Belvest

momentum
global investment management

# GLOBAL MATTERS
## MONTHLY VIEWPOINT

VOL #197|APRIL2023

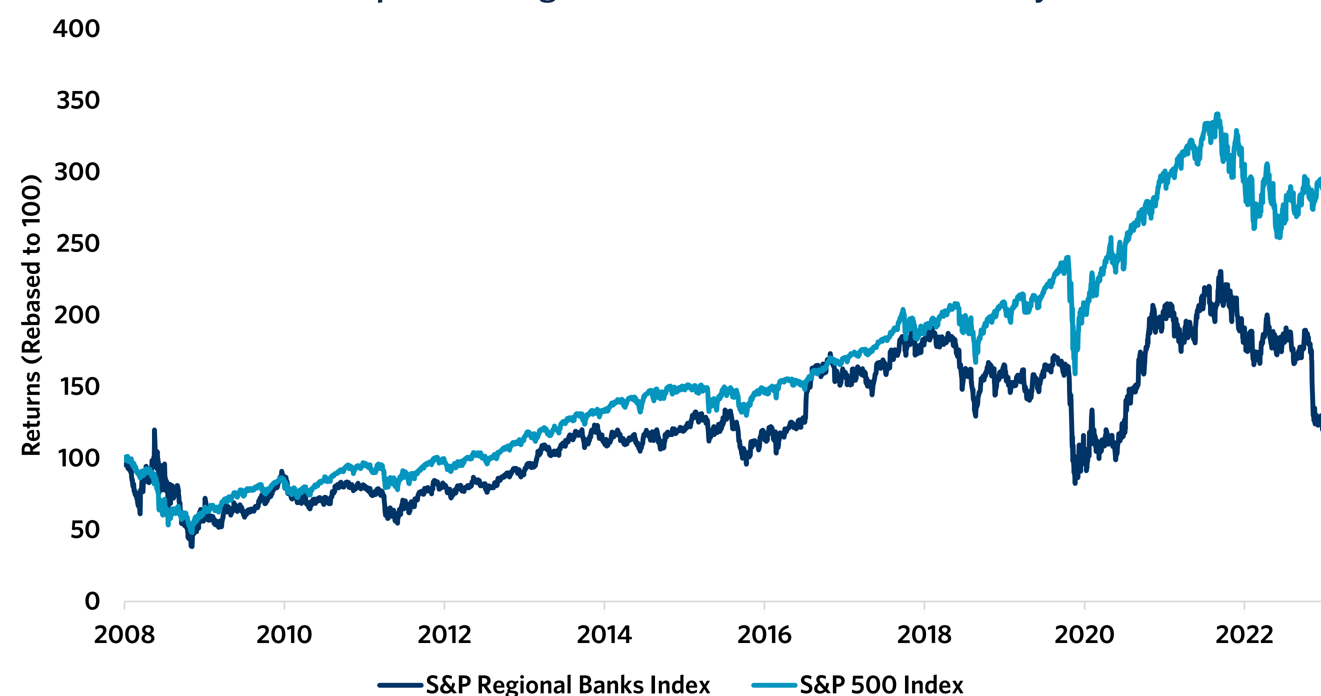
# Contents

# Global market review & outlook

After the surge of volatility in March triggered by the collapse of several banks, markets were remarkably calm in April, with the VIX index of US equity market volatility dropping to its lowest levels since late 2021. US Treasury bond yields fell marginally over the month, corporate credit and high yield bond spreads narrowed slightly, and equities continued their recovery from the March sell-off. The US equity market gained 1.5% in April, ending the month close to its high for the year, but the best gains came from markets outside the US, with the UK +3.4%, Europe ex-UK +2.2% and Japan +2.7% (all in local currency terms). The only notable exception was China, where growing concerns about the strength and sustainability of its post-Covid recovery led to a fall of 5.2% in the equity market (MSCI index), dragging down global emerging equity markets. Sterling and the euro continued their relative strength against the dollar, up 1.9% and 1.7% respectively, but the yen fell by 2.5% as the Bank of Japan under new governor Ueda kept its key interest rate at -0.1% and maintained yield curve control at around zero for 10-year government bonds, a move seen as dovish by investors given increasing expectations that the policy would be abandoned. The bias to weakening in the dollar has seen the trade weighted index fall by 0.8% in April and 1.8% year-to-date, bringing its drop from the peak seven months ago to 11%. A weaker dollar has been a factor supporting the gold price, up a further 1.1% in April and 9.1% year-to-date.

