

# Market Review

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## Macroeconomic developments

Global growth in May remained resilient despite higher interest rates and tighter financial conditions. The services and manufacturing sectors, measured by PMI surveys, continue to diverge across the main developed regions in May. Unemployment rates remained low across the eurozone, UK, and the US, accompanied by wage growth. However, commodity markets experienced weakness, with oil prices down 40% compared to the previous year and industrial metals facing price declines due falling global demand most likely explained by weak industrial activity in China.

In the US, the debt ceiling crisis seems to have been averted, with the House passing a debt ceiling bill and the Senate expected to follow suit. The US economy grew by an annualized, and upwardly revised, 1.3% in Q1 2023, with consumer spending accelerating more than expected despite high inflation. Noteworthy is that private inventory investment subtracted 2.1 percentage points from the quarterly advance and that the growth on non-residential fixed investment was revised 0.7% to 1.4%

More recent economic data indicated comforting signs of continued growth for the second quarter, including stronger-than-expected housing starts, employment numbers and auto sales. The US labour market remained tight, with the headline unemployment rate falling to 3.4%. The CPI in April increased by 4.9% YoY, slightly down from the 5.0% increase the month before. The core CPI, which excludes food and energy categories, also decreased slightly in April, coming at 5.5% YoY down from 5.6% the month before. The Federal Reserve hiked rates by 25 basis points, bringing the fed funds rate to 5.25%-5.00% and expressed openness to a pause in rate hikes to assess the cumulative impact on the real economy. Market pricing for Fed policy has been volatile, with a shift from expectations of rate cuts to a more tightening-oriented stance throughout the month.

Revised growth figures revealed that the German economy posted its second consecutive quarter of contraction, with a 0.3% QoQ decline in Q1 2023. However, despite a further tightening in credit standards, more recent economic data indicated an improving momentum for the current quarter, with the flash services PMI holding edging higher to 57.2 in May, a thirteen-month high. Economic data revealed for the eurozone during May also showed resilience. Moreover, eurozone's headline inflation increased 0.1 percentage points 7.0% YoY, while core inflation slowed to 0.1 percentage points to 5.6%

YoY. In response to the inflationary backdrop, the European Central Bank hiked rates by 25 basis point rate, bringing the main refinancing rate to 3.75%, and signalled more rate hikes would be necessary to curb underlying inflationary pressures.

The UK economy grew by 0.1% QoQ in Q1 2023, mirroring the advance posted in the previous quarter and reinforcing the belief that a recession this year would be avoided. Consumer price inflation in April slowed from 10.1% YoY to 8.7% in April, but core inflation rose 0.6 percentage points to 6.8%, a new multi-decade high, which pushed expectations for UK interest rates significantly higher. The Bank of England raised interest rates by 25 basis points to 4.5% and signalled that further rate hikes would likely be required.

After a 0.1% QoQ increase in Q4 2022, Japan's economy advanced by 0.7% in Q1 2023, driven by strong private consumption and non-residential investment. April's CPI accelerated further, with core inflation coming at 4.1% YoY, its largest increase in over forty years. These developments have increased investor optimism that Japan is emerging from the deflationary stagnation of the past decades.

Lastly, following the end of the zero-Covid policy and a strong first quarter, Chinese economic data for April showed signs of a slowdown in activity, with imports contracting by 7.9%, the manufacturing PMI remaining in contractionary territory, at 48.8, and the services one falling 4 points to 54.5. In addition, the property market, of which sentiment remains weak, saw a further decline, with property investments falling by 6.2% YoY in April, after a 5.8% drop in March.

## Market reaction

Developed market equities fell by 1.0% over the month, with global growth stocks outperforming value stocks by percentage points. Emerging equities also lagged in May, falling 1.7% due to ongoing weakness in Chinese stocks, which dropped by 8.4%. Global bonds fell 2.3%, largely driven by investment grade credit, which dropped 2.1% over the month.

Overall, both the VIX and the MOVE index, which respectively reflect the implied volatility in the US equity and treasury markets, remained well-behaved in May; although we did see bond volatility trading higher in the

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latter part of the month as the debt ceiling deadline loomed.

