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momentum
global investment management

GLOBAL MATTERS

MONTHLY VIEWPOINT

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Contents

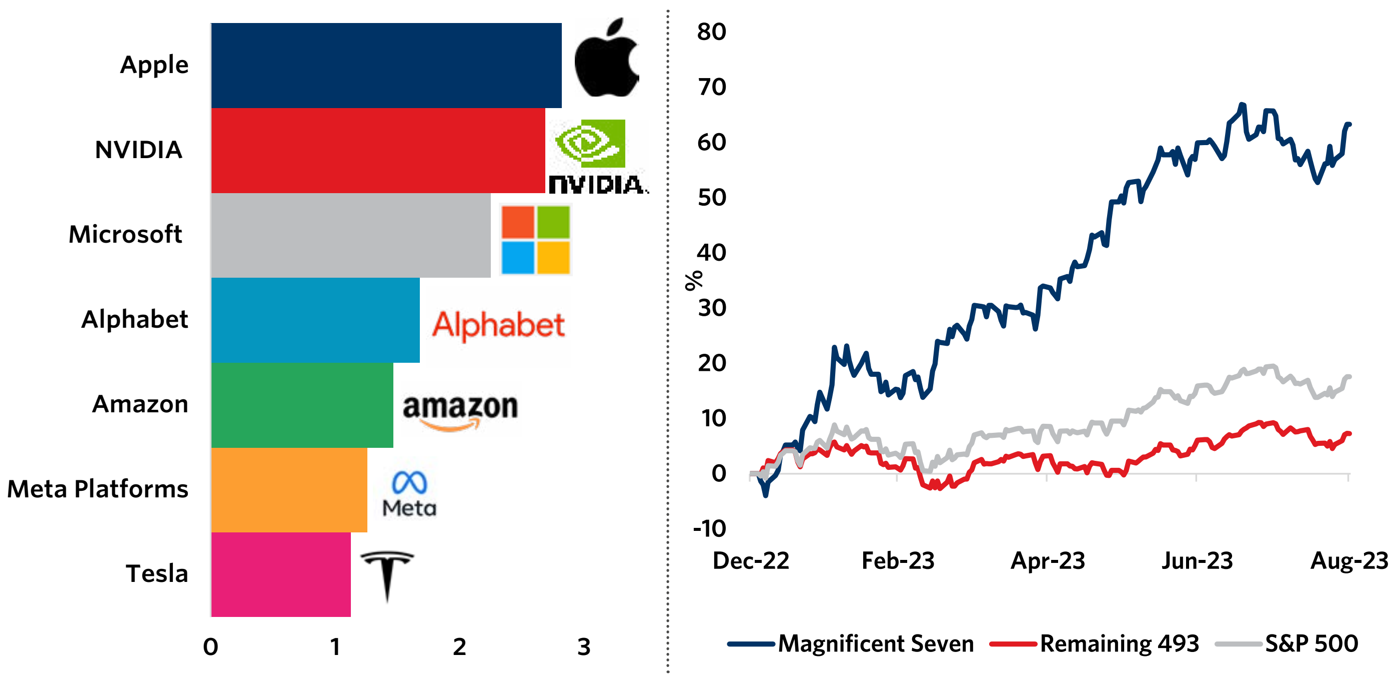
Global market review & outlook

Equity markets struggled for direction in August, falling sharply initially before a partial recovery reduced the losses in the MSCI World index to -2.4%. Bond markets continued the pattern since the mini banking crisis in March with another negative month, the JPMorgan Global Government Bond index -1.3%. Facing intense uncertainty about the Fed's ability to bring inflation in the US to its 2% target without triggering a financial accident or recession, markets were buffeted by economic data releases, bad news on the economy generally interpreted as good news for markets as it eases the job of the Fed and brings the policy tightening cycle closer to its end.

Although equity markets have been almost totally dominated this year by US megacap tech and the Artificial Intelligence boom, there has been a more balanced performance across markets so far this quarter. The FANG+ index of the top ten tech stocks in the US slightly underperformed the S&P 500 in both July and August, and has broadly moved sideways since mid-June. That still leaves the 'magnificent 7' US stocks up by over 60% YTD, contributing most of the 18% return on the S&P 500 this year; taking out those seven stocks reduces the index return to 7%.