The apparent calm masked troubling turbulence for markets below the surface. Hopes that the stress in US regional banks would be contained after the collapses in March proved to be optimistic as the share prices of several mid-sized regional banks suffered sharp falls, led by First Republic Bank, in the face of substantial deposit outflows. The injection of $30bn of deposits from a number of large banks in March proved to be inadequate for First Republic, which announced in late April that it had suffered deposit outflows of $100bn and was seeking to cut its workforce by 20-25% and sell a substantial part of its longer dated assets. Confidence evaporated, and within days the bank had been seized by the Federal Deposit Insurance Corporation, with JP Morgan taking on its remaining assets and liabilities. Shareholders, who owned a bank with a market capitalisation of $40bn at its peak, were wiped out. With assets of $232bn at 31 March 2023, First Republic was larger than the failed Silicon Valley Bank whose demise had triggered the crisis among regional banks. The S&P Regional Banks index in the US fell by 2.7% in April, taking its drop from the end of February to 30% and almost 50% from its peak in early 2022.

**Share prices of regional banks in US fall dramatically**



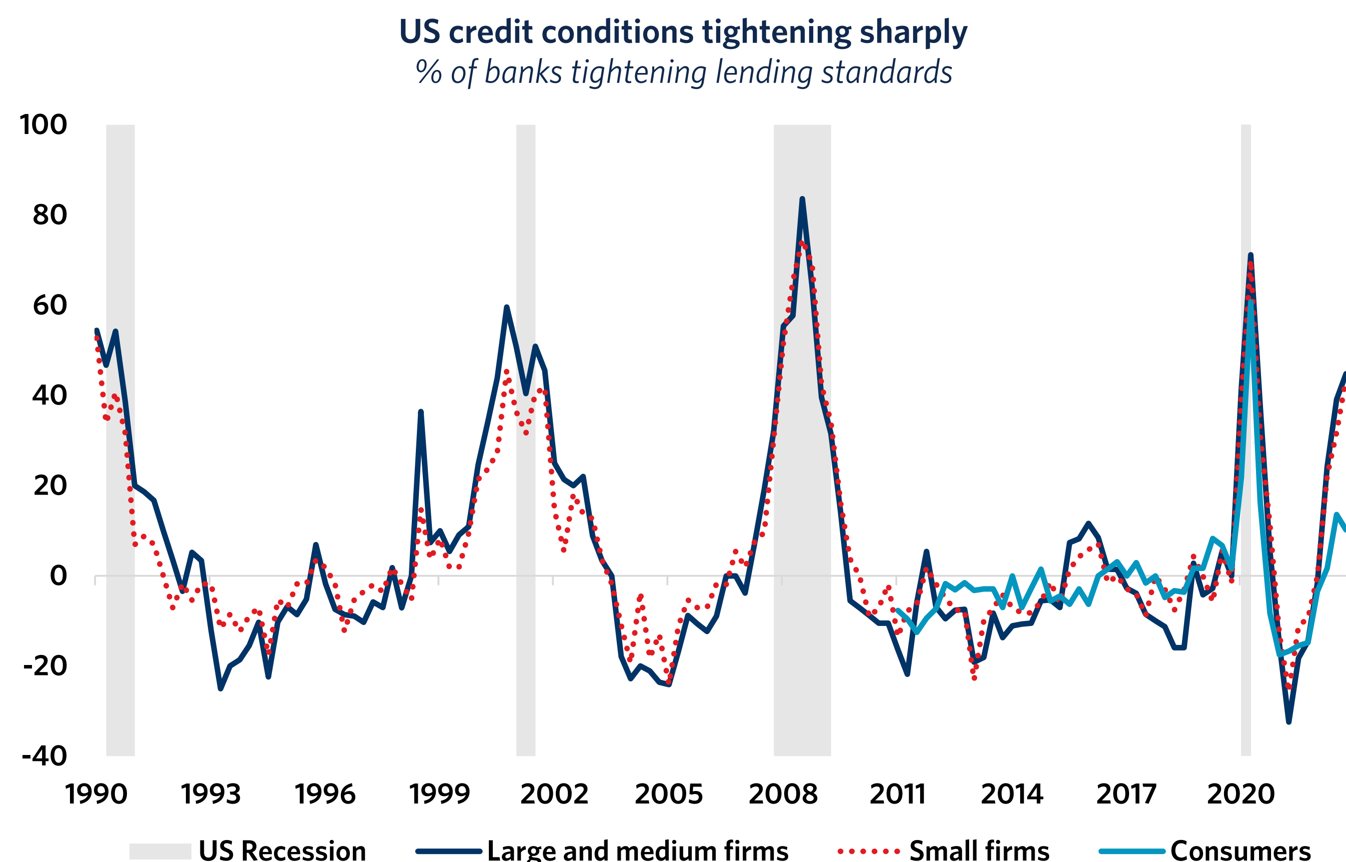

Source Bloomberg Finance L.P as at 3 May 2023.



*"The apparent calm masked troubling turbulence for markets below the surface"*