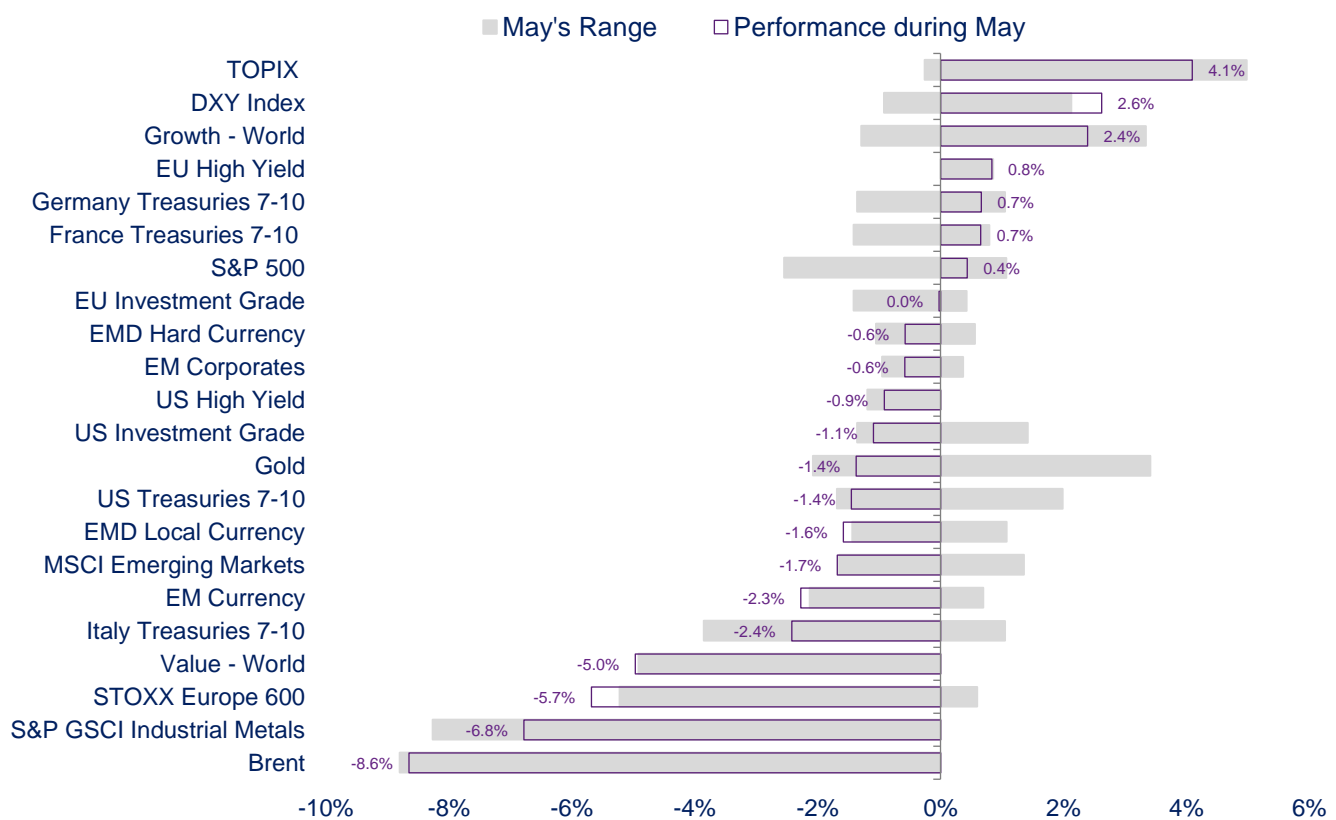
Within the major developed equity markets, the Nasdaq and the Topix largely outperformed the rest of the regions, jumping 5.9% and 3.6%, respectively. Enthusiasm over Artificial Intelligence technology during the month of May, significantly boosted technology stocks. The Japanese equity market kept its strong momentum supported by a positive sentiment towards the semiconductor industry and ongoing company announcements to increase dividends and share buybacks. Overall, we saw significant dispersion in sector performance during the month of May, with technology vastly outperforming the rest and energy falling quite behind. On a sector basis, technology (+4.6%) led in Europe, and technology (+8.3%) and communication services (+6.1%) in the US. On the other hand, energy (-11.7%) and real estate (-10.1%) lagged in Europe, and energy (-10.1%) and materials (-7.1%) in the US.