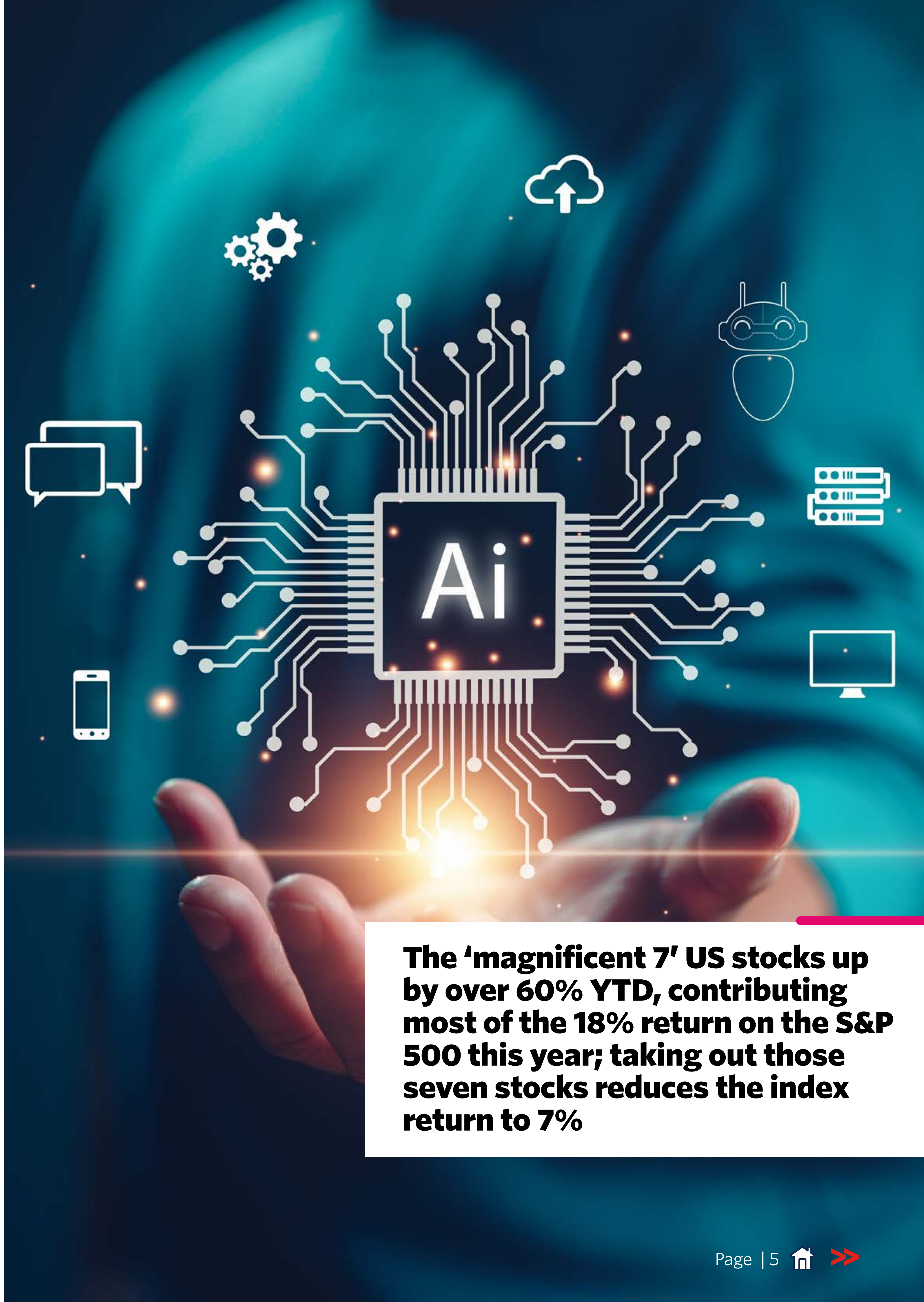
Magnificent 7 dominate returns

% contribution to S&P 500 return



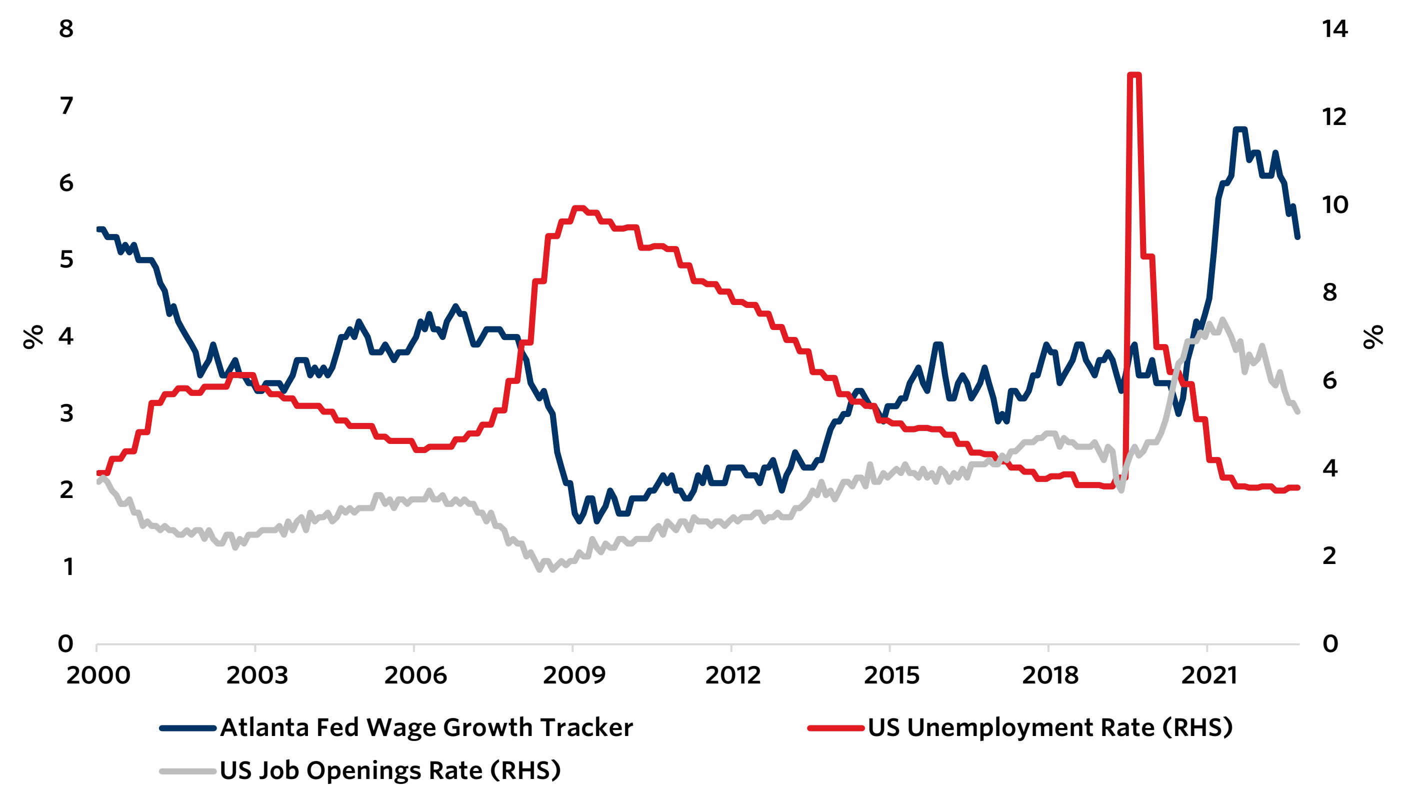
Source: Bloomberg Finance L.P. , Momentum Global Investment Management as at 30 August 2023.

The key focus of the market is increasingly the US labour market. Wages are rising at close to 6% year-on-year (Atlanta Fed Wage Tracker in July +5.7%), slightly down from the peak a year ago of 6.7%, but well above the rate of inflation, increasing the risk of inflation becoming embedded. By almost any historical standard, the