Aside from the more general headwinds created by tightening liquidity, rapidly rising interest rates and competition for deposits, the specific problems for regional banks are a reliance in many cases on a high proportion of large deposits, above the insured threshold of $250,000, leading to substantial outflows as depositors move to large banks and/or money market funds, and a substantial exposure to commercial real estate (CRE) loans. Regional banks have a much higher exposure to CRE loans than large banks: Citigroup estimates that banks in total have $3.1tn in CRE loans, of which regional banks make up some 70% or $2.1tn, a large percentage of which requires refinancing in the next four years. JPMorgan data shows that the exposure of smaller banks to CRE loans is 28.7% of total assets, compared with only 6.5% at larger banks. With rising vacancy rates, especially in office space, and high refinancing rates, loan losses are an increasing concern.

To date, serious deposit outflows have been concentrated among those banks with excessive uninsured deposits, especially from the tech industry, and systemic risk indicators are not high. As we explained in our March review, we do not believe we face a systemic banking crisis, but further casualties among smaller banks are likely, as is a tightening of regulations for banks with assets below $250bn, and an extension of the insured deposits threshold. What seems certain is an economic spill-over from the banking woes through weakened confidence, increased risk aversion, a higher cost of capital and tightened lending standards, already evidenced in the Fed's lending standards survey, all of which increase the chances of recession.