The US 10-year yield increased by 26bp to 3.69%, and the 2-year yield increased 44bp to 4.45% as investors priced out the 3 to 4 rate cuts, they were expecting to take place by the end of the year. Moreover, while European sovereign yields experienced a relatively bumpy month, they ended it broadly unchanged. The German 10-year yield increased just 3 bp to 2.34%, OATs 2bp to 2.91%, BTPs fell 3bp to 4.15%. The exception was the UK gilt market, which underperformed for the second consecutive month, with the 10-year yield jumping 53bp to 4.25% as core inflation jumped to a new multi-decade high. Dispersion was also evident within corporate bonds, where Europe outperformed the US, both in investment grade and high yield buckets. High yield debt posted 0.8% advance in Europe while a 0.8% decline in the US. Investment grade fell 0.3% in Europe and -1.5% in the US.

After months of continued depreciation, the backdrop of slowly weakening global demand finally supported the US dollar, which performed well against most of its main peers. It gained 2.6% against the Euro, 0.4% against the Pound, 1.7% against the Franc and 1.3% against the Japanese yen.

## Cross Asset Performance in May – USD

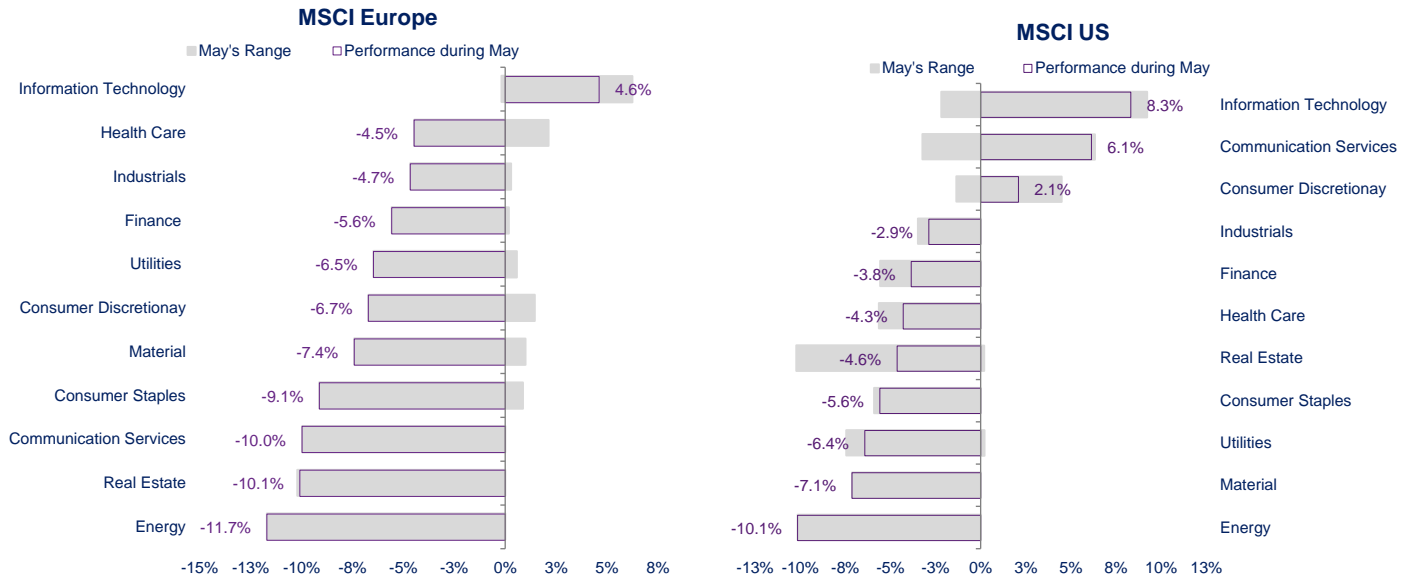
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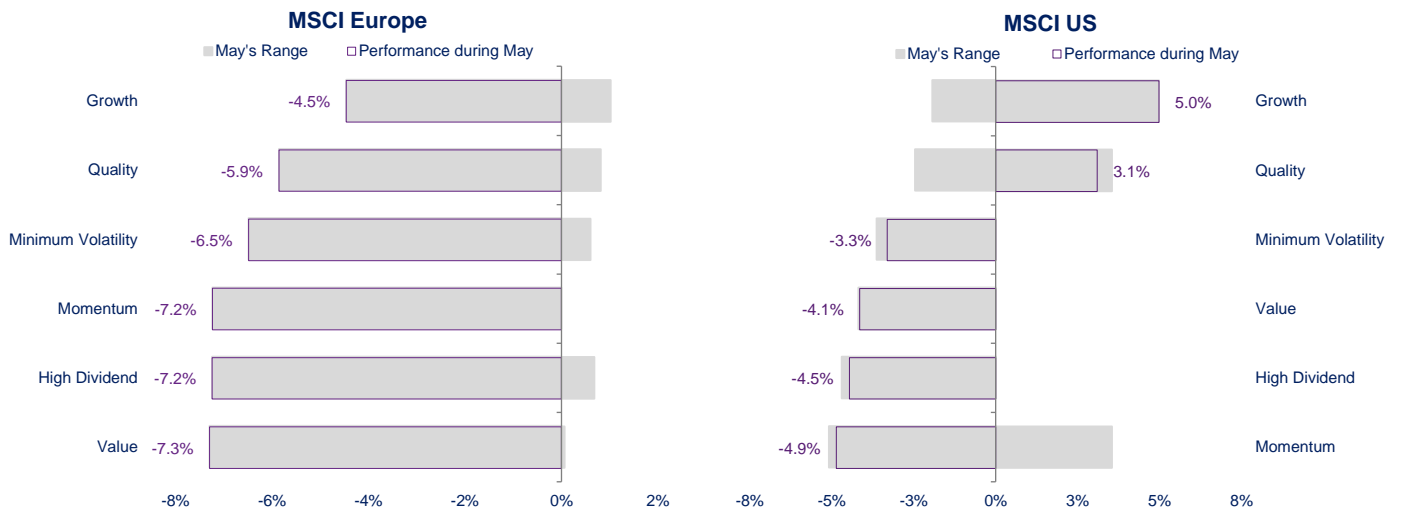
## Sector Performance in May – USD

