Quarterly market and economic update - Q2 2023

Financial market background

Equity markets started the year very strongly, led by growth stocks, as inflation continued to show signs of easing, leading people to expect interest rates to rise by less and then possibly start falling sooner.

February, however, was much tougher for equity markets as inflation and other economic data showed that central banks still had much work to do in terms of raising interest rates.

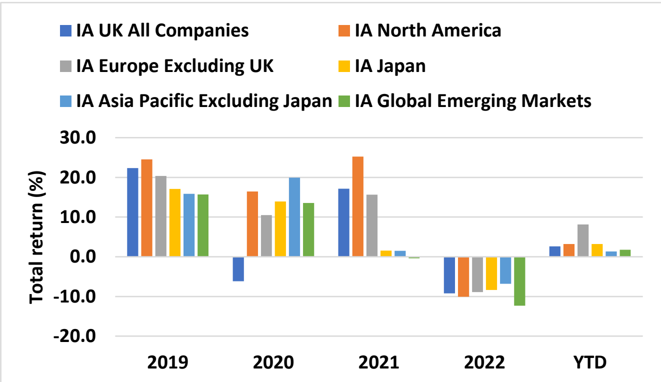
Things got worse in March with the collapse of the US regional banks Silicon Valley Bank (SVB), Silvergate and Signature Bank. Despite quick action by the authorities to help prevent those bank runs spreading, markets - especially banking indices - fell sharply. The fear spread, culminating in the forced takeover of Credit Suisse by rival UBS. Equity markets did, though, steady towards the end of Q1.

Overall, equity markets in all the main regions rose over the quarter (in sterling terms), especially in Continental Europe, due in large part to a mild winter across the region, wholesale gas prices falling back to pre-Ukraine war levels and better than expected economic data.

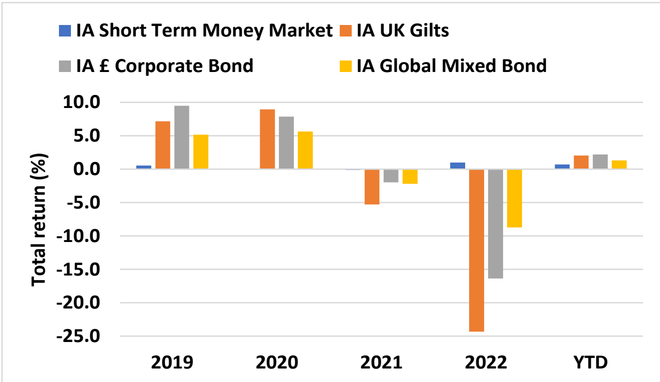
Bond yields initially fell in Q1, before rising and then falling again. Much of the reason for these gyrations was the ever changing outlooks for GDP growth, inflation and interest rates. UK 10 year government bond yields ended the quarter at 3.52%, compared to 3.7% at the start of the year. US 10 year government bond yields ended Q1 at 3.47%, compared to 3.83% at the start.

Commodities and infrastructure both fell over the quarter while UK property was almost flat.

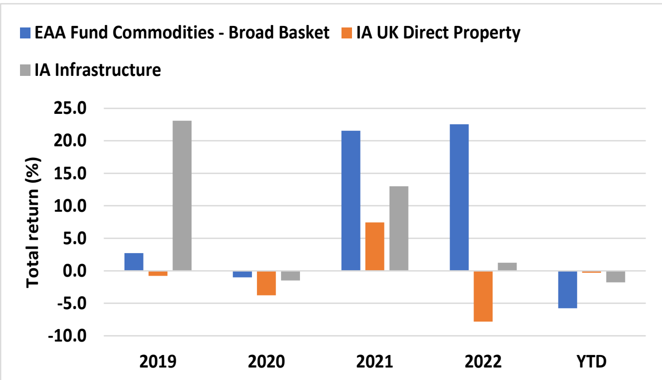
Total returns for the main equity markets