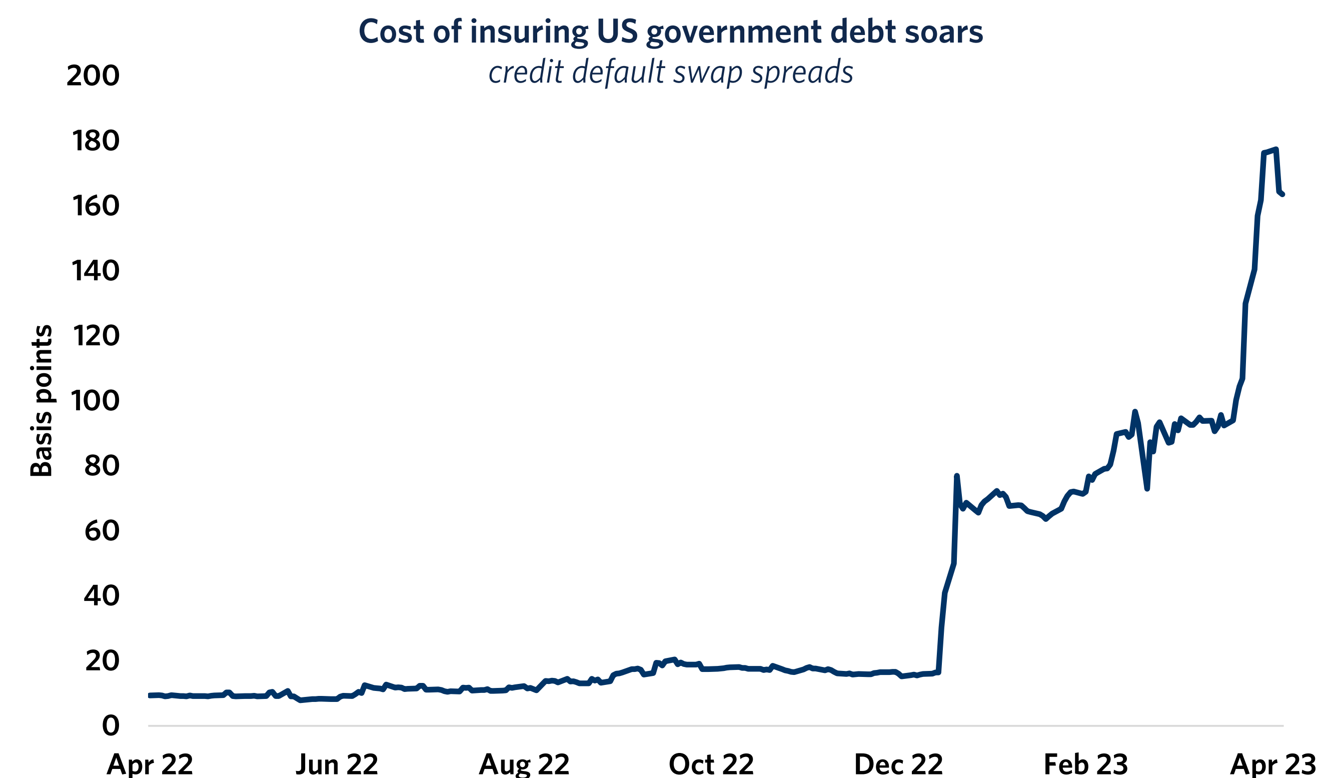



Source: The Fed - Senior Loan Officer Opinion Survey on Bank Lending Practices (federalreserve.gov) as at 30 April 2023.

> ***"Central banks face a challenging period, making the trade-off between financial stability and inflation objectives increasingly difficult"***



The other increasing worry for investors is the looming Federal debt ceiling in the US. The current cap on Federal borrowing is $31.4tn, which was officially reached in January, meaning that the Treasury is using so-called special measures to continue to meet its obligations and avoid default. The special measures could be exhausted as early as June 1st according to Treasury Secretary Yellen, a timetable accelerated by weaker tax receipts in April. Congress must authorise any increase to the ceiling, and with the House in Republican control an unusually tough negotiation lies ahead between the President and Congress. Failure to increase the cap could ultimately lead to default by the US, an unthinkable and unprecedented outcome, which would have dire consequences not just for the US but globally. We expect a period of unsettling political brinkmanship ahead as negotiations come down to the wire, and although we do not believe that the US will be pushed into a formal default we are mindful of the costs of such brinkmanship, already reflected in higher risk premia attaching to short term Treasury bills over the critical June period, and in the cost of insuring US debt through credit default swap spreads, which have risen to all-time highs. Uncertainty and the ultimate risk of default, albeit extremely low, add to the concerns overhanging the economy in the months ahead.




Source: Bloomberg Finance L.P. as at 3 May 2023.

Central banks face a challenging period, heightened financial risks making the trade-off between financial stability and inflation objectives increasingly difficult. The stickiness of inflation and tightness of labour markets remain the priority for now, and further rate rises by the major central banks to constrain growth and inflation are widely expected. But the Fed Funds rate is now above inflation and the peak in the tightening cycle in the US is very close, with the market expecting rate cuts before year end. Europe and the UK are behind the US and grappling with higher levels of inflation, so are likely to remain tighter for longer, a factor which will continue to underpin the euro and sterling against the dollar. But it is the Fed, as ever, which is key, and the prospect of a turn in the monetary cycle has supported bond and equity markets so far this year.

There are, however, risks ahead, from the banking troubles in the US, by no means over, the short-term worries around the debt ceiling, and the continuing struggle to bring inflation back to target levels without triggering a sharp economic slowdown. Markets are not 'priced for perfection', but valuations have moved higher in bonds and equities this year, and the prevailing assumptions about inflation, recession and corporate earnings lean towards the positive end of the range of possible outcomes. Recovery lies ahead and we are optimistic for markets over the next twelve months, but we continue to believe it prudent to temper that optimism in the short term given increased financial risks, especially in US banking, and heightened risks of recession. We are therefore biding our time before adding to risk assets.