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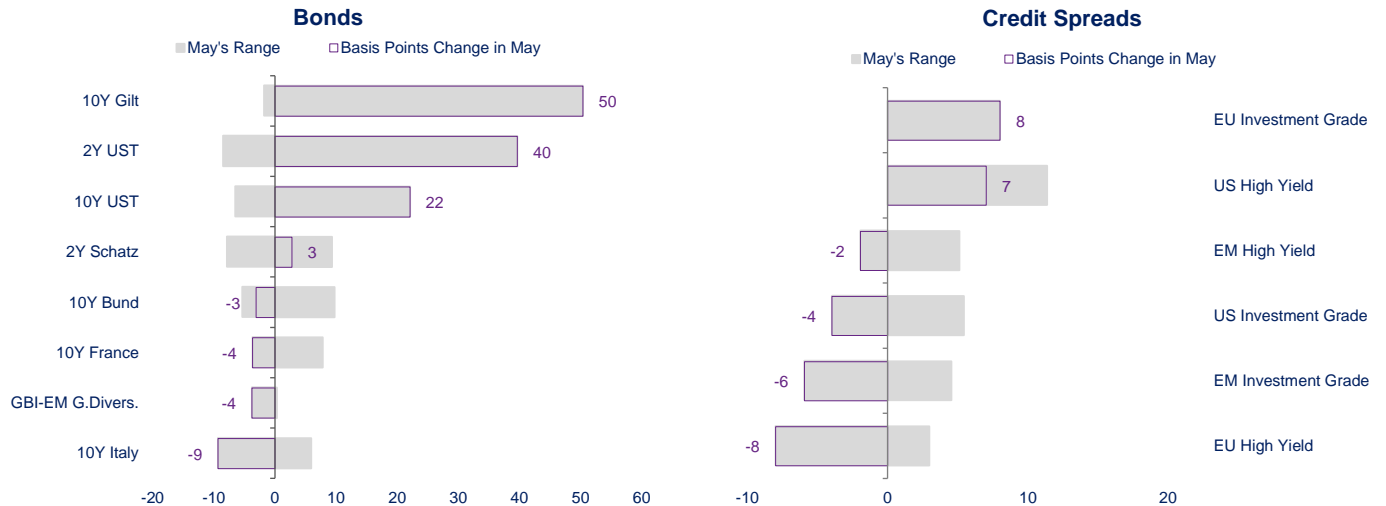
## Style Performance in May – USD

Past performance information presented is not indicative of future performance



## Net Yield Change in May

Past performance information presented is not indicative of future performance



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