

Market Review

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Macroeconomic developments

Despite the events in the US and European banking industries, which triggered a major sell-off in financial sectors, risk assets advanced in March. This was likely due to the prompt intervention of central banks to contain the contagion risks as well as to the renewed hopes that central banks will soon pause their interest rate increases.

While all major central banks hiked rates in March, some adjusted their tone to a somewhat less hawkish one, notably the Federal Reserve (Fed). The Fed raised its policy rate for its second consecutive time by 25bp to 4.75%-5.00%; the European Central Bank (ECB) raised its policy rates by 50bp to 3.00%-3.5%; and the Bank of England (BOE) by 25bp to 4.25%. Moreover, the Bank of Japan (BOJ) left both its policy rate and yield curve control policy unchanged. In addition, a new governor was appointed, Kazuo Ueda, a development that could have implications on the future monetary policy, particularly as core inflation stands at a 4 decades high.

Headline inflation started to abate in all major countries, as a result of the lower energy prices today than a year ago, when they jumped in March 2022 due to the start of the war in Ukraine. US consumer price index (CPI) for the month of February (reported in March) fell from 6.3% year-over-year to 6.0%, marking its eight consecutive monthly decline. Meanwhile, Eurozone's harmonized CPI fell from 8.9% year-over-year to 6.9% in March, as suggested by its flash estimate, and Japan's headline figure slowed from 4.3% year-over-year, a 40 decades high, to 3.3% in February. On the other hand, after declining for three months in a row, UK's CPI surprised as it badged back up from 10.1% year-over-year to 10.4% in February.

However, the picture was much less rosy when looking at February's core inflation figures, which excludes fresh food and energy prices. US core CPI came it at 5.5% year-over-year, unchanged from the prior month and putting an end to its four months streak declining. More concerning were the core figures in the UK and the Eurozone –where it reached a new all-time high. UK core CPI increased from 5.8% year-over-year to 6.2% while Eurozone and Japan's core CPI increased from 5.6% and 3.2% year-over-year, respectively, to 5.7% and 3.5% in February.

Economic data were broadly positive throughout the month. February's US non-farm payrolls report came in again stronger than expected, at 311,000 compared to 517,000 in the previous month. Unemployment rates in Eurozone countries were unchanged or declined slightly. The US and Eurozone composite PMI surveys, which reflect the business climate in both services and manufacturing sectors, improved in March supported by a robust activity in the services side. On the other hand, UK's composite PMI dropped, but still remains above the 50-points threshold, as both manufacturing and services sectors slowed. Consumer confidence surprised to the upside though, gradually improving from its multiyear low last September at -49 to -35 in March.

Lastly, China's official services PMI survey in at 58.2, its highest level since March 2011, reflecting that the reopening continues to unfold as. Similarly, and after falling for three consecutive months, the January-February combined figure for retail sales rose by 3.5% year-over-year. Noteworthy is that, for the first time since August 2021, China's official home price index advanced on a month-over-month basis in February. And that the already muted headline and core inflation slowed even further in February, with the headline figure falling from 2.1% to 1.0% year-over-year, and the core one from 1.0% to 0.6% year-over-year. Despite this stream of favourable news, President Xi has warned that the 5% GDP growth target for 2023 is a challenge.

Market reaction

Risk assets ended the month in the green as the increased banking stress supported investors' belief that central banks will soon pivot from their hawkish, anti-inflation stance.

After having fallen in February, both developed and emerging market equity indices bounced back in March. The MSCI World returned 3.1% and the MSCI Emerging Markets followed close behind and returned 3.0%. The US equity market, notably the Nasdaq Composite, was the main outperformer in March as hopes for a pause in rates hikes drove growth stocks significantly higher. As such, the Nasdaq Composite, and the S&P 500 increased 6.8% and 3.7%, respectively. Noteworthy was the announcement from the Tokyo Stock Exchange requesting companies trading below book value to come up with plans to boost corporate value. European markets performance, on the other hand, was hit by the

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major sell-off in its financial sector. The FTSE100 fell by 2.5%, the IBEX35 by 1.7%, and the FTSE MIB by 1.2%.

