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July Overview

July saw further falls in global inflation and generally positive economic data, leading to positive market sentiment and strong returns overall particularly in riskier asset classes. This was true also in the UK, where inflation came in lower than expected, fuelling gains in both UK equities and UK bonds. Commodities picked up as the oil price rallied, and certain agricultural commodities rose due to Russia's cancellation of the Black Sea grain export deal.

Inflation was again the main driver of market performance in the **UK**. In contrast to previous months, inflation surprised positively as headline CPI decreased to 7.9% from last month's 8.7%, below expectations of 8.2%. Core CPI was also lower than expected, falling from 7.1% to 6.9%. This lower-than-expected inflation led to a fall in expectations of future rate rises from the Bank of England and was generally positive for UK equities and bonds, despite economic growth in the UK still being weak.

Inthe **US**, the Federal Reserve (Fed) raised its key policy rate by 0.25% to 5.25%-5.50%, in line with market expectations. Guidance did nothing to dislodge market assumptions that this is now the peak of the interest rate cycle there. US CPI inflation fell more than expected, to 3% year on year from 4% previously. The key rate the Fed looks at, Core services excluding housing, slowed to just below 4%. These downside surprises, coupled with more resilient than expected GDP growth at 2.4% (quarter on quarter annualised), raised hopes of the US avoiding a serious slowdown as a result of higher rates. This in turn supported equities globally and resulted in a slightly weaker dollar (the dollar tends to decline in more benign economic environments).

The **Euro** area, the European Central Bank (ECB) continued to raise rates to maintain downward pressure on inflation, increasing its deposit rate by 0.25% to 3.75% as expected. It did, however, leave the door open to a pause in September's meeting. Eurozone inflation continued to fall and the preliminary reading of the composite purchasing managers' index (PMI) came in below the neutral 50 number at 48.9. Manufacturing PMI dropped to a post-Covid low of 42.7. Preliminary second quarter GDP released at the end of the month was, however, a better than expected 0.3% quarter on quarter.

Japanese inflation remained strong at 4.2% excluding fresh food and energy. This prompted the Bank of Japan to, very carefully, continue dismantling its yield curve control framework. It did this by further widening the trading band around which it allows its 10-year bonds to trade, although for the moment it continues to hold its key short-term interest rate at -0.1%.

In **Emerging Markets**, policy easing and positive guidance from officials helped Chinese equities to bounce towards the end of the month, despite weaker than expected growth. Expectations of rate cuts from other emerging market central banks were also supportive for EM equities overall.

Currencies - Sterling was mixed versus major developed market currencies over July but weaker against many emerging market currencies. It was up 1.2% against the US dollar, 0.1% stronger vs the euro, but 0.5% down vs the Japanese yen and flat versus the Australian dollar. Against emerging market currencies, the pound was down 4.7% versus the South African rand and 0.2% weaker than the Brazilian real.

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Asset Classes

July was a positive month for most asset classes. Emerging market equities were the best-performing equity asset class with continental European and Japanese equities relatively more subdued. Real asset performance was mixed, led by Commodities but with more defensive global infrastructure lagging.

Within UK equities, mid-sized companies relatively outperformed larger companies as falling UK inflation buoyed optimism. The large-cap FTSE 100 was up 2.4%, whilst the mid-cap FTSE 250 index was up 4.1%.

More optimistic global markets saw riskier bonds outperforming less risky ones. High Yield and Emerging Market bonds performed well, but global government bonds fell slightly as traders began to discount a lower chance of future recessions (recessions generally increase demand for & performance of high-quality government debt).

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
£	HDG	HDG	HDG	HDG	HDG	£	£	£	£	£	£	£	£	£
0.41%	-0.26%	0.09%	0.54%	1.74%	1.72%	2.18%	1.73%	2.62%	1.79%	3.13%	4.96%	0.87%	2.79%	4.99%