# Market performance - *Global (local returns) as at 28 April 2023*

| Asset Class / Region | Index | Ccy | 1 month | 3 months | YTD | 12 months |
|---|---|---|---|---|---|---|
| **Developed Markets Equities** | | | | | | |
| United States | S&P 500 NR | USD | 1.5% | 2.6% | 9.0% | 2.1% |
| United Kingdom | MSCI UK NR | GBP | 3.4% | 2.8% | 7.5% | 8.5% |
| Continental Europe | MSCI Europe ex UK NR | EUR | 2.2% | 4.5% | 12.3% | 8.1% |
| Japan | Topix TR | JPY | 2.7% | 5.4% | 10.1% | 11.3%* |
| Asia Pacific (ex Japan) | MSCI AC Asia Pacific ex Japan NR | USD | -1.7% | -5.8% | 2.3% | -5.4% |
| Global | MSCI World NR | USD | 1.8% | 2.4% | 9.6% | 3.2% |
| **Emerging Markets Equities** | | | | | | |
| Emerging Europe | MSCI EM Europe NR | USD | 5.3% | 3.3% | 6.9% | 17.7% |
| Emerging Asia | MSCI EM Asia NR | USD | -2.4% | -5.8% | 2.3% | -6.8% |
| Emerging Latin America | MSCI EM Latin America NR | USD | 2.7% | -2.9% | 6.7% | 5.0% |
| China | MSCI EM China NR | USD | -1.9% | -7.7% | -1.1% | -5.7% |
| BRICs | MSCI BRIC NR | USD | -5.2% | -11.2% | -0.7% | -5.8% |
| Global emerging markets | MSCI Emerging Markets NR | USD | -1.1% | -4.7% | 2.8% | -6.5% |
| **Bonds** | | | | | | |
| US Treasuries | JP Morgan United States Government Bond TR | USD | 0.5% | 1.1% | 3.4% | -0.8% |
| US Treasuries (inflation protected) | BBgBarc US Government Inflation Linked TR | USD | 0.1% | 1.6% | 3.5% | -4.3% |
| US Corporate (investment grade) | BBgBarc US Corporate Investment Grade TR | USD | 0.8% | 0.3% | 4.3% | 0.7% |
| US High Yield | BBgBarc US High Yield 2% Issuer Cap TR | USD | 1.0% | 0.8% | 4.6% | 1.2% |
| UK Gilts | JP Morgan UK Government Bond TR | GBP | -1.8% | -2.2% | 0.4% | -15.8% |
| UK Corporate (investment grade) | ICE BofAML Sterling Non-Gilt TR | GBP | 0.0% | -1.2% | 2.4% | -7.8% |
| Euro Government Bonds | ICE BofAML Euro Government TR | EUR | 0.0% | -0.1% | 2.0% | -8.4% |
| Euro Corporate (investment grade) | BBgBarc Euro Aggregate Corporate TR | EUR | 0.7% | 0.2% | 2.5% | -4.3% |
| Euro High Yield | BBgBarc European High Yield 3% Constrained TR | EUR | 0.5% | 0.1% | 3.2% | -0.9% |
| Japanese Government | JP Morgan Japan Government Bond TR | JPY | 0.3% | 3.0% | 2.7% | -1.2% |
| Australian Government | JP Morgan Australia GBI TR | AUD | 0.0% | 2.0% | 5.1% | 2.0% |
| Global Government Bonds | JP Morgan Global GBI | USD | 0.2% | 0.5% | 3.3% | -3.5% |
| Global Bonds | ICE BofAML Global Broad Market | USD | 0.5% | 0.4% | 3.5% | -2.6% |
| Global Convertible Bonds | ICE BofAML Global Convertibles | USD | -0.7% | -2.1% | 3.7% | -2.7% |
| Emerging Market Bonds | JP Morgan EMBI+ (Hard currency) | USD | 0.5% | -1.1% | 2.4% | -0.9% |