labour market is tight, with unemployment near record lows and job vacancies well above the numbers unemployed. The strength of the labour market has been an important factor in the resilience of the economy this year, helping to keep retail sales (+0.7% month-on-month in July, the fourth consecutive month of growth) and consumer confidence buoyant.



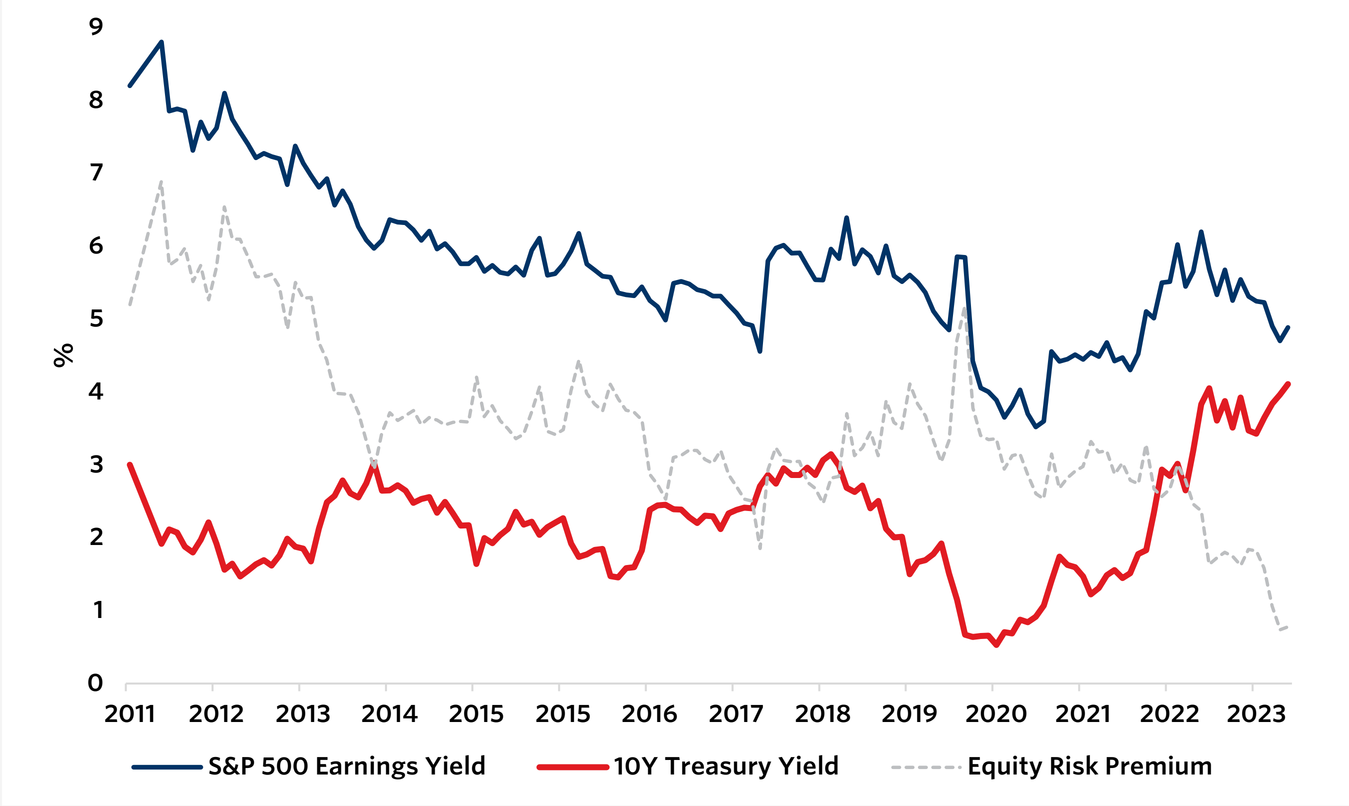
The 'magnificent 7' US stocks up by over 60% YTD, contributing most of the 18% return on the S&P 500 this year; taking out those seven stocks reduces the index return to 7%

