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FINANCIAL

April Overview

April was a quieter month than March from a news flow and market activity perspective. Lower energy prices resulted in falling inflation globally, although perhaps not as much as expected and there were indications that inflation may continue to be ‘stickier’ than hoped for. Economic data pointed to underlying strength globally, although this masked an emerging divergence between the strength in services sectors and weakness in manufacturing sectors. Earnings in the US were down, but better than expected. Markets generally drifted upwards over the month, but a stronger pound held back international equity returns a little for UK investors.

In the **UK**, inflation continues to be the focus for investors. Headline prices fell to 10.1% in March, from 10.4% in February, but were higher than had been expected (9.8%) as food & drink prices continued to rise. Core inflation (which excludes volatile items like food and energy) remained at 6.2%. Households were helped by robust labour markets, wage growth continued to be strong (5.9% annualised in the 3 months to February, compared to an expected 5.1%) and unemployment remained near 50-year lows (nudging up slightly to 3.8% in February, from 3.7% in January). Business activity and prospects were mixed, however, the purchasing managers index (PMI) survey showed overall strength as the composite PMI rose to 53.9 in April, from 52.2 in March. But this hid differing fortunes as the services sector increased to 54.9, well above expectations of 52.9; whilst the manufacturing sector declined to 46.6 as production and new orders fell, well below expectations of 48.5.

Much like in the UK, inflation in the **US** attracted a lot of market focus in April. Falling energy and food prices pulled down headline inflation, which fell to 5% in March from 6% the previous month (below expectations of 5.2%). Somewhat concerningly, as it makes up over 30% of the inflation basket, the cost of shelter (housing) continued to rise. But what helped consumers was the labour markets maintaining their relative strength as 236,000 new jobs were created in March (in line with expectations). Unemployment edged down to 3.5%. This was confirmed through business activity survey data as composite PMI rose to 53.5 in April, up from 52.3 in March. This was driven by increases in both services (up from 52.6 to 53.7) and manufacturing (up to 50.4, the first reading above 50 in six months).

Falling inflation was also the central talking point in mainland **Europe**. March inflation was 6.9%, a sharp fall from 8.5% in February, driven by falling energy prices – the first time in 2 years that energy prices declined. Unfortunately, core inflation nudged up again from 5.6% in February to 5.7% in March, perhaps a sign that headline inflation falls may be more muted in the near term – indeed there are expectations of a further 0.75% of rate rises by the European Central Bank over the next 6 months or so. Economic activity has been heading in the right direction – initial estimates of Q1 2023 GDP growth showed a 0.1% expansion and composite PMI has increased for the last six months and rose to 54.4 in April. The strength in PMI has been focused on services, whilst manufacturing activity has actually fallen for the last 4 months.

Economic data in **Japan** continued to be relatively strong. Inflation fell further, down to 3.2% in March, from 3.3% in February, although this was solely the result of falling energy and utility prices. Additionally, composite PMI indicated expansionary activity – March’s figure was upwardly revised from 51.9 to 52.9 and April only showed a small dip to 52.5 but still in positive territory.

In **Emerging Markets**, China's economic activity is still eagerly watched. Year-on-year growth for Q1 2023 was recorded at 4.5%, above estimates of 4%. Composite PMI also remained strong at 54.5 for March as services rose and just about offset a very disappointing fall in manufacturing to 50.0 in March, below expectations of 51.7. Inflation continues to fall and remain low as it fell to 0.7% for March, the lowest level since September 2021.

Currencies - Sterling performance was strong during April. It was up 1.7% against the US dollar, 4.0% stronger versus the Japanese yen, essentially flat against the euro and up 3.0% against the Australian dollar. Against emerging market currencies, the pound was up 4.8% versus the South African rand and 0.3% stronger than the Brazilian real.

Asset Classes

April was a relatively good month for asset class performance in local currencies, but a stronger pound dampened international equity returns for UK investors. UK equities were the best-performing equity asset class, closely followed by mainland European equities in pounds terms. Emerging market equities struggled this month, in both local currency and pound terms. Real assets generally held up a bit better with both infrastructure and property delivering positive returns for UK investors, whilst commodities fell.

Within UK equities, larger companies marginally outperformed smaller companies as the FTSE 100 was up 3.4% whilst the mid-cap FTSE 250 index was up 3.2%.

Fixed income performance was steady. Government bond yields in the US fell a little, causing prices to rise in April. The best-performing bond asset class was global corporate bonds as credit spreads tightened over the month, but inflation-linked bonds were the weakest-performing bond asset class as inflation continued to fall, surprising to the downside a little.

Cash & Short-Term Bonds	Global Government Bonds	Global Inflation Linked Bonds	Global Corporate Bonds	Global High Yield	Emerging Market Bonds	US Equities	Europe ex-UK Equities	UK Equities	Japan Equities	PACIFIC ex-Japan Equities	Emerging Market Equities	Global Infrastructure	Global Property	Commodities	FTSE 100	FTSE 250
£	HDG	HDG	HDG	HDG	HDG	£	£	£	£	£	£	£	£	£	£	£
0.31%	0.31%	-0.92%	0.70%	0.29%	0.41%	-0.33%	2.13%	3.35%	-1.27%	-1.45%	-2.74%	0.48%	0.19%	-2.37%	3.41%	3.15%

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