

Market Review

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Macroeconomic developments

Global growth in April remained resilient despite higher interest rates and tighter financial conditions. US, Eurozone, and UK PMI surveys beat expectations and China's Q1 GDP print was stronger than expected. Falling energy prices brought down headline inflation in developed economies, with the contribution from energy turning negative in the US and the Eurozone. OPEC announced a production cut to stabilize oil prices at around USD 80 a barrel, but energy is still expected to drag on inflation in the coming months.

US economic data showed mixed signals in April. Business surveys indicated an increase in economic activity across manufacturing and services sectors, while inflation remained a concern despite core inflation increasing from 5.5% in March to 5.6% YoY in April reflecting the increase in its capacity utilization rate. The labour market showed signs of cooling with softer wage growth, although non-farm payrolls grew by 236,000 and the unemployment rate fell to 3.5%. Altogether, GDP grew by an annualized 1.1% in the first quarter, mainly supported by private consumption.

The Eurozone's economic data surprised to the upside in April, with the services index rising to 56.6, pushing the composite index to 54.4. However, the manufacturing PMI remained weak at 45.5. The divergence between the manufacturing and service sectors further expanded, with forward-looking indicators suggesting ongoing manufacturing weakness and service strength in the months ahead. Inflation fell to 6.9% in April, while core inflation increased to 5.7% YoY. The more hawkish outlook pushed European government bond yields higher, while Eurozone shares made gains in April, except for the IT sector. The Eurozone economy grew by 0.1% QoQ in Q1, with the services sector supporting growth while manufacturing output declined. UK economic data followed a similar pattern to the Eurozone, with the manufacturing PMI slipping further into contractionary territory at 46.6, while services beat expectations and rose to 54.9. Headline inflation fell from 10.5% to 10.1% YoY in April, helped by a slight deflationary impulse from fuel, but core inflation remained flat at 6.2% YoY. The hot wage print, with average weekly earnings increasing by 6.6% YoY, pushed yields higher, and Gilts ended the month as the worst performing major developed market sovereign with returns of -1.8%.

China's macroeconomic data for April showed growth, with Q1 GDP expanding at a faster rate than expected at 4.5% YoY. Retail sales were also significantly above expectations at 10.6% YoY. Despite this, concerns around geopolitical tensions, particularly with the US and other Western nations over Taiwan, weakened investor sentiment towards the country, driving Chinese equities to end 5.0% down over the month.

Lastly, Japan's core CPI reached a new historical high level at 3.8% YoY and wage growth has continued to increase. During his first policy meeting, BOJ Governor, Ueda, surprised by announcing a policy review and by removing the pledge to from its guidance for interest rates to stay at "current or lower levels". Retailers announced positive earnings results and the overall earnings tone was resilient. The positive macro environment, yen weakness, and increasing focus on corporate governance reforms supported sentiment as well as the outlook for corporate profits.

Market reaction

Developed market equities rose by 1.8% over the month, with value stocks modestly outperforming growth stocks. Global bonds returned 0.4%, largely driven by investment grade credit, which returned 1.2% over the month. Despite some stress in the banking sector, positive economic momentum supported risk assets. However, emerging markets fell 1.1% in April, underperforming developed ones due to weakness in Chinese stocks.

Following the large drop in yields seen in March triggered by stress in the banking sector, markets were broadly calmer in April as reflected by both the VIX and the MOVE index trending lower.

Within the major developed equity markets, Europe largely outperformed the US, advancing 4.3% versus 1.6% in the US. The three main leaders were the FTSE 100 (+3.4%), followed by the CAC 40 (+3%) and the TOPIX (2.7%). Conversely, the main laggards were the Hang Seng (-4.4%), followed by the NASDAQ (+0.1%) and the FTSE MIB (1.2%). Moreover, the momentum and values styles outperformed growth in April March both in the US and Europe, with value advancing 4.7%

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in Europe and US 1.3% in the US¹. On a sector basis, real estate (+7.1%) and health care (+6.5%) led in Europe, and consumer staples (+3.7%) and communication services (+3.1%) in the US. On the other hand, technology (-2.9%) and materials (+1.2%) lagged in Europe, and industrials (-0.9%) and consumer discretionary (-0.9%) in the US.

