Monthly Macro

July 2023

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What were the biggest drivers of markets in June?

- Despite a slew of central bank meetings, bond markets were slightly calmer in June than May as volatility eased and credit spreads tightened. Government bond yields moved higher, however, on the back of 'sticky' inflation data and hawkish central bank sentiment. Economic data was mixed, with some signs of weakening activity, particularly in the eurozone, but labour markets remained robust.
- As expected, the Federal Reserve held interest rates steady to assess the impact of its aggressive tightening over the past year. However, policymakers signalled that further rate hikes would come this year. The European Central Bank also raised rates, while the Bank of England surprised markets with a 50-basis point hike following higher-than-expected inflation. UK inflation remains the highest in the G7.
- Against this background, sovereign bonds declined, with US Treasuries and German bunds both falling 0.7%. In credit, investment grade spreads continued to tighten, although rising bond yields were a drag. Global high yield debt continued its recent strong performance, outperforming investment grade bonds. The rebound in emerging market bonds continued, with all asset classes delivering positive returns.
- Developed market short-dated government bond yields continued to rise, reaching levels similar to those seen in March when Silicon Valley Bank and Credit Suisse collapsed. These moves were repeated in longer-dated government bonds, reflecting a belief that inflation will ultimately settle to lower levels and/or that central banks will need to ease policy to counter weak economic growth.
- Equity markets were generally strong, led by the US and Japan, in local currency terms. Ongoing Japanese yen weakness was notable as policymakers maintained ultra-low interest rates. Other Asian equities were softer given worries about the health of the Chinese economic recovery.
- Emerging market currencies such as the Colombian peso, Brazilian real and South African rand were strong versus major counterparts. In the case of South Africa, there was an unwinding of some of the sharp weakness seen in May.
- The macro backdrop remains characterised by falling, but stubborn, inflation, alongside strong labour markets in the developed world. Recent economic data has been mixed, with services in the developed world remaining robust, but ongoing deterioration in manufacturing and industrial production.

What will you be looking out for in July?

- The market appears to have accepted that the Federal Reserve is likely to continue raising interest rates to control persistent inflation. It remains to be seen what impact this will have on the economy.
- The yield curve remains inverted, a phenomenon which has historically predicted a recession, but it has not yet materialised. For the time being, the economy appears resilient but a 'higher for longer' rate environment could create difficulties and trigger the economic downturn.
- Recent months have been characterised by an 'uneasy calm' (with the possible exceptions of AI stocks and assets in Japan and South Africa). In an environment in which the prevailing economic regime is hard to assess, such conditions could well be vulnerable to a shock.
- By definition, it is impossible to predict what form such a shock would take, and which assets will be most affected. We continue to follow the ongoing vacillations in inflation and growth beliefs.

Key dates for the month ahead:

12 July: US inflation **19 July:** UK inflation **26 July:** Fed rate decision **28 July:** Bank of Japan rate decision **31 July**: Eurozone inflation

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