The growth and quality styles outperformed in March both in the US and Europe, with growth rallying 7.8% in the US and 5.8% in Europe. Conversely, value and momentum styles lagged, with value losing 1% in Europe and 0.8% in the US. On a sector basis, information technology (+8.8%) and utilities (+6.7%) led in Europe, and information technology (+10.2%) and communication services (+10.2%) in the US. On the other hand, real estate (-7.6%) and financials (-6.6%) lagged in Europe, and financials (-9.6%) and real estate (-2.1%) in the US.

March was a positive month for global sovereign as the stress in the banking sector triggered a flight to quality and supported the expectations of a central bank pivot. As such, sovereign yields gave up the entire advance posted in February. And the inversion in the US and European yield curves, which usually served as a harbinger of recession, decreased in March but remained in place.

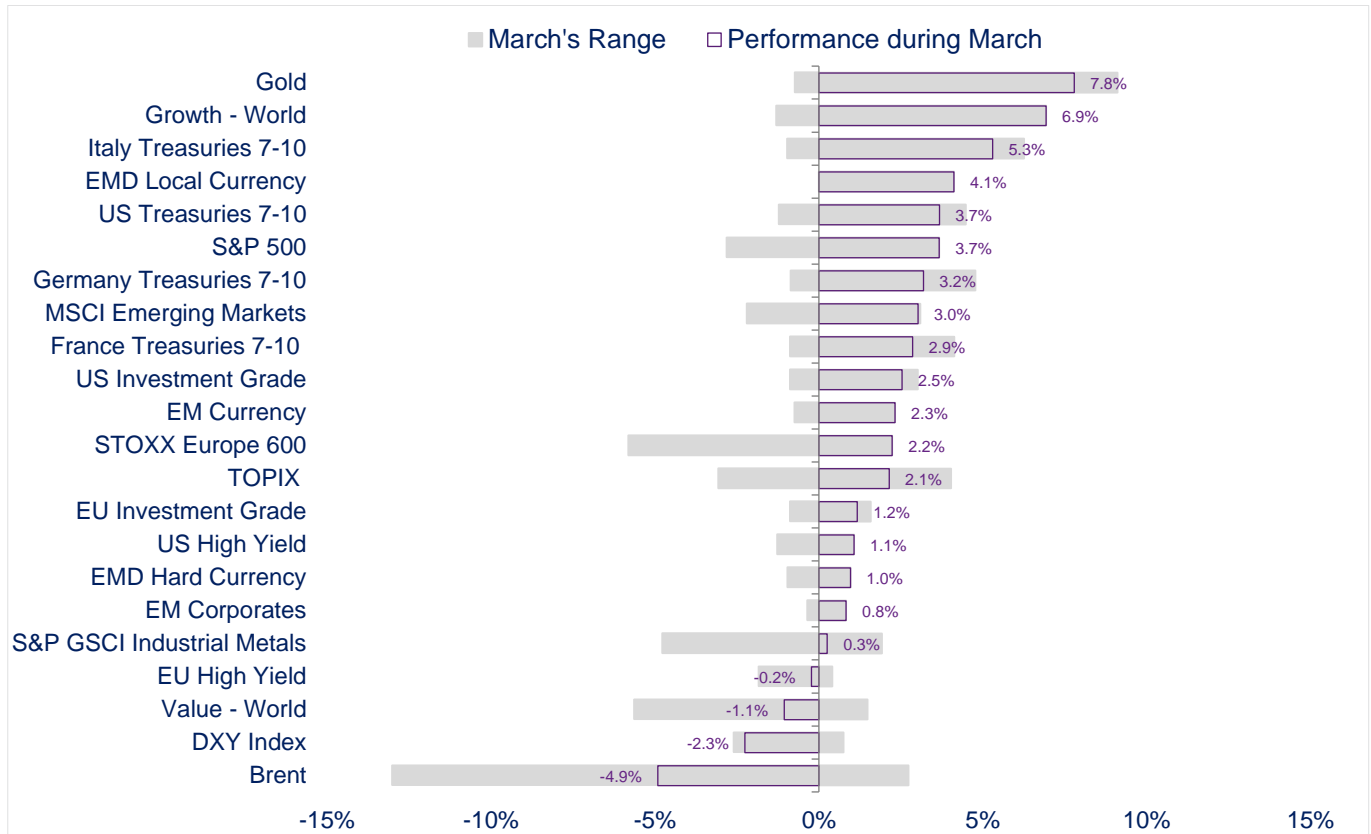
The US 10-year yield fell by 45bp to 3.47% while the 2-year yield dropped 74bp to 3.49% as investors are expecting several rate cuts during H2.23. Moreover, the German 10-year yield fell by 36bp to 2.29%, OATs 33 bp to 2.79%, BTPs 38bp to 4.10%, Gilts 34bp to 3.49%, and JGBs fell by 15bp to 0.35% (easing from the top of the range of the BOJ's yield curve control policy). Noteworthy was that the BTP-Bund spread remained very well behaved throughout the whole banking stress event and ended up tightening 2bp to 181bp.