| Asset Class / Region | Index | Ccy | 1 month | 3 months | YTD | 12 months |
|---|---|---|---|---|---|---|
| **Property** | | | | | | |
| US Property Securities | MSCI US REIT NR | USD | 0.8% | -6.7% | 3.2% | -15.8% |
| Australian Property Securities | S&P/ASX 200 A-REIT Index TR | AUD | 5.3% | -2.8% | 5.1% | -13.9% |
| Asia Property Securities | S&P Asia Property 40 Index NR | USD | 1.5% | -4.1% | -1.7% | -7.3% |
| Global Property Securities | S&P Global Property USD TR | USD | 2.0% | -5.6% | 2.3% | -14.6% |
| **Currencies** | | | | | | |
| Euro | | USD | 1.7% | 1.4% | 2.9% | 4.5% |
| UK Pound Sterling | | USD | 1.9% | 2.0% | 4.0% | -0.1% |
| Japanese Yen | | USD | -2.5% | -4.6% | -3.8% | -4.8% |
| Australian Dollar | | USD | -1.0% | -6.2% | -2.9% | -6.3% |
| South African Rand | | USD | -2.7% | -4.8% | -6.9% | -13.6% |
| **Commodities & Alternatives** | | | | | | |
| Commodities | RICI TR | USD | -0.8% | -5.6% | -5.5% | -14.7% |
| Agricultural Commodities | RICI Agriculture TR | USD | -2.4% | -5.0% | -2.8% | -14.8% |
| Oil | Brent Crude Oil | USD | -0.3% | -5.9% | -7.4% | -27.3% |
| Gold | Gold Spot | USD | 1.1% | 3.2% | 9.1% | 4.9% |
| Hedge funds | HFRX Global Hedge Fund | USD | 0.3% | -1.3% | 0.3% | -1.9% |

| Interest Rates | Current Rate |
|---|---|
| United States | 5.00% |
| United Kingdom | 4.25% |
| Eurozone | 3.50% |
| Japan | -0.10% |
| Australia | 3.85% |
| South Africa | 7.75% |

Source: Bloomberg Finance L.P. , Momentum Global Investment Management. Past performance is not indicative of future returns. *estimate.

