a sign the central bank may be becoming more orthodox in its policy approach, which was supportive of sentiment.

GLOBAL BONDS

During Q3 the US economy continued to surprise in its resilience, with the labour market remaining relatively robust and signs of improvement in the manufacturing sector.

Concerns over rising US debt issuance weighed on the Treasury market. August saw Fitch Ratings downgrade the US's triple-A rating drop to double-A plus, citing the growing debt burden and an "erosion of governance" as reasons for its decision.

Despite a significant rise in oil prices, there were better news on the inflation front, with year-on-year core measures easing across most economies. This allowed many major central banks to indicate a pause in further rate hikes.

Both the US Federal Reserve (Fed) and the European Central Bank (ECB) raised rates in July by 0.25%, with the latter continuing hike in September. The ECB suggested that this rate might be sufficient to guide inflation back to its target. Despite the Federal Reserve and the Bank of England keeping rates steady in September, the market anticipates a longer period of elevated rates. This was the key driver of higher yields (meaning lower bond prices) over the quarter.

Led by the US, global government bond yields peaked in September before slightly retreating at the quarter's end. The US 10-year yield rose from 3.81% to 4.57%, and the two-year yield increased from 4.87% to 5.05%. In Europe, Germany's 10-year yield increased from 2.39% to 2.84%.

While the Bank of England raised the base rate to 5.25% in August, signs of slowing inflation allowed the central bank to keep rates unchanged in September. This helped gilts outperform, with the 10-year gilt remaining relatively unchanged over the quarter.

Corporate bond markets outperformed government bonds, with spreads narrowing across both investment grade (IG) and high yield (HY). Despite a weaker growth trajectory, European credit outperformed the US. Euro IG saw the slowest quarter for net issuance in a decade with, among other things, companies' limited new funding needs due to a lower number of deals in the acquisition pipeline.

The US dollar strengthened against major currencies, reflecting the positive growth momentum.

Convertible bonds, as measured by the Refinitiv Global Focus index, shed -2.3%, implying downside protection of just 30%. The few positive trading weeks of the quarter for equities included a significant rally for the "Magnificent 7" stocks – none of which have convertibles outstanding, so convertibles did not participate in that advance. The figures for September alone show downside protection of more than 50%, in line with protection levels that convertibles have traditionally offered.

The primary market continues to be very strong with US$22 billion of new convertibles this quarter. Looking ahead, there may be high demand for refinancing from companies who will not be able to attract liquidity on traditional corporate markets – and they may need to offer cheap equity on top of high coupons by issuing convertibles.

COMMODITIES

The S&P GSCI index rose sharply in the third quarter, driven by significantly higher energy prices after Russia and Saudi Arabia cut oil production. Energy was the best-performing component in the quarter. Natural gas was the only segment to record a price fall in the quarter.

The industrial metals component achieved a modest gain in the quarter, with price gains for zinc, lead and aluminium offsetting weaker prices for nickel and copper. The agriculture component ended the quarter in negative territory, with weaker prices for wheat, corn, soybean and coffee offsetting substantial price gains for cotton and sugar. Precious metals was the worst-performing component of the index in the third quarter, with weaker prices for both gold and silver.

DIGITAL ASSETS

Bitcoin and Ethereum were down this quarter by -11.5% and -13.6%, respectively. This puts Bitcoin up 63% year-to-date, still one of the best performing assets in 2023. From a risk perspective, markets have evolved substantially since last year with volatility, correlation with equities and correlation amongst the top 30 tokens all significantly lower.

News related to US regulation was a key driver of price movements this quarter, with SEC actions featuring prominently in this. There has been regulatory enforcement action (e.g. against Coinbase and Binance) and subsequent legal rulings in the US. Meanwhile, regulatory filings for spot ETFs by some of the world's largest asset managers introduced a lot of price action around the potential approval dates.

The excitement around the spot ETF is understandable given the signal that a stamp of approval by the SEC would represent, and the potential for such a highly liquid US-based spot product.

September marked the one-year anniversary of Ethereum's successful transition to a 'Proof of Stake' consensus mechanism. This reduces the amount of computational work needed to verify blocks and transactions, effectively eliminating its carbon footprint. So far the network has been operating as intended with staking assets becoming a popular way for crypto investors to enhance returns.

TOTAL RETURNS (NET) % – TO END SEPTEMBER 2023

	3 MONTHS			12 MONTHS		
Equities	**USD**	**EUR**	**GBP**	**USD**	**EUR**	**GBP**
MSCI World	-3.5	-0.5	0.6	22.0	12.8	11.5
MSCI World Value	-1.9	1.1	2.2	17.1	8.3	7.1
MSCI World Growth	-4.9	-2.0	-0.9	26.6	17.1	15.8
MSCI World Smaller Companies	-4.4	-1.5	-0.4	14.0	5.5	4.3
MSCI Emerging Markets	-2.9	0.0	1.1	11.7	3.4	2.2
MSCI AC Asia ex Japan	-3.3	-0.4	0.7	10.9	2.6	1.4
S&P500	-3.3	-0.3	0.8	21.6	12.5	11.2
MSCI EMU	-7.2	-4.4	-3.4	34.3	24.3	22.8
FTSE Europe ex UK	-5.5	-2.6	-1.6	31.8	21.9	20.5
FTSE All-Share	-2.2	0.8	1.9	24.5	15.2	13.8
TOPIX*	-0.8	2.3	3.4	25.9	16.5	15.2

	3 MONTHS			12 MONTHS		
Government Bonds	**USD**	**EUR**	**GBP**	**USD**	**EUR**	**GBP**
JPM GBI US All Mats	-3.0	-0.0	1.0	-0.7	-8.1	-9.2
JPM GBI UK All Mats	-4.7	-1.8	-0.7	6.4	-1.5	-2.6
JPM GBI Japan All Mats**	-6.2	-3.4	-2.3	-5.4	-12.4	-13.4
JPM GBI Germany All Traded	-5.2	-2.3	-1.2	4.1	-3.6	-4.8
Corporate Bonds	**USD**	**EUR**	**GBP**	**USD**	**EUR**	**GBP**
BofA ML Global Broad Market Corporate	-2.6	0.3	1.4	6.2	-1.7	-2.8
BofA ML US Corporate Master	-2.7	0.3	1.3	4.0	-3.8	-4.9
BofA ML EMU Corporate ex T1 (5-10Y)	-3.3	-0.3	0.8	12.7	4.3	3.1
BofA ML £ Non-Gilts	-1.9	1.1	2.2	17.5	8.7	7.4
Non-investment Grade Bonds	**USD**	**EUR**	**GBP**	**USD**	**EUR**	**GBP**
BofA ML Global High Yield	0.1	3.1	4.2	12.7	4.3	3.1
BofA ML Euro High Yield	-3.0	0.0	1.1	8.1	0.0	-1.2

Source: Thomson Reuters DataStream.
Local currency returns in Q3 2023: *2.5%, **-3.2%.
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Source: Schroders, September 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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