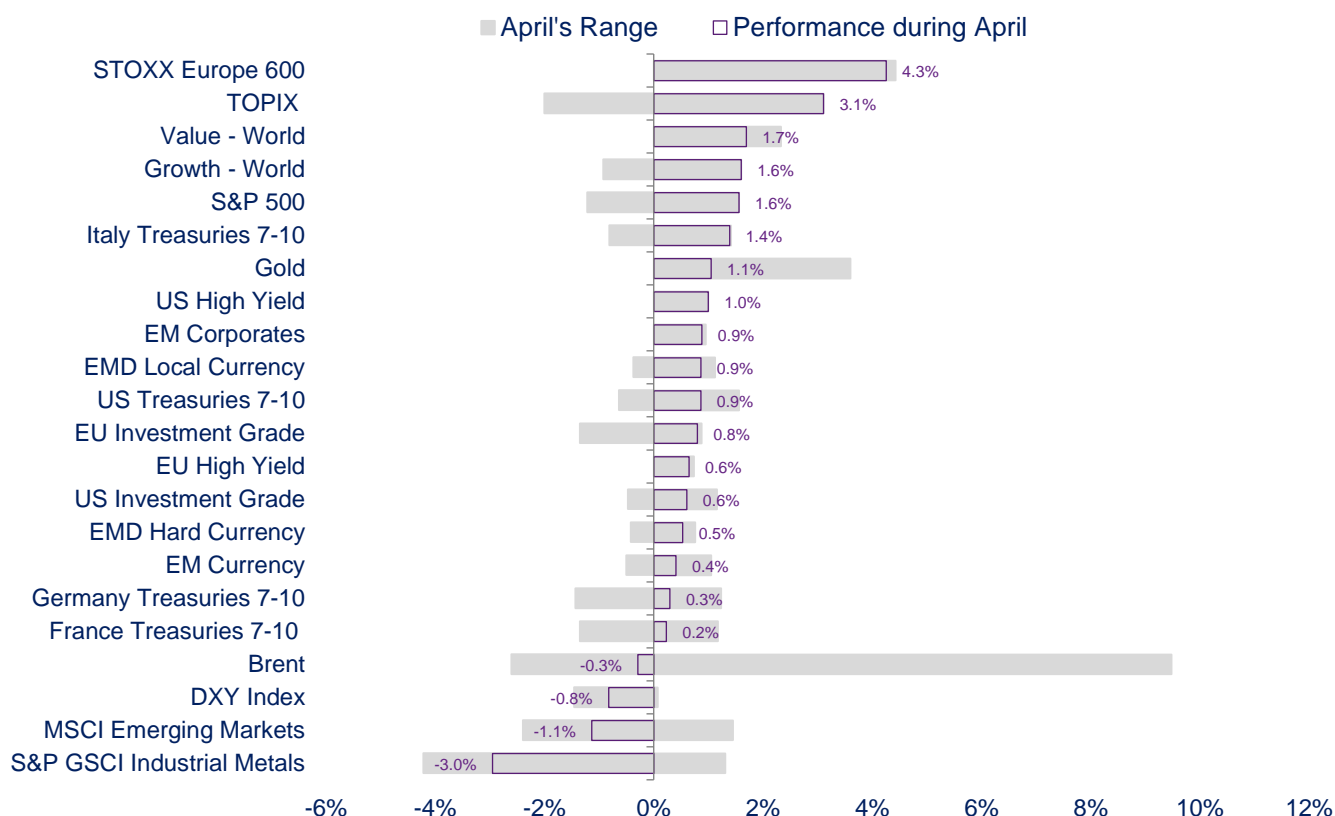
The US 10-year yield fell by 5bp to 3.42%, and the 2-year yield fell 7bp to 3.72% as investors expected several rate cuts during H2.23. Moreover, the German 10-year yield rose by 2bp to 2.31%, OATs 9 bp to 2.89%, BTPs 8bp to 4.18%. Conversely, the UK gilt market underperformed, with the 10-year yield jumping

23bp to 3.72% as core inflation remained flat at elevated levels. Against this calmer bond market backdrop, corporate bonds outperformed sovereign ones as credit spreads tightening, resulting in positive total returns across investment grade and high yield. Investment grade debt posted 0,8% advance in Europe and a 0.6% advance in the US. High yield returned 0.6% in Europe and 1.0% in the US.