US labour market still tight:
some signs of easing



Source: Bloomberg Finance L.P. , Momentum Global Investment Management as at 31 August 2023.

Bonds increasingly attractive vs. equities



Source: Bloomberg Finance L.P. , Momentum Global Investment Management as at 31 August 2023.

However, some signs of easing are emerging, raising hopes of a soft landing for the economy: consumer confidence dropped in August to a 9-month low, and latest data on the jobs market show vacancies falling and fewer new jobs created, with a rise of over 500,000 in August in the unemployed taking the total to 6.4m, and the unemployment rate to 3.8% versus 3.5% in July. The labour force participation rate, which has been slow to recover post-pandemic, rose to 62.8%, still below the 63.3% of 2019 but the highest since March 2020. Other evidence is building for a slowdown, with Purchasing Managers Indices in August surprising on the downside and the Conference Board Leading Economic Indicators pointing to tougher conditions ahead.

These early signs of a softening were not enough to persuade the Fed to deviate from its 'tighter for longer' narrative, which has been consistent since the short-lived mini banking crisis. The minutes of the latest Federal Open Market Committee meeting of Fed governors, as well as Chair Powell's annual Jackson Hole speech, confirmed that the Fed still has a tightening bias and sees 'significant upside risks to inflation, which would require further tightening of monetary policy', and intends to keep policy 'at a restrictive level until we are confident that inflation is moving sustainably down to our objective'. The Fed thereby kept the door open to a further hike in rates and is prepared to keep rates at restrictive levels for an extended period. Markets have moved to discount this narrative, pushing expectations for rate cuts progressively out to later dates, and now closely aligned with the Fed's own expectations over the next 12 months - policy rates are expected to peak at 5.5-5.75% and then stay at or above 5% until at least mid-2024, a far cry from expectations in the aftermath of the banking wobbles in March of Fed Funds of around 3.7% by end-2023. This in turn has pushed bond yields higher, particularly in longer dated maturities, with the yield on 10Y Treasuries at 4.1% by the end of August, up 15bps in the month and 27bps since the end of June, all of which has come via a rise in real rates, now approaching 2%, the highest since pre-Global Financial Crisis.

