FUNDHOUSE
investment clarity

2plan
wealth management

AUGUST 2023 MARKET REPORT

Economic commentary

In the UK, we continue to see a difficult economic picture. Although UK Consumer Price Inflation (CPI) has fallen to 6.8% in the 12m to July, it is still well above the Bank of England's (BoE) target of 2%. This has been in part fuelled by high wage growth of 8.5% (the highest for over twenty years), and rising transport and tourism costs. This puts pressure on already-stretched government finances, as the state pension 'triple-lock' promises to raise pensioners' incomes by the higher of inflation and wage growth (with a 2.5% minimum). On top of that, the UK economy contracted unexpectedly sharply in July, with the value of goods and services produced falling by 0.5%, leaving economic output lower than pre-Covid levels. Measures of confidence in the residential property market are at their lowest since 2009, too, as high mortgage rates have affected sales volumes and prices are down 4.6% in the 12m to August.

This puts the BoE in a difficult position. On one hand, they need to combat inflation by keeping interest rates high (currently at 5.25%) or raising them further, but on the other hand, high rates will hurt businesses and households looking to borrow money. Whilst the inflation data in the UK is worse than in almost any other developed country, other governments and central banks do face similar conundrums. In the US, inflation jumped unexpectedly on the back of rising energy prices to 3.7% in August, with manufacturing activity weakening and unemployment rising slightly. In the Eurozone, economic growth forecasts have been cut (with Germany now in a recession), and inflation is also high at 5.3% (although it has been stabilising).

China faces a specific set of troubles. Strict Covid measures that stayed in place all the way up to the end of 2022 are having a lasting effect on the economy. Youth unemployment has become so bad that the government has stopped producing statistics on it, and trade numbers are poor – the value of China's exports to the rest of the world fell by 8.8% in the 12m to August. Its indebted and inflated property market remains vulnerable, with many of its giant developers in financial trouble. On the plus side, earlier in the summer Chinese policymakers confirmed a stimulus plan to boost the economy; this was initially well received, but Beijing has been slow and vague on details and this has further undermined confidence.

Market commentary

Equity markets did poorly in August. This was in part due to weak economic data for large economies (notably Germany and China), and also fears of the credit risks emanating from the Chinese property market. This raised concerns about contagion risk and the general outlook for the global economy, and survey data showed investors favouring developed over emerging markets. It was also a weak month for global bonds, which were flat or down, likely because investors are anticipating further interest rate rises, which will reduce the attractiveness of the fixed coupons that bonds pay.

Last month, we reported that most investment asset classes had risen, but this month they have mostly fallen. What has changed? Although we have seen some weaker economic data over the past month, the underlying global economy remains largely the same as it was in July. We know that there is a surprisingly weak relationship between short-term economic news and long-term investment returns, so, as usual, we are reminded to look beyond the headlines and carefully consider the long-term valuation credentials of any investment we make.

FUNDHOUSE
investment clarity

2plan
wealth management

	1m	3m	6m	YTD	1yr	3y pa	5y pa	10y pa
Equity Markets (£)								
UK	-2.5%	1.0%	-3.2%	2.7%	5.3%	10.6%	3.5%	5.6%
US	-0.1%	5.8%	9.2%	12.4%	6.0%	12.0%	10.8%	14.4%
Global	-0.9%	4.6%	6.2%	10.2%	6.1%	10.3%	8.8%	11.3%
Emerging Markets	-4.8%	1.0%	-1.4%	-1.1%	-7.6%	-0.2%	0.9%	4.6%
Europe ex UK	-2.5%	1.7%	0.8%	7.1%	15.3%	8.8%	6.4%	8.4%
Japan	-0.5%	2.8%	5.7%	7.2%	6.1%	5.4%	2.8%	7.3%
China	-8.4%	2.6%	-9.5%	-9.4%	-15.0%	-13.0%	-3.9%	4.0%
UK Smaller Companies	-4.0%	-1.2%	-5.4%	0.6%	-1.0%	1.2%	-2.4%	3.9%
Bonds (£)								
Sterling Corporate Bonds	0.2%	0.5%	-0.4%	0.4%	-2.8%	-6.0%	-1.5%	1.6%
Global High Yield (Hedged)	0.2%	2.6%	3.1%	5.4%	6.9%	0.9%	1.5%	2.9%
Global Bonds (Hedged)	-0.3%	-0.5%	1.6%	2.1%	-1.3%	-4.5%	-0.6%	1.2%
Other (£)								
Global Listed Property	-1.9%	1.0%	-7.0%	-4.1%	-13.0%	3.3%	0.0%	
UK Listed Property	-2.9%	-3.2%	-10.4%	-4.2%	-17.4%	-3.6%	-4.4%	1.6%
Physical Gold	0.1%	-3.8%	1.6%	1.4%	3.6%	1.2%	10.4%	5.2%

Economic Data	At date	3m ago	6m ago		1y ago	3y ago	5y ago	10y ago
Sterling/Dollar Rate	$1.27	$1.24	$1.21		$1.16	$1.33	$1.30	$1.55
Bank of England Base Rate	5.25%	4.50%	4.00%		1.75%	0.10%	0.75%	0.50%
UK CPI YoY		8.7%	10.4%		9.9%	0.2%	2.7%	2.7%
US Unemployment Rate	3.8%	3.7%	3.6%		3.7%	8.4%	3.8%	7.2%
UK Unemployment Rate		4.2%	3.9%		3.6%	4.9%	4.1%	7.6%

Bond yields	At date	3m ago	6m ago		1y ago	3y ago	5y ago	10y ago
UK 10-Year Gilt Yield	4.4%	4.2%	3.7%		2.8%	0.3%	1.3%	2.8%
UK Corporate Bond Yield	6.3%	6.3%	5.7%		5.1%	1.8%	2.7%	4.0%

Data Sources: Data is at 31/08/2023. 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.

FOR PROFESSIONAL INVESTORS ONLY

[END]