The US dollar was retreated for the second consecutive month against some of its main peers, losing 1.7% against the Euro, 1.9% against the Pound, 2.3% against the Franc. The Japanese yen though, weakened 2.6% against the US dollar following the BOJ announcement.

Cross Asset Performance in April – USD

Past performance information presented is not indicative of future performance

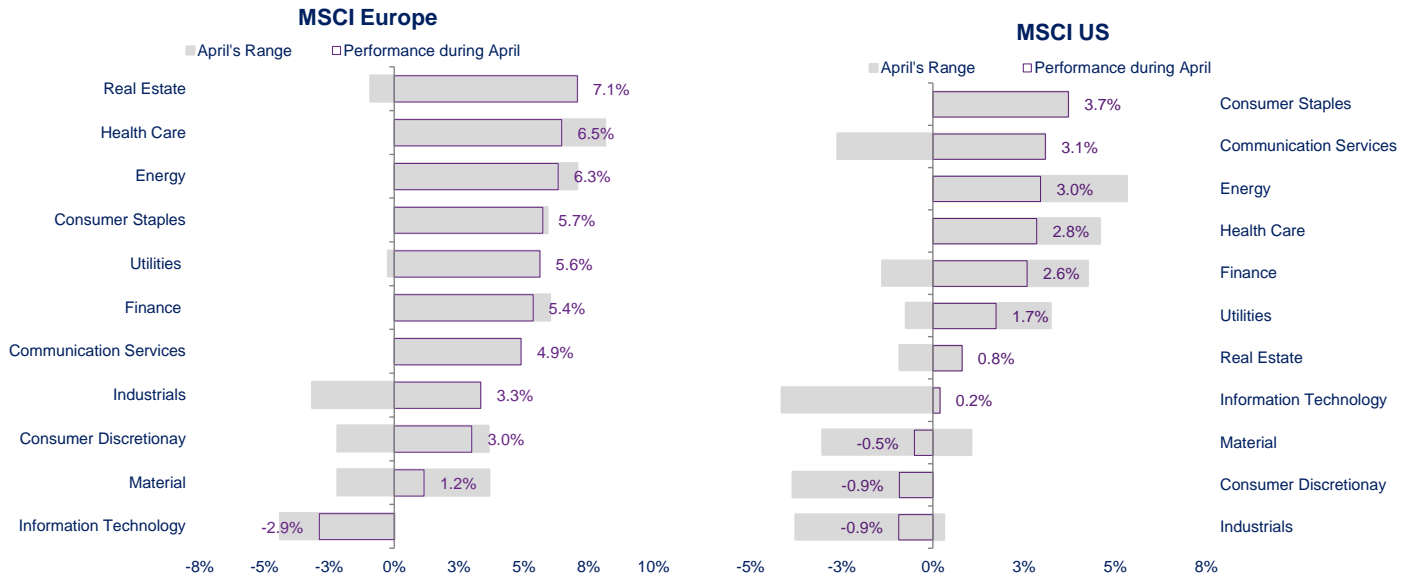


