Marketing Communication

Market Review

Global Market Strategy, NIM Solutions

July 2023

Macroeconomic developments

The preliminary estimates for Q2.23 GDP growth revealed several surprises both in the United States and the Eurozone. In the US, growth exceeded consensus expectations and came in at 2.4% (in annualized terms), accelerating from the 2.0% pace in Q1.23. The increase was primarily explained by a robust domestic demand which was supported by both household consumption and business investment. Considering this new release, GDP growth carry over for 2023 now stands at 1.8%. Noteworthy also was that the level of excess savings kept falling. Based on a methodology proposed by the Fed, excess savings declined to $162 bn at the end of Q2.23, down from $358 bn in the previous quarter.

Moreover, flash estimates showed that Eurozone economy grew by 0.3% in Q2.23, slightly above market consensus. In addition, the region avoided falling into technical recession after its Q1.23 growth estimate was revised 0.1 percentage points higher to 0.0%. However, the region's growth pace is divided into two speeds. While France and Spain grew by 0.5% and 0.4% respectively, Germany was flat, and Italy fell 0.3%. This dichotomy is a direct consequence of the slowdown witnessed in the industrial sector, as well as the still solid service sector (which remains in expansionary territory as reflected by the PMI surveys). It should be noted, however, that growth in the French economy was exclusively driven by exports of goods, a fragile component particularly in a context of declining international trade flows.

For now, business surveys do not point to an acceleration in Eurozone's activity in Q3.23. Business and consumer confidence surveys are not improving, and the construction sector is at half-throttle in most European countries. Nevertheless, the US construction sector is showing some signs of recovery, but only in the residential sector where the number of available homes remains low, which is limiting significant price adjustments to the downside. On the inflation front, price growth fell significantly in June. The US headline consumer price index came in at 3.0% YoY compared to 4.0% in May, and core inflation came down to 4.8% YoY from 5.3%. In Europe, the harmonised indices of consumer prices (HICP) came in at 5.5% YoY versus 6.1% in May. However, core inflation eased only marginally, falling just 0.1 percentage points to 6.8% YoY. After pausing in May, inflation in the services sector rose again in June and supported core inflation, which remains well above the level targeted by the European Central Bank (ECB).

Unsurprisingly, the major central banks raised their key interest rates by 25 basis points. The ECB's main refinancing rate stands now at 4.25% and the Federal Reserve (FED) funds rate stands at the 5.25% to 5.50% range. Jerome Powell and Christine Lagarde stressed that progress had been made in the fight against inflation and did not rule out the possibility of a pause depending on the direction of the incoming data throughout summer. The big surprise came from the Bank of Japan (BOJ), which, although it kept its key rate in negative territory at -0.1%, it loosened its yield curve control policy and pledged "greater flexibility". As such, while the BOJ made no changes to the 10-year yield allowance band, it watered down the band to a "reference" rather than a "rigid limit," stating it will allow the yield to move above the 0.5% cap provided it stays below 1.0%. The immediate consequence of this decision was the rise in Japanese government yields and the appreciation of the YEN.