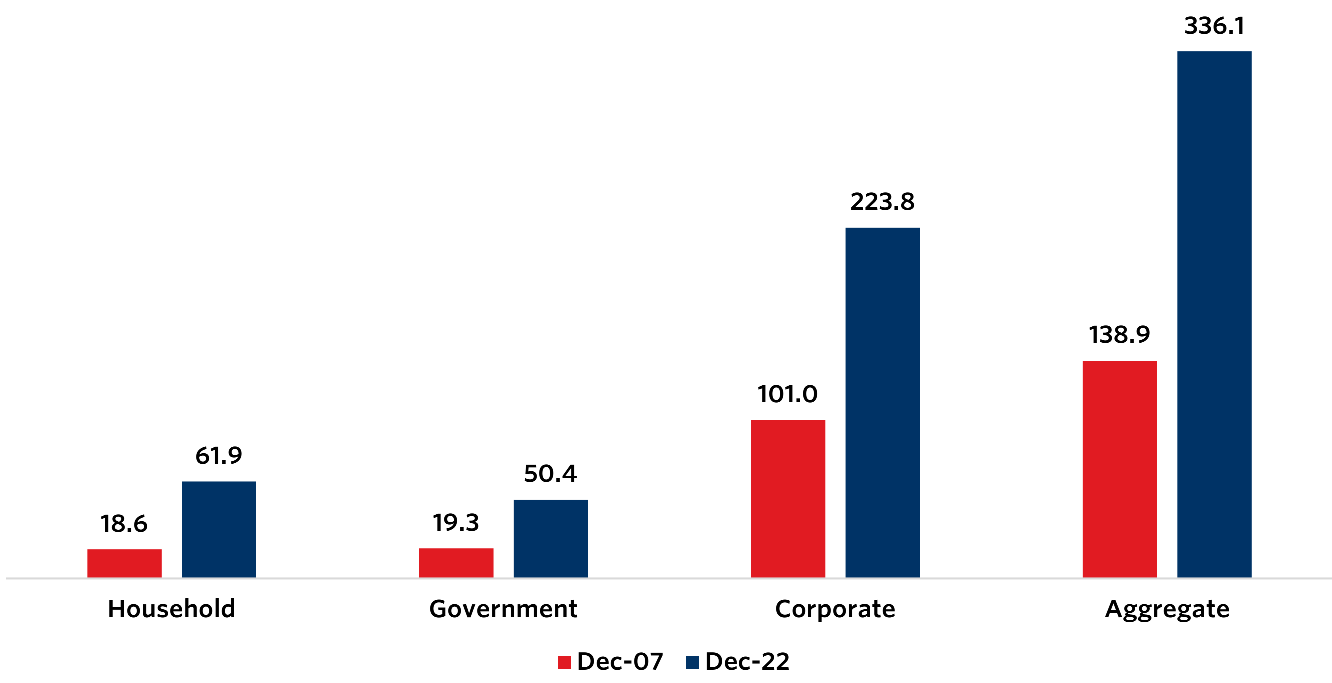
The Fed's balancing act is mirrored in the EU and UK, both of which face even bigger challenges, with their economies slowing more markedly and inflation proving stickier. The key German economy is facing a storm: its heavy dependency on Russian gas and a huge manufacturing sector whose biggest trading partner is China are proving to be major structural headwinds, inflation is still at 6.1% and core CPI 5.5%, industrial production has fallen in 4 of the last 5 months, and the economy has endured 3 consecutive quarters of negative or zero growth with leading indicators pointing to further pain ahead. The European Central Bank's rather optimistic forecasts for growth in the Euro Area this year and next will almost certainly be revised down, as the spectre of stagflation re-emerges across the EU, bringing the peak in policy rates closer.

Despite a surprisingly sharp fall in the CPI in July to 6.8%, the UK is also struggling with persistent inflation, a very tight labour market, rising real wages (headline wage growth of 7.8% in Q2), and a high risk of recession. The economy has outperformed expectations this year, with Q2 GDP +0.2% qoq, but the widely predicted recession seems difficult to avoid given the long lags inherent in monetary policy, a still hawkish Bank of England, which lifted policy rates by a further 0.25% in August to 5.25%, a sharp slowdown underway in the housing market, the impact of high food and power prices on household spending, and the government's pro-cyclical fiscal policy implemented largely through substantial tax rises.

The difficulties in Europe and the UK have been reflected in underperformance in their stock markets in recent months; both were weak in August and over the past 3 months have returned +2.1% and +0.9% respectively compared with +8.1% from the US and +9.6% in Japan, which remains the best performing major market so far this year, +25% in yen terms, as its attractive valuation and increasingly shareholder-friendly corporate sector have begun to be recognised by investors. Also supporting Japanese stocks has been the weakness of the yen, down 10% this year, as the Bank of Japan persists with its ultra-loose policy, leaving Japan out on a limb and risking potentially worrying imbalances.

While most central banks across the developed world continue to tighten policy, the reverse is underway in China, where authorities are reacting to a sharp slowdown in growth after the brief post-Covid spending surge early in the year and are facing a worrying combination of cyclical and structural headwinds. Uppermost is the highly leveraged property development industry, with several large developers close to bankruptcy, real estate investment and house prices in a prolonged decline, and contagion spreading to local governments which have relied heavily on land sales to fund their spending and are indirectly exposed to developers via local government financing vehicles. On top of that is the impact of US-imposed constraints on technology imports, and re-shoring of supply chains away from China, as well as the longer-term structural challenge of an ageing population and declining workforce. Economic data continue to disappoint, with July retail sales and industrial production further decelerating, exports and imports contracting at double-digit rates yoy, and price indices falling into deflationary territory. Pressure has grown on the authorities to provide stimulus, but they are limited by already high debt levels; measures taken in recent weeks have been modest, with small cuts in interest rates and liquidity injections, and measures to encourage bank lending and stock market investing. Although investors took some encouragement from these moves the equity market remains under a cloud, falling 9% in August, reversing nearly all the gains in the previous month.