¹ See performance charts in the next page

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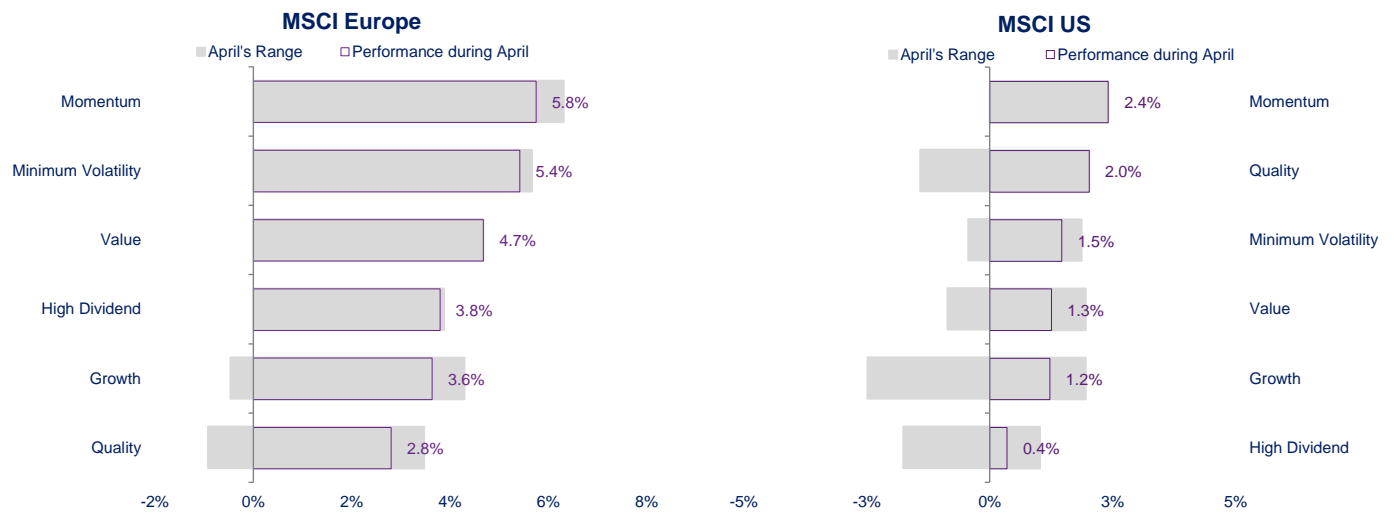
Sector Performance in April – USD

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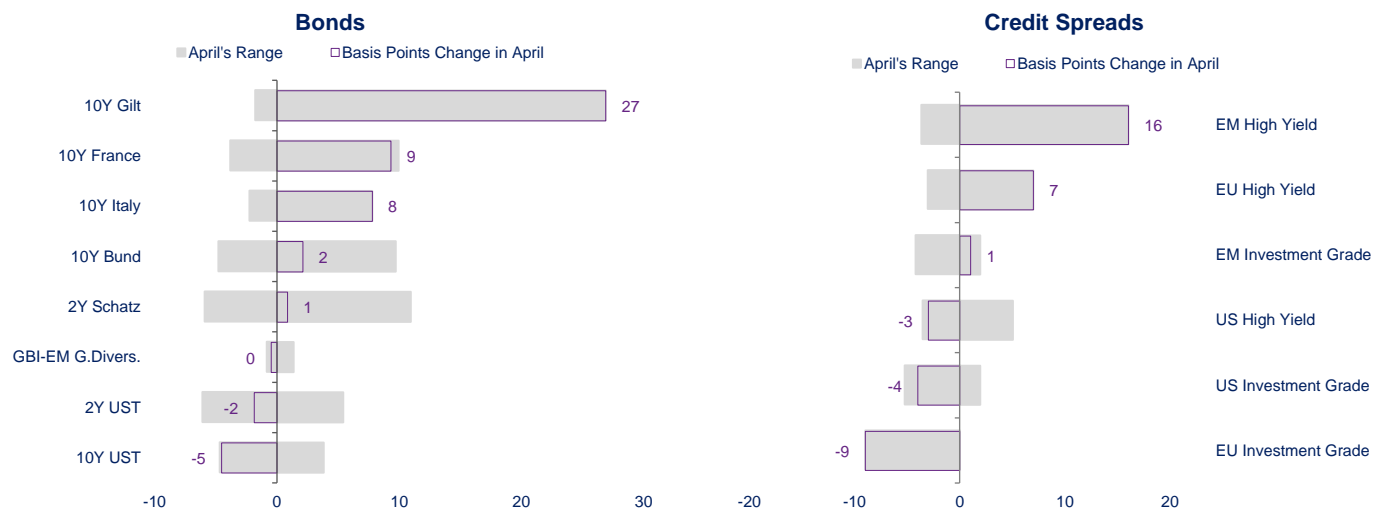
Style Performance in April – USD

Past performance information presented is not indicative of future performance



Net Yield Change in April

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