Market reaction

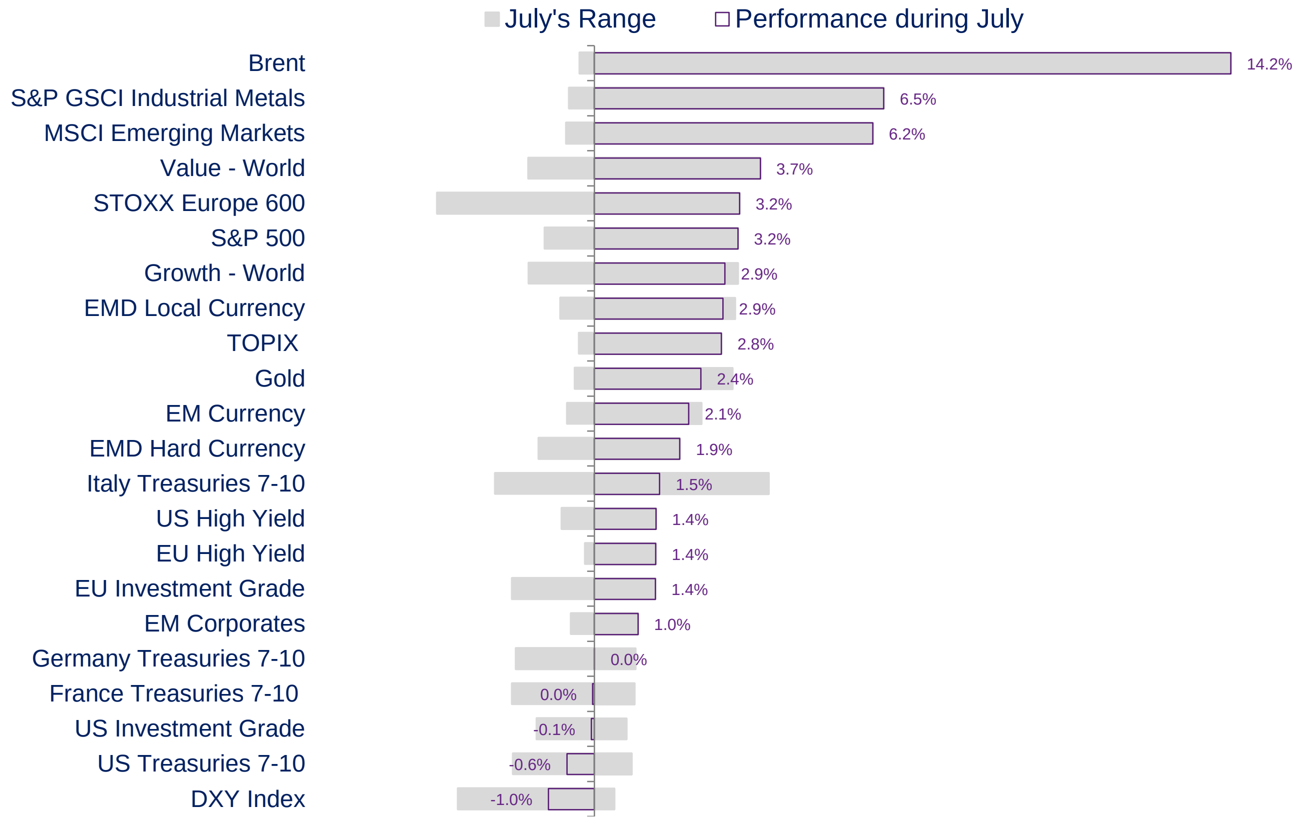
Market sentiment stayed positive in July, with most risky assets posting positive returns over the month as equity implied volatility measures remained subdued. The MSCI Emerging Markets index led after rallying 6.1%, the S&P500 and Stoxx600 followed both gaining 3.2%.

The energy sector both in Europe and the US benefited from the 14% rise in oil prices. The Value style outperformed, driven by energy and financial stocks, but also –and quite surprisingly in Europe– by real estate stocks. Overall, long-term interest rates rose by around 10 basis points in July. However, bond volatility remained significantly high due to diverging trends in macroeconomic data and uncertainty on central banks' next decisions. Finally, the High Yield and Investment Grade credit spreads in emerging markets tightened by 49 basis points and 21 basis points, respectively. Resilient economic growth, the fast disinflation, and the looming interest rate cuts (Chile's central bank cut rates by 100 basis points in July) are all creating a favourable environment for corporate debt in these countries.

Sources : Bloomberg & NIM Solutions

Cross Asset Performance in July – USD

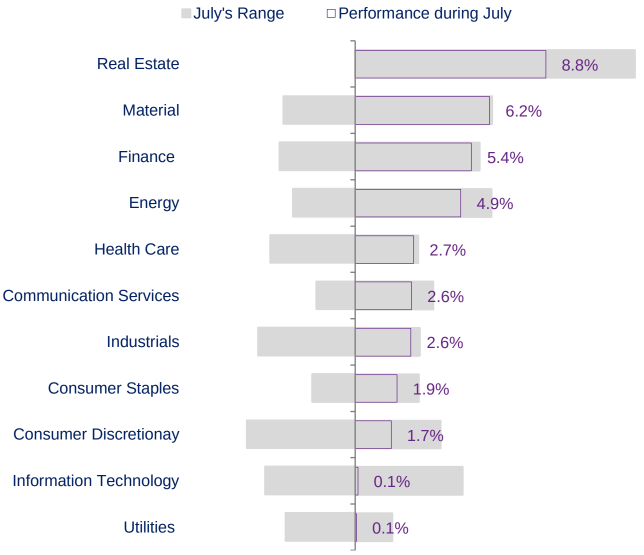
Past performance information presented is not indicative of future performance