China's structural headwinds: debt:GDP



Source: Bloomberg Finance L.P. , Momentum Global Investment Management as at 31 August 2023.

The oil price rose a further 1.5% in August, taking its rise over the past 3 months to 20%, helped by Saudi Arabia extending its 1m bpd voluntary reductions into September, and underpinning a gain of over 9% in energy stocks over July and August, the best performing sector globally. The rise will have an impact on headline inflation in the short term, hindering the job of central banks, but is unlikely to affect core prices or longer-term inflation expectations, which remain anchored around the 2-2.5% range in the US.

Potentially of greater significance to markets is the recent strength of the US dollar, up on a trade-weighted basis by 1.7% in August and close to 5% since mid-July. The continuing strength of the US economy relative to Europe and Japan, and the diminishing prospects of rate cuts by the Fed until well into 2024, provide support for the dollar in coming months. Any such strength would amount to a tightening of financial conditions globally given the size of dollar debt internationally, and provide a significant headwind for financial markets.

The key to market direction remains the battle to control inflation, and arguably the easiest part of that job is over, with the more challenging and uncertain part ahead. As supply chains normalised, excess Covid-era savings largely expended, energy markets stabilised, household spending pressured by the surge in the cost of living, and borrowing costs pushed sharply higher by monetary policy, a sharp fall in inflation was inevitable. With policy rates now close to the peak, the question is for how long they will need to be kept at restrictive levels to bring core inflation down to target. Recent evidence, from the resilient US economy, labour markets and central banks' guidance, is that this will take some time. The longer it takes the greater is the risk of a financial accident and/or recession. This is a challenging environment for much of the corporate sector, and the uncertainty is likely to be a headwind for equity markets, where the immediate outlook continues to call for caution. Government bonds, however, for the first time in many years, are now firmly in attractive valuation territory, and would be the biggest beneficiaries of a recession or financial mishap. We are increasing exposure to safe-haven government bonds, especially in short maturities given their significant yield pick-up, while remaining patient before adding to risk assets.

Oil prices rose a further 1.5% in August, taking its rise over the past three months to 20%

Market performance - Global (local returns) as at 31 August 2023

Asset Class / Region	Index	Ccy	1 month	3 months	YTD	12 months
Developed Markets Equities						
United States	S&P 500 NR	USD	-1.6%	8.1%	18.3%	15.3%
United Kingdom	MSCI UK NR	GBP	-2.5%	0.9%	2.9%	5.4%
Continental Europe	MSCI Europe ex UK NR	EUR	-2.4%	2.1%	12.0%	15.8%
Japan	Topix TR	JPY	0.4%	9.6%	25.1%	22.0%
Asia Pacific (ex Japan)	MSCI AC Asia Pacific ex Japan NR	USD	-6.1%	2.4%	2.3%	0.3%
Global	MSCI World NR	USD	-2.4%	7.0%	16.1%	15.6%
Emerging Markets Equities						
Emerging Europe	MSCI EM Europe NR	USD	-1.8%	15.5%	22.0%	56.3%
Emerging Asia	MSCI EM Asia NR	USD	-6.2%	2.4%	3.7%	-0.3%
Emerging Latin America	MSCI EM Latin America NR	USD	-7.3%	9.2%	15.6%	18.2%
China	MSCI EM China NR	USD	-6.9%	5.8%	0.0%	-3.3%
BRICs	MSCI BRIC NR	USD	-9.0%	4.8%	-4.7%	-7.5%
Global emerging markets	MSCI Emerging Markets NR	USD	-6.2%	3.5%	4.6%	1.3%
Bonds						
US Treasuries	JP Morgan United States Government Bond TR	USD	-0.5%	-1.5%	0.7%	-1.8%
US Treasuries (inflation protected)	BBgBarc US Government Inflation Linked TR	USD	-0.9%	-1.2%	1.1%	-3.9%
US Corporate (investment grade)	BBgBarc US Corporate Investment Grade TR	USD	-0.8%	0.0%	2.8%	0.9%
US High Yield	BBgBarc US High Yield 2% Issuer Cap TR	USD	0.3%	3.4%	7.2%	7.2%
UK Gilts	JP Morgan UK Government Bond TR	GBP	-0.5%	-0.1%	-3.3%	-9.8%
UK Corporate (investment grade)	ICE BofAML Sterling Non-Gilt TR	GBP	0.0%	0.8%	1.0%	-1.9%
Euro Government Bonds	ICE BofAML Euro Government TR	EUR	0.3%	-0.1%	2.3%	-3.4%
Euro Corporate (investment grade)	BBgBarc Euro Aggregate Corporate TR	EUR	0.2%	0.8%	3.4%	1.1%
Euro High Yield	BBgBarc European HY 3% Constrained TR	EUR	0.3%	1.9%	5.9%	6.6%
Japanese Government	JP Morgan Japan Government Bond TR	JPY	-0.8%	-2.2%	0.3%	-2.8%
Australian Government	JP Morgan Australia GBI TR	AUD	0.6%	-1.2%	2.4%	1.1%
Global Government Bonds	JP Morgan Global GBI	USD	-1.3%	-1.4%	-0.4%	-1.6%
Global Bonds	ICE BofAML Global Broad Market	USD	-1.2%	-0.8%	0.7%	-0.5%
Global Convertible Bonds	ICE BofAML Global Convertibles	USD	-2.8%	4.1%	7.6%	5.3%
Emerging Market Bonds	JP Morgan EMBI+ (Hard currency)	USD	-1.4%	2.6%	3.7%	4.9%

