Market Review

By Mabrouk Chetouane & Nicolas Malagardis - Global Market Strategy, NIM Solutions June 2023

Macroeconomic developments

While growth continued to hold up in June, the divergence in economic data accelerated with services spending helping to offset the contraction in manufacturing output. Headline inflation continued its decline, core inflation pressures remained sticky, and labour markets stayed strong. Major central banks committed to further tightening, except the PBoC which cut rates as China's economy kept disappointing.

Despite the sharp rise in the Fed funds rate, US GDP growth in Q1.23 was revised upwards to show an increase of 2.0% YoY, well above its 1.3% previous estimate, largely driven by the buoyant consumer spending, up 4.2% QoQ (SAAR). Still, both the manufacturing PMI and ISM dipped lower into contraction territory, and the services ones cooled but remained in expansionary territory. Sentiment in the housing market also improved despite high mortgage interest rates, and the labour market remained strong and tight. The Fed paused its rate hikes for the first time in 15 months, leaving the target rate range at 5-5.25% but still, the updated dot plot came in showing at least two more 25bp hikes before yearend.

Business surveys for both the Euro area and the UK continued to soften in June but held up in expansionary territory. The Euro area entered a technical recession in Q1.23, according to downwardly revised GDP numbers, whereas UK's monthly GDP data showed a minor uptick (+0.2%) for the month of April. Although core inflation in the Euro area increased 0.1 percentage points to 5.4% YoY in June, headline inflation decreased to 5.5% YoY from 6.1%. Inflation came in disappointingly sticky in the UK, with the headline rate unchanged at 8.7% YoY in May and core inflation accelerating to 7.1% – its highest reading since 1992. The ECB increased rates by +25bp to the 3.0% - 3.5% target range, the BOE surprised an increased rates by 50bp to 5%, and the SNB increased them by 25bp to 1.75% (on its first hike since March). In the political front, Sunak and Biden signed the "Atlantic Declaration", which aims at increasing UK-US trade and cooperation in strategic areas, such as minerals and defence, amongst others.

China's economic data released in June signalled the recovery had stalled in May, with industrial production falling 3.5% YoY. The manufacturing NBS PMI remained weak at 49.0, while the non-manufacturing eased but continued to point towards expansion, at 53.2. Unlike the rest of other major central banks, the PBoC announced 10bp cuts to several of its key lending rates to support the construction sector.

Market reaction

Equities in developed markets rallied in June, with the MSCI World increasing 6.1%, driven by strong gains both in global growth and value stocks, which jumped 6.1% and 6.0%, respectively. European value outperformed growth, and US growth outperformed value. Emerging equities also posted strong returns, surging 3.8% over the month largely driven by China and Brazil. Sovereign yields increased across maturities in June, especially in the short-end, and credit spreads tightened overall. Implied volatility in the US Treasury market, as measured by the MOVE index, declined throughout the month, and implied volatility in the S&P500 remained muted.

