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June Overview

In a relatively light month of market moving news headlines, economic data releases took centre-stage. These showed global economic activity slowing somewhat, although still at levels indicating growth. Lower than expected inflation in the US and euro area gave these markets a boost and reinforced optimism that the end of the rate hiking cycle is near. Whilst this had little effect on government bond yields, riskier bond spreads narrowed and their prices rose. The prospect of lower future interest rates also benefitted growth equities, particularly in the US. The UK was an outlier, however, as inflation surprised to the upside again. This spurred the Bank of England into a larger than expected rate hike of 0.5%, adding further pain to anyone taking out a mortgage or re-mortgaging.

Inflation was the hot topic in the **UK** this month. Headline CPI remained at 8.7% in May, above expectations of a fall to 8.4% - rising air travel prices being a notable contributor. Core inflation, excluding volatile items like food and energy, continued to be an even bigger concern for market participants, rising to 7.1% in May from 6.8% in April. Armed with this information, the Monetary Policy Committee raised interest rates by a larger than expected 0.5% to 5%. And these higher rates and rate expectations have become an issue for prospective homeowners and re-mortgagers as average mortgage rates have risen to above 6% for both 2 & 5-year fixed rates. In better news for households, unemployment fell to 3.8% in April, from 3.9% in March. For businesses, activity figures remain in expansionary territory but prospects were falling slightly as the composite purchasing managers index (PMI) survey fell to 52.8 in June from 54 in May and below expectations of 53.6. This was driven by falls in both services and manufacturing sectors.

Meanwhile, the **US** is experiencing lower than expected inflation and falling interest rate expectations. Headline inflation dropped to 4% in May, from 4.9% in April – the lowest level since March 2021. Core inflation also dipped in May, to 5.3% from 5.5% in April. Labour market indicators continued to show relative strength, although unemployment increased to 3.7% in May, up from 3.4% in April and above expectations. On the other hand, job growth remained strong as 339,000 new jobs were created in May, up from an upwardly revised April figure and well ahead of the expectations of 190,000. Business survey data showed a slight softening in activity, albeit still positive. Composite PMI fell to 53 in June, from 54.3 in April, driven by falls in both services and manufacturing with a notable driver being a slowing in the pace of job creation. With this backdrop, the US Federal Open Markets Committee voted to maintain the base interest rate in the 5-5.25% range.

The **Euro** area entered a technical recession, but the European Central Bank (ECB) continued to raise rates to maintain downward pressure on inflation. Looking back on GDP growth data, figures released in June showed a downward revision of Q4 2022 GDP to -0.1% and Q1 2023 also recorded at -0.1%, meeting the definition of a technical recession of two consecutive quarters of negative growth. Nevertheless, there is optimism in the region, inflation has been lower than expected as headline inflation fell to 5.5% in June and although core inflation ticked up to 5.4%, both were lower than expectations. Despite the good news on inflation, the ECB delivered a 0.25% rate rise. This is partly driven by business activity slowing as composite PMI fell to 49.9 for June, from 52.8 in May. This is the first reading indicating contractionary levels of activity since December 2022.

Japan continues to see international investor inflows as monetary policy remains loose (and this is expected to persist for a while) and shareholder friendly policies are coming into effect. Additionally, stonehill FINANCIAL

tax incentives coming in from January 2024 are likely to encourage domestic savers to move from cash to investing. Economic data continue to be positive, Q1 quarter-on-quarter GDP growth was finalised at 0.7%, above consensus of 0.5%. Headline inflation fell, although remained high for Japan at 3.2% but core inflation excluding energy and food continued to rise hitting 4.3%.

In **Emerging Markets**, optimism from earlier in the year in relation to China's reopening has continued to peter out. Inflation remains close to zero and business surveys indicate a slowing in activity but remain positive with composite PMI at 52.5 for June (falling from 55.6 in May). Elsewhere, other major EM economies have shown relative strength, particularly in Latin America (e.g. Brazil) on the back of expectations of upcoming expansionary monetary policy as their inflation has been falling.

Currencies - Sterling was strong versus major developed market currencies over June but weaker against emerging market currencies. It was 6.1% stronger versus the Japanese yen, up 2.6% against the US dollar, 0.2% stronger vs the euro, but 0.3% down versus the Australian dollar. Against emerging market currencies, the pound was down 2.2% versus the South African rand and 3.4% weaker than the Brazilian real.

Asset Classes

June was positive for most asset classes, despite sterling strength holding back developed market overseas equity returns. US equities were the best performing equity asset class. UK equities were relatively weaker this month as higher than expected inflation dampened investor optimism. Real asset performance was subdued but positive, led by Commodities.

Within UK equities, larger companies relatively outperformed smaller companies with the large-cap FTSE 100 up 1.4%, whilst the mid-cap FTSE 250 index was down 1.3%.

Fixed income performance was steady, with more higher credit exposed bonds outperforming. Government bond yields rose marginally causing their prices to fall slightly. Global High Yield and Emerging Market bonds were the best performing bond asset classes as their credit spreads (yields above government bonds) tightened.

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	£	£	£	£	£	£	£	£	£
0.37%	-0.12%	0.52%	0.00%	2.02%	1.75%	3.94%	2.42%	0.99%	1.48%	1.61%	1.19%	0.24%	0.60%	1.42%

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