Monthly Macro

May 2023

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What were the biggest drivers of markets in April?

- Bond markets were relatively calm in April, following the turbulence sparked by stress in the banking sector in March. Investors' focus once again turned to central bank policy, with growing expectations that the Fed would raise rates again at its meeting in May as inflation remained resilient. (As expected, the Fed raised rates by 25 basis points to their highest level since 2007).
- Further hikes were also expected from the European Central Bank and the Bank of England, which are some way behind the Fed in the rate hiking cycle and still dealing with elevated inflation. Investors also began to worry about the US debt ceiling deadline and the risk of a potential US debt default.
- Against this background, most fixed income asset classes registered modest gains. US Treasuries rose 0.5%. Global corporate bonds returned 0.8%, as spread narrowed. High yield debt and emerging market bonds also gained. European sovereign debt struggled though, amid expectations of further rate hikes. UK gilts declined -1.7% on the back of higher-than-expected inflation data.

- Developed equity markets were generally strong in April, with most recovering the moderate weakness associated with banking stresses in March. Major fixed income markets were stable in the main.
- The positive correlation between bonds and equities that held for much of 2022 has been less evident in recent months. In March, government bonds displayed 'safe haven' properties amidst the financial sector worries. The end of April saw equities perform relatively well even as bonds sold off, following positive earnings results in the US.
- In Japan, the first policy meeting of the new central bank governor was greeted by weakness in the yen. Market participants had expected a change in policy direction, but were ultimately disappointed.
- Below the surface of relatively stable asset prices there were areas of potential concern, notably US debt ceiling concerns. Issues at First Republic Bank and in commercial real estate highlighted the ongoing systemic legacy of higher interest rates.
- Global policy dynamics are somewhat less correlated: central banks in Australia, India, Canada and Korea held interest rates steady; Sweden, New Zealand and Colombia continued to tighten.

What will you be looking out for in May?

- Inversion in the yield curve traditionally points to recession the following year. We are starting to see initial signs of an economic slowdown, with weaker US jobs data. The impact of aggressive Fed rate hikes and tighter lending standards in the banking sector is still unclear.
- There is likely to be a recession in the US towards the end of this year, but I believe the market has got a bit ahead of itself in pricing in rate cuts.

- Market participants acknowledge a wide range of possible outcomes from here. Plausible arguments can be made for inflation and policy to remain more stubborn, or for inflation to drop; for economic growth to improve, or for a deeper recession than the consensus suggests.
- Given prevailing valuations, the rewards for betting aggressively on any of these scenarios seem limited. Instead, we await the next bout of panic or overconfidence in markets to offer an opportunity to take the other side.

Key dates for the month ahead:

10 May: US inflation **11 May:** BoE interest rate decision **24 May:** Fed minutes; UK CPI **1 June:** Eurozone inflation, unemployment

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