Against this volatility backdrop markets, riskier bonds underperformed sovereign ones as credit spreads widened in March. Investment grade debt posted positive returns both in the US (+2.5%) and in Europe (+1.2%), as well as US high yield debt (+1.1%), while European high yield lagged (-0.2%). Noteworthy was the large outperformance of emerging markets' local sovereign debt (+4.1%) thanks to a weaker US dollar.

The US dollar retreated and lost most of the value it had recovered in February against its G-10 peers, losing 2.5% against the Euro, 2.6% against the Pound, 2.9% against the Franc, 2.4% against the Yen, 0.9% against the Yuan and 3.3% against the Real.

Cross Asset Performance in March – USD

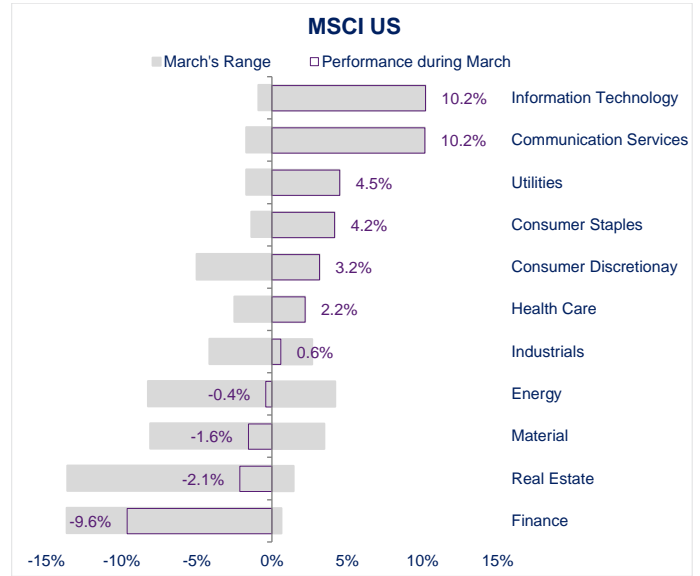
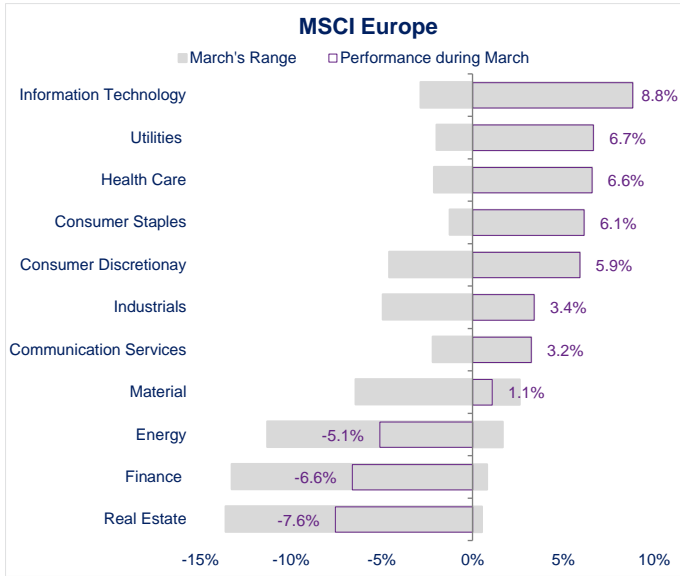
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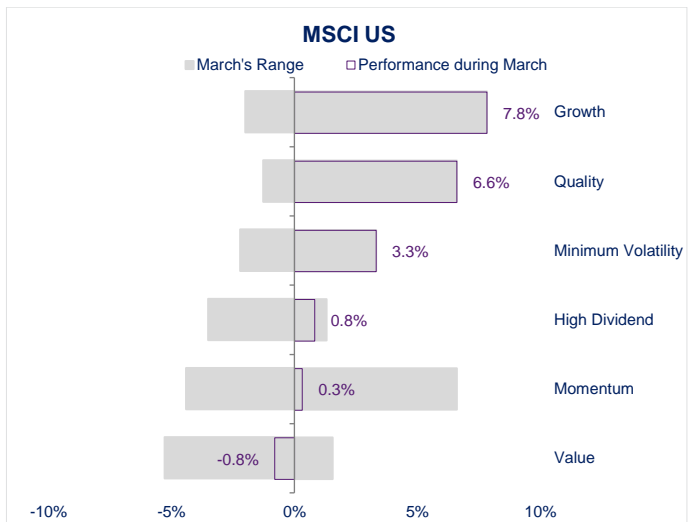
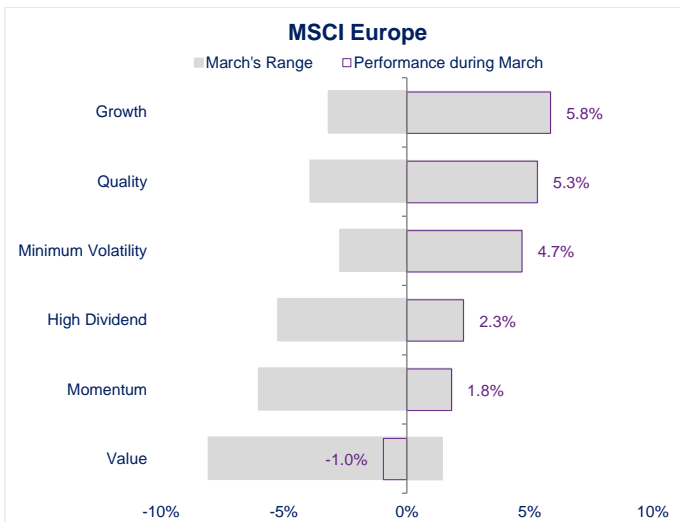
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Sector Performance in March – USD

