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JULY 2023 MARKET REPORT

Economic commentary

We have seen recent glimmers of hope for the UK economy. For the first time in over a year, UK inflation (as measured by the Consumer Prices Index) is now under 8%. It surprised many economists by falling from 8.7% per annum in May to 7.9% per annum in June this year. This is welcome news, suggesting that the Bank of England's interest rate rises in the last two years have started to slow spending and borrowing. With the expectation of fewer and less extreme interest rate increases in the near future, mortgage rates offered by some banks and building societies have begun to fall from recent 15-year highs.

Despite this positive data, the country still faces significant challenges. Whilst inflation is falling, it remains high compared to other developed nations, and will face continued pressure from wage increases as public sector strikes drag on and improved pay deals are secured (such as the deal in May that saw a million NHS staff secure a pay rise averaging 5%). Furthermore, although we saw the economy avoid a recession in the second quarter of this year, it grew at a paltry 0.2% and remains smaller than it was pre-Covid.

Elsewhere in the world, there appears to be a growing confidence that governments and central banks will be able to continue to bring inflation down without higher interest rates derailing economic growth. The US and EU have seen their inflation rates come down far further and faster than the UK's, now at 3.0% and 5.3% respectively. But other countries were not without their problems in July. In particular, we saw the well-known credit rating agency Fitch downgrade the US government's credit rating from AAA to AA+, on the back of "steady deterioration in standards of governance over the last 20 years", in a year when the country has experienced political turmoil and brinksmanship around budget limits. We don't anticipate this having any material impact on US treasuries – which remain the world's favourite risk-free asset – but it remains a noteworthy development.

Market commentary

Largely on the back of positivity around economic data, almost all investment asset classes saw positive returns in July. Emerging market stocks were a standout area, driven by the Chinese government's pledge to stimulate their economy, which has struggled to fully recover since their aggressive economic management in the wake of the Covid pandemic. Stocks were up in nearly all other markets too, buoyed by sustained confidence in the US economic developments and hope in a sustained Chinese recovery.

We know that there is a surprisingly weak relationship between short-term economic news and long-term investment returns. For example, when we recall the predominantly negative headlines that have been written about the UK economy so far in 2023, we could be forgiven for being surprised that the UK stock market has risen in value by over 5% year-to-date. This is likely because the biggest UK listed companies have diversified revenues that are predominantly generated overseas (and therefore have little to do with domestic affairs), but perhaps most importantly because the UK has been one of the most undervalued stock markets in the world this year compared to long-run averages (and remains so today). As usual, we are reminded to look beyond the headlines, and carefully consider the long-term valuation credentials of any investment we make.

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	1m	3m	6m	YTD	1yr	3y pa	5y pa	10y pa
Equity Markets (£)								
UK	2.6%	-1.2%	0.8%	5.3%	6.1%	12.4%	3.4%	5.6%
US	1.9%	7.8%	8.4%	12.5%	6.3%	13.9%	11.7%	13.8%
Global	2.1%	6.0%	6.3%	11.2%	7.2%	12.3%	9.4%	10.9%
Emerging Markets	4.9%	5.6%	-1.6%	3.8%	1.8%	1.5%	1.5%	4.7%
Europe ex UK	1.8%	-0.1%	4.2%	9.8%	15.7%	10.8%	6.7%	8.2%
Japan	2.0%	5.7%	4.1%	7.7%	8.8%	7.6%	3.1%	7.0%
China	10.0%	2.9%	-10.2%	-1.0%	-2.9%	-9.4%	-3.0%	5.0%
UK Smaller Companies	5.6%	0.7%	-0.8%	4.8%	-1.7%	3.7%	-1.7%	4.3%
Bonds (£)								
Sterling Corporate Bonds	1.7%	-1.7%	-2.8%	0.2%	-8.1%	-6.6%	-1.5%	1.5%
Global High Yield (Hedged)	1.1%	1.9%	2.2%	5.2%	2.6%	1.2%	1.5%	2.8%
Global Bonds (Hedged)	0.0%	-0.9%	-0.2%	2.3%	-4.3%	-4.7%	-0.5%	1.2%
Other (£)								
Global Listed Property	2.5%	-0.3%	-7.9%	-2.3%	-13.3%	4.3%	0.8%	
UK Listed Property	7.0%	-6.3%	-8.3%	-1.3%	-23.3%	-2.2%	-4.2%	1.3%
Physical Gold	1.5%	-3.3%	-2.3%	1.3%	5.4%	0.5%	10.2%	5.7%

Economic Data	At date	3m ago	6m ago		1y ago	3y ago	5y ago	10y ago
Sterling/Dollar Rate	$1.29	$1.26	$1.23		$1.22	$1.31	$1.31	$1.52
Bank of England Base Rate	5.00%	4.25%	3.50%		1.25%	0.10%	0.50%	0.50%
UK CPI YoY		8.7%	10.1%		10.1%	1.0%	2.5%	2.8%
US Unemployment Rate	3.5%	3.4%	3.4%		3.5%	10.2%	3.8%	7.3%
UK Unemployment Rate		4.0%	3.8%		3.5%	4.6%	4.0%	7.7%

Bond yields	At date	3m ago	6m ago		1y ago	3y ago	5y ago	10y ago
UK 10-Year Gilt Yield	4.3%	3.7%	3.3%		1.9%	0.1%	1.4%	2.5%
UK Corporate Bond Yield	6.2%	5.7%	5.2%		3.9%	1.7%	2.8%	3.9%

Data Sources: Data is at 31/07/2023. For the above asset class return data, we used passive funds to represent market returns, given that they represent an investible net-of-fee return achievable by an end client. Economic figures like unemployment and CPI rates may not have been available for latest month-end at the time of publication. All returns have been calculated by Fundhouse, with reference to data from Refinitiv, Morningstar and the Bank of England. This content cannot be distributed without the consent of Fundhouse.

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