Asset Class / Region	Index	Ccy	1 month	3 months	YTD	12 months
Property						
US Property Securities	MSCI US REIT NR	USD	-3.1%	4.4%	4.4%	-4.0%
Australian Property Securities	S&P/ASX 200 A-REIT Index TR	AUD	1.7%	3.8%	7.3%	1.5%
Asia Property Securities	S&P Asia Property 40 Index NR	USD	-4.9%	0.9%	-7.8%	-7.9%
Global Property Securities	S&P Global Property USD TR	USD	-3.3%	4.3%	2.0%	-4.1%
Currencies						
Euro		USD	-1.5%	1.9%	1.3%	7.8%
UK Pound Sterling		USD	-1.5%	2.2%	4.8%	8.9%
Japanese Yen		USD	-2.3%	-4.0%	-9.9%	-4.7%
Australian Dollar		USD	-3.8%	0.1%	-5.0%	-5.6%
South African Rand		USD	-5.7%	4.6%	-9.8%	-9.4%
Commodities & Alternatives						
Commodities	RICI TR	USD	0.1%	13.0%	0.5%	-1.5%
Agricultural Commodities	RICI Agriculture TR	USD	-0.5%	9.2%	3.8%	2.6%
Oil	Brent Crude Oil	USD	1.5%	19.5%	1.1%	-10.0%
Gold	Gold Spot	USD	-1.5%	-1.2%	6.5%	13.1%
Hedge funds	Bloomberg All Hedge Fund Index	USD	-1.1%	2.4%	3.8%	2.8%

Interest Rates	Current Rate
United States	5.50%
United Kingdom	5.25%
Eurozone	4.25%
Japan	-0.10%
Australia	4.10%
South Africa	8.25%

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

Market performance - UK (all returns GBP) as at 31 August 2023

Asset Class / Region	Index	Local Ccy	1 month	3 months	YTD	12 months
Equities						
UK - All Cap	MSCI UK NR	GBP	-2.5%	0.9%	2.9%	5.4%
UK - Large Cap	MSCI UK Large Cap NR	GBP	-2.4%	0.6%	0.2%	3.6%
UK - Mid Cap	MSCI UK Mid Cap NR	GBP	-3.3%	1.0%	10.2%	11.5%
UK - Small Cap	MSCI Small Cap NR	GBP	-2.5%	0.9%	2.4%	0.9%
United States	S&P 500 NR	USD	-0.1%	5.8%	13.0%	5.9%
Continental Europe	MSCI Europe ex UK NR	EUR	-2.4%	1.7%	8.3%	14.6%
Japan	Topix TR	JPY	-0.4%	3.0%	7.6%	6.8%
Asia Pacific (ex Japan)	MSCI AC Asia Pacific ex Japan NR	USD	-4.6%	0.2%	-2.2%	-7.9%
Global developed markets	MSCI World NR	USD	-0.9%	4.7%	10.9%	6.1%
Global emerging markets	MSCI Emerging Markets NR	USD	-4.7%	1.2%	-0.1%	-7.0%
Bonds						
Gilts - All	ICE BofAML UK Gilt TR	GBP	-0.5%	-0.2%	-3.6%	-10.2%
Gilts - Under 5 years	ICE BofAML UK Gilt TR 0-5 years	GBP	0.6%	0.5%	0.3%	-0.2%
Gilts - 5 to 15 years	ICE BofAML UK Gilt TR 5-15 years	GBP	-0.1%	-0.4%	-2.1%	-7.2%
Gilts - Over 15 years	ICE BofAML UK Gilt TR 15+ years	GBP	-1.9%	-0.4%	-7.7%	-19.6%
Index Linked Gilts - All	ICE BofAML UK Gilt Inflation-Linked TR	GBP	-1.3%	1.3%	-4.6%	-17.0%
Index Linked Gilts - 5 to 15 years	ICE BofAML UK Gilt Inflation-Linked TR 5-15 years	GBP	-0.2%	1.6%	1.3%	-7.5%
Index Linked Gilts - Over 15 years	ICE BofAML UK Gilt Inflation-Linked TR 15+ years	GBP	-2.4%	1.4%	-9.7%	-26.1%
UK Corporate (investment grade)	ICE BofAML Sterling Non-Gilt TR	GBP	0.0%	0.8%	1.0%	-1.9%
US Treasuries	JP Morgan US Government Bond TR	USD	1.1%	-3.7%	-4.4%	-9.9%
US Corporate (investment grade)	BBgBarc US Corporate Investment Grade TR	USD	0.8%	-2.2%	-2.5%	-7.3%
US High Yield	BBgBarc US High Yield 2% Issuer Cap TR	USD	0.3%	3.4%	7.2%	7.2%
Euro Government Bonds	ICE BofAML Euro Government TR	EUR	0.3%	-0.1%	2.3%	-3.4%
Euro Corporate (investment grade)	BBgBarc Euro Aggregate Corporate TR	EUR	0.2%	0.8%	3.4%	1.1%
Euro High Yield	BBgBarc European High Yield 3% Constrained TR	EUR	0.3%	1.9%	5.9%	6.6%
Global Government Bonds	JP Morgan Global GBI	GBP	0.2%	-3.6%	-4.8%	-9.7%
Global Bonds	ICE BofAML Global Broad Market	GBP	-1.2%	-0.8%	0.7%	-0.5%
Global Convertible Bonds	ICE BofAML Global Convertibles	GBP	-2.8%	4.1%	7.6%	5.3%
Emerging Market Bonds	JP Morgan EMBI+ (Hard currency)	GBP	0.1%	0.4%	-1.0%	-3.7%