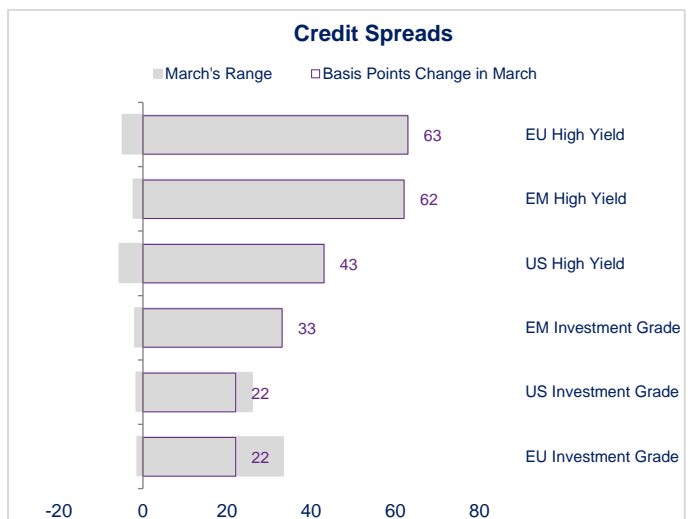
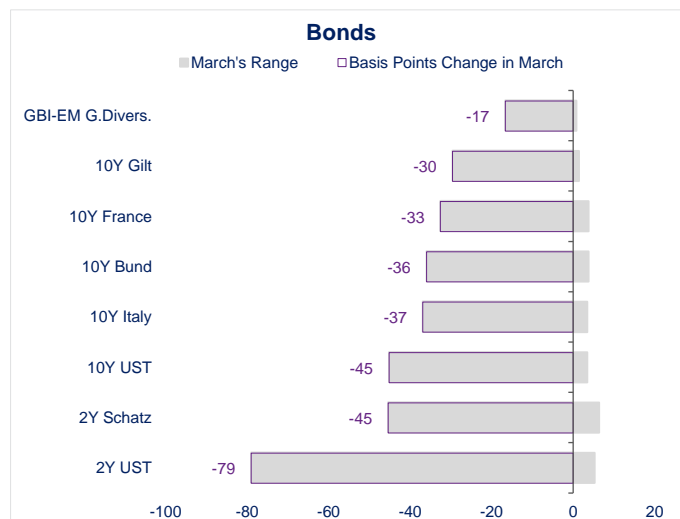
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Style Performance in March – USD



Net Change in Yields in March



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