Monthly Macro

April 2023

Jim Leaviss
CIO of Public Fixed Income

Stuart Canning
Fund Manager, Multi Asset

What were the biggest drivers of markets in March?

- Bond markets ended the first quarter with plenty of volatility in March, sparked by turmoil in the banking sector. The collapse of Silicon Valley Bank in the US and the acquisition of Credit Suisse by Swiss rival UBS fuelled worries about the health of the global financial system and were perhaps the first signs that central banks' aggressive monetary tightening was starting to cause some problems.
- As risk aversion increased, sovereign bonds rallied and expectations for interest rate cuts increased. Despite the turbulence, major central banks continued to hike rates, although there was a softening in tone from the Federal Reserve (Fed) and some recognition that the banking crisis might tighten financial conditions.
- Against this background, sovereign bonds performed well, rounding off a positive quarter. US Treasuries rose 3.0% in March, with the 10-year Treasury yield ending the month at 3.5%. Although uncertainty around banks put pressure on credit markets, corporate bonds also gained, supported by lower government bond yields. Emerging market debt rose too, with local currency government bonds (4.1%), in particular, benefiting from a weaker US dollar.
- For all the worrying headlines and echoes of the Great Financial Crisis, the market impact of US bank failures and the collapse of Credit Suisse was contained, at least in March.
- Despite a bank in Silicon Valley sparking the stress, US technology stocks were among the best performers. Looking across global equity markets, it was typically the indexes with the largest banking sectors that delivered negative returns, while other areas were resilient. Against this backdrop, there was some significant outperformance of growth stocks versus value stocks.
- Part of the support for areas like the technology sector came from a sharp fall in short-dated US Treasury yields, which unwound the February sell-off and partly reflected a belief that stress in the financial system would make policymakers less willing to tighten monetary policy further. Fixed income assets, in general, performed well in this environment.
- The expectation for easier US policy was associated with weakness in the US dollar versus most other major currencies, particularly in the emerging markets. Gold and bitcoin were also strong, reflecting fear of financial system risk.

What will you be looking out for in April?

- A key issue is the transmission lag in monetary policy. Generally, when the Fed raises rates something breaks. A year into a very aggressive rate hiking cycle, however, it is still not entirely clear whether monetary policy is working and what impact higher rates might have on the economy.
- Areas such as the property market will be important to watch. Inflation has come down but remains elevated; policymakers may well pause and review the effect of their actions.
- By month end, fear that Silicon Valley Bank and Credit Suisse were 'canaries in the coalmine' had softened. Instead, investors displayed comfort that the problems were both contained and sufficient to soften policy hawkishness.
- Which brings us to the 'goldilocks' mentality of recent months: the idea that policy can be eased (due to falling inflation and/or modest 'bad news'), and that growth won't be too bad. Changing perceptions of whether or not economies can thread this needle could continue to drive volatility.

Key dates for the month ahead:

12 April: US inflation; Fed meeting minutes **19 April:** UK inflation **28 April:** eurozone GDP

The value of a fund's assets will go down as well as up. This will cause the value of your investment to fall as well as rise and you may get back less than you originally invested. Where any performance is mentioned, please note that past performance is not a guide to future performance.