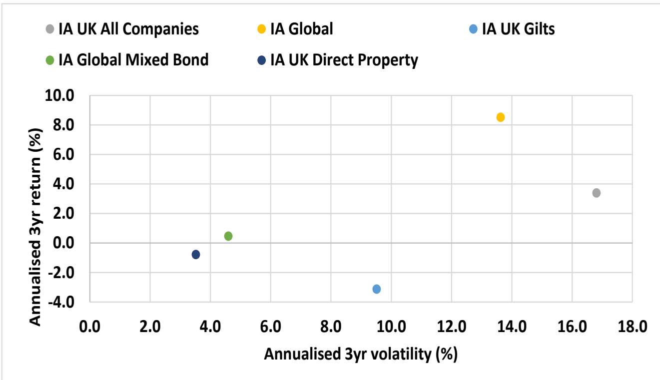
Total returns for fixed interest



Total returns for commodities, property and infrastructure



Three year risk and return for selected asset classes



Source: Morningstar, 31/03/2023

Economic background

Quarter on quarter UK GDP growth was just above zero in Q4 2022, at 0.1%. Reasons for the low growth over recent quarters include rising inflation squeezing real household incomes, the Bank of England raising interest rates, low consumer confidence (although this has increased a bit recently) and weak business investment.

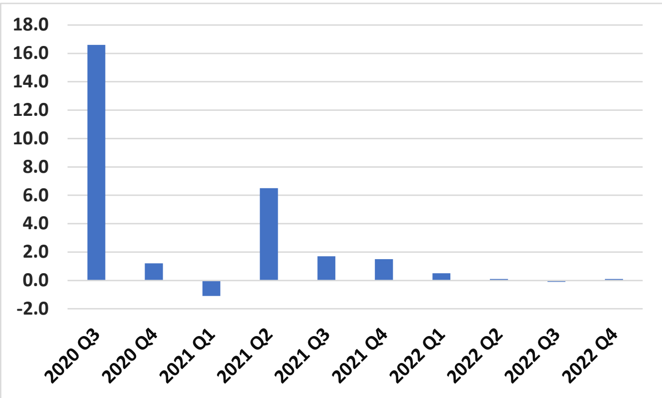
Elsewhere, US GDP increased at an annual rate of 2.6% in Q4 2022, following an increase of 3.2% in Q3. EU quarterly GDP growth was flat in Q4 2022, after 0.3% growth in Q3 although, as with the UK, consumer confidence has increased in Europe recently from very low levels.

UK inflation remains high, at 10.4% in February. US inflation, though, has continued to fall, registering 6.0% in the same month. The 'core' inflation rates were 6.2% and 5.5% respectively. Eurozone inflation, meanwhile, fell to 6.9% in March from 8.5% in February. Inflation is, however, lower in Japan and Switzerland (both 3.3%) and China (1.0%).

The Bank of England, Fed and European Central Bank all continued to raise interest rates over the quarter in order to try and reduce inflation, to 4.25%, 4.75-5.0% and 3.5% respectively. The collapse of SVB and the other US regional banks almost certainly prevented larger increases in March.

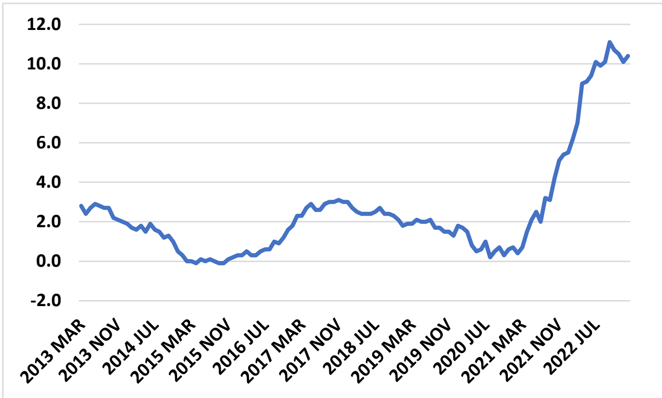
Labour markets, though, generally remain tight and unemployment is low by historical standards.

UK quarter on quarter GDP % growth (1955-2022 average = 0.6%)



Source: ONS; chained volume measures, seasonally adjusted

UK CPI annual % rate (all items)



Source: ONS

Defaqto Roadshows May 2023

Defaqto will be on the road again soon, with the following schedule:

9 May - Belfry Resort, Sutton Coldfield

10 May - Tankersley Manor, Barnsley

11 May - De Vere Cranage Hall, nr Knutsford

19 & 23 May - Virtual

The title of these Roadshows is 'Wealth: the preservation and growth challenges of 2023 - inflation and cost of living, how will you deliver your clients' goals?'.

There will be presentations from Defaqto, the PPI, Technical Connection, BNY Mellon, CCLA, Sanlam Investments and UBS.

If you would like to attend and haven't already registered then please see our website.

If you would like more information please contact Defaqto Customer Support on 01844 295544 or

customersupport@defaqto.com