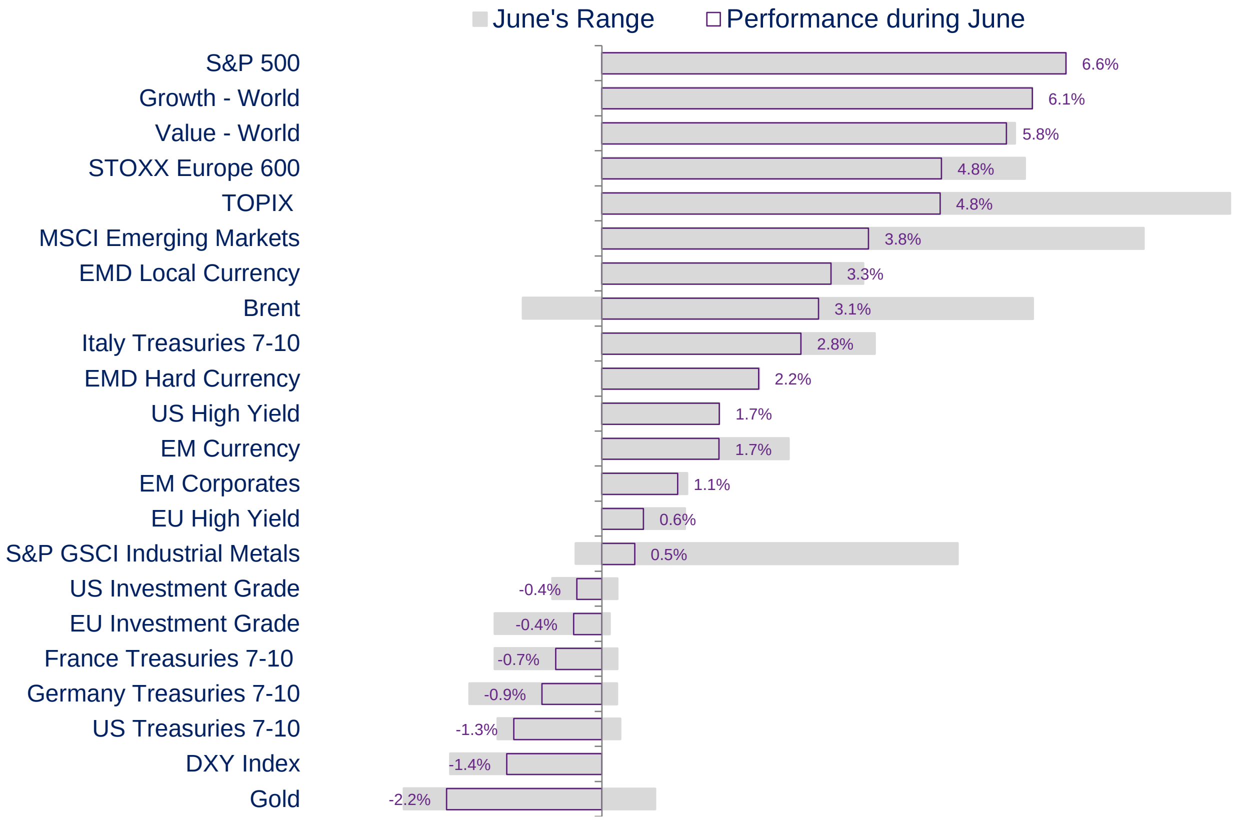
Within the major developed equity markets, the US outperformed Europe (6.7% vs 2.4% in local currency terms). But FTSE MIB and the TOPIX led the gains, jumping 8.6% and 7.5%, respectively, in local currency terms. Noteworthy is that all but one – OMX Copenhagen – equity indices within developed markets posted positive returns in June. On a sector basis, consumer discretionary led both in Europe and in the US, increasing +8.2% and 11.9%, respectively. On the other hand, real estate lagged in Europe (+0.2%), and utilities (+1.4%) in the US.

The US 10-year yield increased by 19bp to 3.84%, and the 2-year yield increased 49bp to 4.86% as investors repriced their rate hikes expectations. European sovereign yields also increased across regions, with German 10-year yield increasing just 11bp to 2.42%, OATs 8bp to 2.95%, and Gilts 25bp to 4.38%. The exception were BTPs which saw a slight yield compression to 4.10%, with the BTP-Bund spread tightening by 13bp to 168bp. Lastly, credit performance was strong and driven by spread compression. EMD Local led and returned 2.6%, followed by EM high yield HC debt (+2.0%) and EM sovereign HC debt (+2.0%). US and European high yield lagged emerging debt but outperformed their investment grade equivalents.

Sources : Bloomberg & NIM Solutions

Cross Asset Performance in June – USD

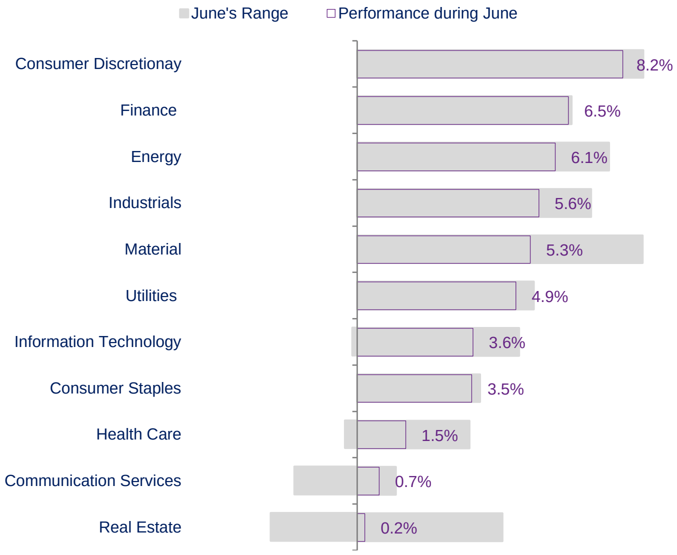
Past performance information presented is not indicative of future performance