# Market performance - *UK (all returns GBP) as at 28 April 2023*

| Asset Class / Region | Index | Local Ccy | 1 month | 3 months | YTD | 12 months |
|---|---|---|---|---|---|---|
| **Equities** | | | | | | |
| UK - All Cap | MSCI UK NR | GBP | 3.4% | 2.8% | 7.5% | 8.5% |
| UK - Large Cap | MSCI UK Large Cap NR | GBP | 3.5% | 2.3% | 5.4% | 9.0% |
| UK - Mid Cap | MSCI UK Mid Cap NR | GBP | 3.8% | 4.0% | 14.2% | 2.1% |
| UK - Small Cap | MSCI Small Cap NR | GBP | 3.7% | -0.7% | 5.5% | -5.3% |
| United States | S&P 500 NR | USD | -0.3% | 0.6% | 4.9% | 2.2% |
| Continental Europe | MSCI Europe ex UK NR | EUR | 1.8% | 4.0% | 11.3% | 13.1% |
| Japan | Topix TR | JPY | -1.6% | -1.1% | 2.0% | 6.2%* |
| Asia Pacific (ex Japan) | MSCI AC Asia Pacific ex Japan NR | USD | -3.5% | -7.7% | -1.5% | -5.4% |
| Global developed markets | MSCI World NR | USD | -0.1% | 0.3% | 5.5% | 3.2% |
| Global emerging markets | MSCI Emerging Markets NR | USD | -2.9% | -6.6% | -1.1% | -6.5% |
| **Bonds** | | | | | | |
| Gilts - All | ICE BofAML UK Gilt TR | GBP | -1.8% | -2.3% | 0.4% | -16.1% |
| Gilts - Under 5 years | ICE BofAML UK Gilt TR 0-5 years | GBP | -0.3% | -0.4% | 0.6% | -2.1% |
| Gilts - 5 to 15 years | ICE BofAML UK Gilt TR 5-15 years | GBP | -1.3% | -1.5% | 1.5% | -10.2% |
| Gilts - Over 15 years | ICE BofAML UK Gilt TR 15+ years | GBP | -3.5% | -4.5% | -0.8% | -28.7% |
| Index Linked Gilts - All | ICE BofAML UK Gilt Inflation-Linked TR | GBP | -4.1% | -3.1% | 0.0% | -25.5% |
| Index Linked Gilts - 5 to 15 years | ICE BofAML UK Gilt Inflation-Linked TR 5-15 years | GBP | -2.5% | 0.2% | 2.4% | -11.0% |
| Index Linked Gilts - Over 15 years | ICE BofAML UK Gilt Inflation-Linked TR 15+ years | GBP | -6.1% | -6.4% | -1.5% | -36.6% |
| UK Corporate (investment grade) | ICE BofAML Sterling Non-Gilt TR | GBP | 0.0% | -1.2% | 2.4% | -7.8% |
| US Treasuries | JP Morgan US Government Bond TR | USD | -1.2% | -1.0% | -1.0% | -0.9% |
| US Corporate (investment grade) | BBgBarc US Corporate Investment Grade TR | USD | -0.9% | -1.8% | -0.2% | 0.6% |
| US High Yield | BBgBarc US High Yield 2% Issuer Cap TR | USD | 1.0% | 0.8% | 4.6% | 1.2% |
| Euro Government Bonds | ICE BofAML Euro Government TR | EUR | 0.0% | -0.1% | 2.0% | -8.4% |
| Euro Corporate (investment grade) | BBgBarc Euro Aggregate Corporate TR | EUR | 0.7% | 0.2% | 2.5% | -4.3% |
| Euro High Yield | BBgBarc European High Yield 3% Constrained TR | EUR | 0.5% | 0.1% | 3.2% | -0.9% |
| Global Government Bonds | JP Morgan Global GBI | GBP | -1.6% | -1.5% | -0.7% | -3.5% |
| Global Bonds | ICE BofAML Global Broad Market | GBP | 0.5% | 0.4% | 3.5% | -2.6% |
| Global Convertible Bonds | ICE BofAML Global Convertibles | GBP | -0.7% | -2.1% | 3.7% | -2.7% |
| Emerging Market Bonds | JP Morgan EMBI+ (Hard currency) | GBP | -1.3% | -3.1% | -1.5% | -0.9% |

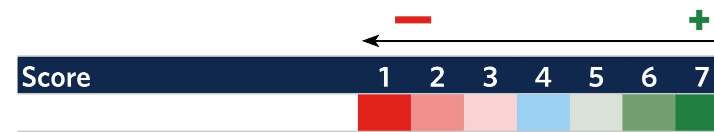


| Asset Class / Region | Index | Local Ccy | 1 month | 3 months | YTD | 12 months |
|---|---|---|---|---|---|---|
| **Property** | | | | | | |
| Global Property Securities | S&P Global Property TR | GBP | 0.1% | -7.4% | -1.6% | -14.6% |
| **Currencies** | | | | | | |
| Euro | | GBP | -0.3% | -0.6% | -1.0% | 4.5% |
| US Dollar | | GBP | -1.8% | -2.0% | -3.9% | 0.1% |
| Japanese Yen | | GBP | -4.3% | -6.4% | -7.3% | -4.7% |
| **Commodities & Alternatives** | | | | | | |
| Commodities | Rogers International Commodity (RICI) TR | GBP | -2.6% | -7.4% | -9.0% | -14.6% |
| Agricultural Commodities | Rogers International Commodity (RICI) Agriculture TR | GBP | -4.1% | -6.9% | -6.5% | -14.8% |
| Oil | Brent Crude Oil | GBP | -2.1% | -7.7% | -10.9% | -27.2% |
| Gold | Gold Spot | GBP | -0.8% | 1.2% | 5.0% | 4.9% |

| Interest Rates | Current Rate |
|---|---|
| United Kingdom | 4.25% |

Source: Bloomberg Finance L.P. , Momentum Global Investment Management. Past performance is not indicative of future returns. *estimate.