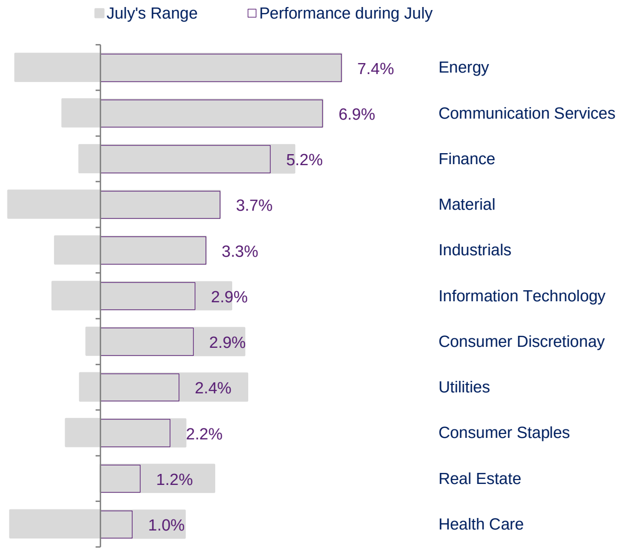
Sector Performance in July – USD

Past performance information presented is not indicative of future performance

MSCI Europe



MSCI US

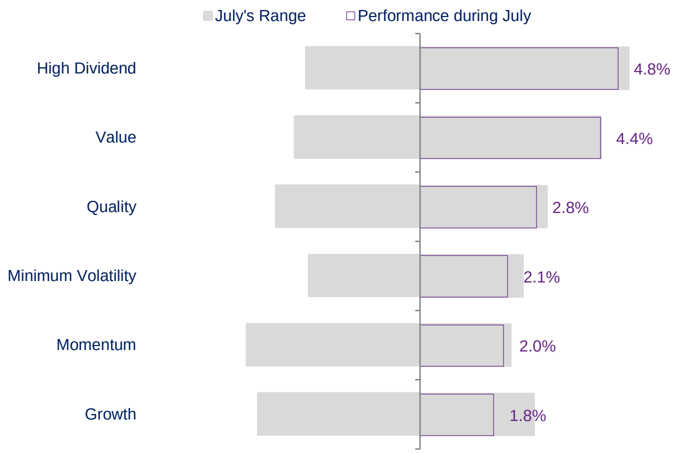


Source: Bloomberg & NIM Solutions

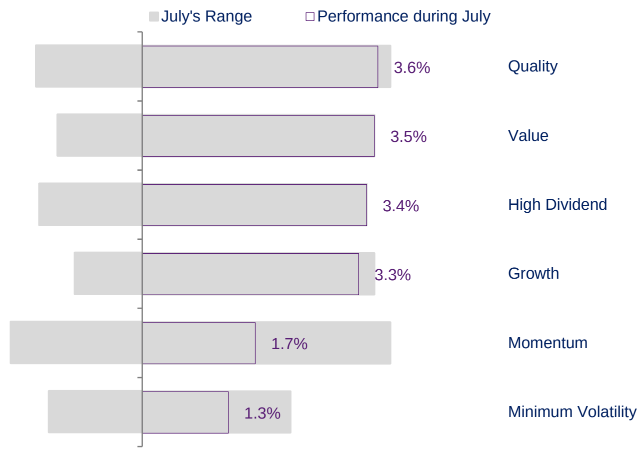
Style Performance in July – USD

Past performance information presented is not indicative of future performance

MSCI Europe



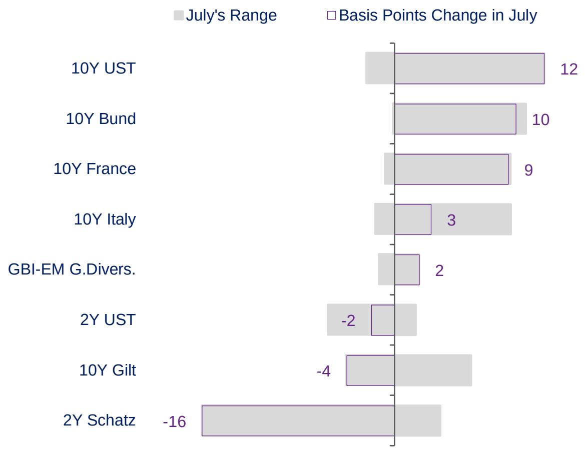
MSCI US



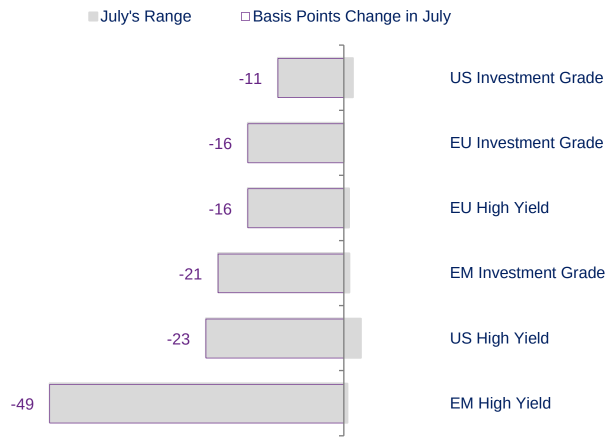
Net Yield Change in July

Past performance information presented is not indicative of future performance

Bonds



Credit Spreads



Source: Bloomberg & NIM Solutions