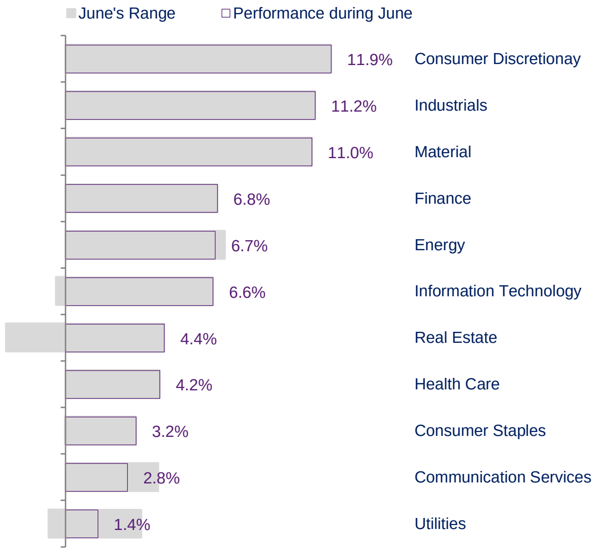
Sector Performance in June – USD

Past performance information presented is not indicative of future performance

MSCI Europe



MSCI US

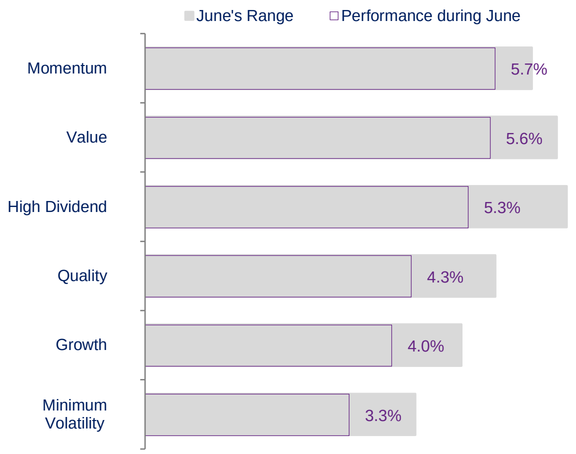


Source: Bloomberg & NIM Solutions

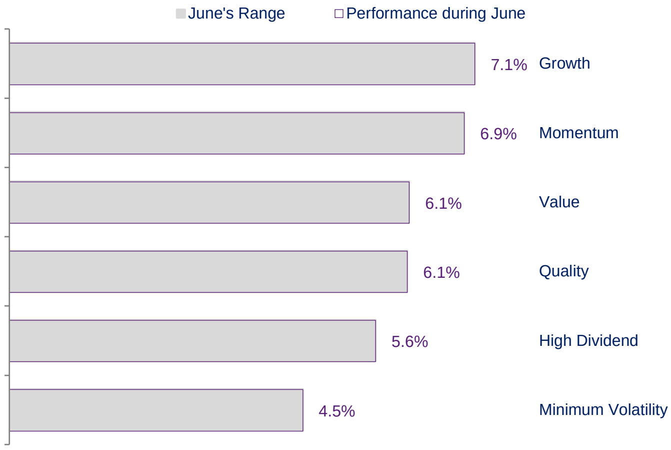
Style Performance in June – USD

Past performance information presented is not indicative of future performance

MSCI Europe



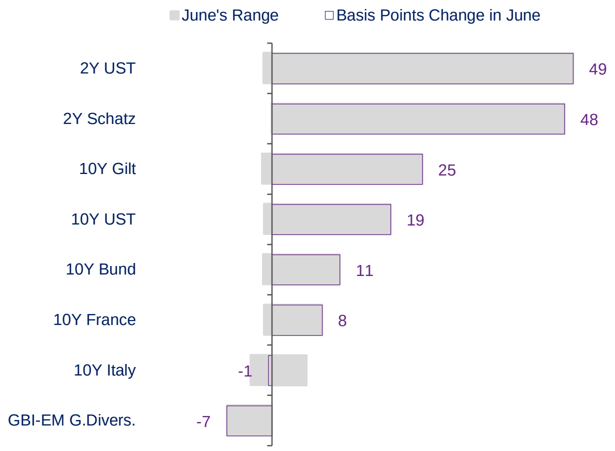
MSCI US



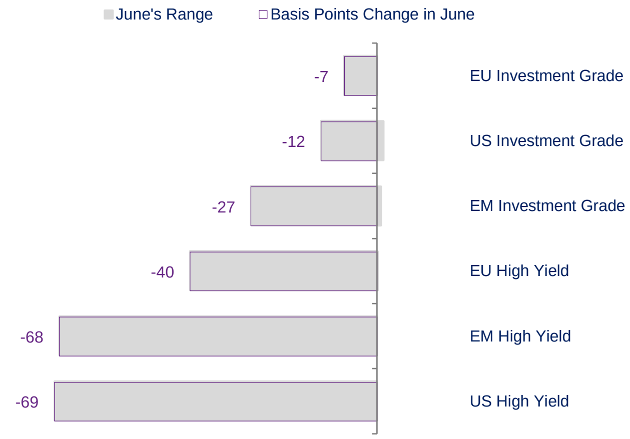
Net Yield Change in June

Past performance information presented is not indicative of future performance

Bonds



Credit Spreads



Source: Bloomberg & NIM Solutions

All amounts shown are expressed in USD unless otherwise indicated.

Source: Bloomberg & NIM Solutions