# Asset allocation views




| Score | Change | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
|---|---|---|---|---|---|---|---|---|
| **MAIN ASSET CLASSES** | ▲/▼/— | | | | | | | |
| Equities | — | | | | ■ | | | |
| Fixed Income | — | | | | ■ | | | |
| Alternatives | — | | | | | ■ | | |
| Cash | — | | | | ■ | | | |

### Our Overall View

**We have not deemed it necessary to make any significant changes to our overall asset class weightings. The improving equity valuations seen last year have stalled as markets have staged a recovery in 2023. Having previously been upgraded to neutral due to higher rates, the threat of a recession presents risks to certain fixed income assets but good opportunities are still prevalent. The diversifying quality of our alternative assets remains especially favourable during this current period of uncertainty.**

| Score | Change | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
|---|---|---|---|---|---|---|---|---|
| **EQUITIES** | ▲/▼/— | | | | | | | |
| Developed Equities | — | | | | ■ | | | |
| UK Equities | — | | | | | | ■ | |
| European Equities | — | | | | ■ | | | |
| US Equities | — | | | ■ | | | | |
| Japanese Equities | — | | | | | | ■ | |
| Emerging Market Equities | — | | | | | ■ | | |

The recovery in equity markets that began in Q4 of last year continued into 2023 until stronger than expected inflation and labour market data raised expectations for tighter credit conditions. Fears of a recession continue to put pressure on global equity markets. US equities remain unattractive; despite rerating heavily in 2022 they are still expensive and the declines have not continued this year. The fundamental risks facing European equities have eased slightly but valuations still have space to improve. The most compelling opportunities remain in the UK and Japan with last year's cheap valuations having not yet changed materially.

| Score | Change | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
|---|---|---|---|---|---|---|---|---|
| **FIXED INCOME** | ▲/▼/— | | | | | | | |
| Government | ▲ | | | | ■ | | | |
| Index-Linked | ▲ | | | | ■ | | | |
| Investment Grade Corporate | ▼ | | | | ■ | | | |
| High Yield Corporate | ▼ | | | ■ | | | | |
| Emerging Market Debt | — | | | | | ■ | | |
| Convertible Bonds | — | | | ■ | | | | |

With the recent rise in global rates, bonds now provide a more attractive opportunity. However, with a possible recession looming and with it a higher probability of defaults, we do not believe that spreads on investment grade and riskier high yield corporate bonds offer a suitable risk premium over sovereign bonds and as such we prefer shorter duration credit in both developed and emerging markets twinned with safer government debt. Improving real yields and weak growth expectations have also improved the appeal of inflation linked bonds. Convertible bonds remain out of favour with equities and credit both currently presenting more compelling opportunities.

| Score | Change | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
|---|---|---|---|---|---|---|---|---|
| **SPECIALIST ASSETS/ALTERNATIVES** | ▲/▼/— | | | | | | | |
| Commodities | — | | | | ■ | | | |
| Property | — | | | | ■ | | | |
| Infrastructure | — | | | | ■ | | | |
| Liquid Alternatives | — | | | | ■ | | | |
| Private Equity | — | | | | | | ■ | |
| Specialist Financial | — | | | | | ■ | | |

Following a strong performance in 2022, commodities are likely to struggle against a slowdown of global growth. Private Equity, which has struggled recently due to investor scepticism over NAVs, now offers compelling discounts. Infrastructure also suffered due to poor investor sentiment, but we believe the asset class will continue to be driven by structural tailwinds. Our liquid alternatives continue to offer excellent diversification benefits especially during periods of market uncertainty.

| Score | Change | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
|---|---|---|---|---|---|---|---|---|
| **CURRENCIES vs. USD** | ▲/▼/— | | | | | | | |
| GBP | — | | | | | ■ | | |
| EUR | — | | | | ■ | | | |
| JPY | — | | | | | ■ | | |
| Gold | ▼ | | | ■ | | | | |

Against long term valuation metrics, Sterling and Yen continue to remain cheap relative to the Dollar. The Yen has suffered due to the Bank of Japan's strict yield curve control but recent changes to the policy have supported the Yen which historically has acted as a good diversifier. Recession expectations in the US and high inflation in Europe could mean changing rate expectations in support of the Euro but economic and political headwinds remain for the currency. Gold's status as a safe haven asset is likely to be beneficial in the face of continuing market uncertainty.

The Asset allocation views are as of March 2023 and are updated quarterly unless otherwise stated.



***"With the recent rise in global rates, bonds now provide a more attractive opportunity"***

Belvest

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