Asset Class / Region	Index	Local Ccy	1 month	3 months	YTD	12 months
Property						
Global Property Securities	S&P Global Property TR	GBP	-1.8%	2.0%	-2.6%	-12.0%
Currencies						
Euro		GBP	0.0%	-0.3%	-3.3%	-1.0%
US Dollar		GBP	1.5%	-2.2%	-4.6%	-8.2%
Japanese Yen		GBP	-0.8%	-6.0%	-13.9%	-12.5%
Commodities & Alternatives						
Commodities	Rogers International Commodity (RICI) TR	GBP	1.7%	10.5%	-4.0%	-9.6%
Agricultural Commodities	Rogers International Commodity (RICI) Agriculture TR	GBP	1.0%	6.8%	-0.8%	-5.8%
Oil	Brent Crude Oil	GBP	3.1%	16.9%	-3.4%	-17.4%
Gold	Gold Spot	GBP	0.0%	-3.3%	1.7%	3.9%
Interest Rates				**Current Rate**		
United Kingdom				5.25%		

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

August 2023

Asset allocation views

Score	−						+
	1	2	3	4	5	6	7

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

Our Overall View

We have downgraded our outlook on equities in terms of our overall asset class weightings. The lack of depth in this year's market rally is a cause for concern with fears of a recession still high. Our fixed income view remains neutral due to higher rates and although the threat of a recession requires an element of caution with certain fixed income assets, good opportunities are still prevalent. Alternative assets remain a good diversifier of returns, especially favourable should market volatility increase.

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

Our downgraded view on equities is driven largely by a more challenging outlook for developed market corporates. Last year's aggressive rate hikes continue to show signs of pushing developed economies towards recession and there are concerns regarding complacency in risk markets. US equities in particular have shown a worrying lack of breadth in this year's rally. Valuations look positive in European equities, but the most compelling opportunities remain in the UK and Japan where valuations are still attractive.

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

Rates remaining elevated so far in 2023 mean that bonds continue to provide attractive selective opportunities. Although rates remain high there are still concerns that the spreads offered today on investment grade and riskier high yield corporate bonds do not offer a suitable risk premium over safer sovereign bonds. The possibility of a recession and rising default rates suggest that an element of caution is necessary. We continue to prefer shorter duration bonds in both developed and emerging markets. Improving real yields and weak growth expectations have also improved the appeal of inflation linked bonds.

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

Commodity prices are likely to be challenged against a slowdown in global growth. With expectations of a more turbulent period ahead in markets, alternatives continue to offer diversification benefits at attractive valuations after a period of poor investor sentiment. Discounts in NAVs in private equity continue to appear overly pessimistic while secular trends in infrastructure and specialist financials have boosted our outlook for both asset classes. Our liquid alternatives continue to offer attractive diversification benefits especially during periods of market uncertainty.

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

Against long term valuation metrics, Sterling and Yen continue to remain cheap relative to the Dollar. The Bank of Japan's ongoing policy of yield curve control policy holds the Yen back, for now. Recession expectations in the US and inflation in Europe could mean divergent rate expectations in support of the Euro. Gold's status as a haven asset has been beneficial in the face of recent market uncertainty and remains a good diversifier.

The asset allocation views are updated quarterly unless otherwise stated.

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

Belvest

For more information, please contact your adviser or alternatively contact:

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