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FINANCIAL

March Overview

In the UK, once again the Bank of England raised interest rates, this time by 0.25% to 4.25%. Expectations had been split with some even expecting no changes given the uncertainty in the European banking sector. Others, however, expected a larger increase, particularly as inflation unexpectedly rose to 10.4% in February, up from 10.1% the prior month. This was well above expectations of 9.9% and was largely driven by higher food & drink prices. Strangely, core inflation (which excludes volatile items like food and energy) also unexpectedly rose to 6.2% in February.

In slightly better news for households, unemployment remained at 3.7% near its 50-year lows. In contrast, businesses' responses to the purchasing managers index (PMI) survey showed that staff shortages were constraining growth. The composite PMI did fall to 52.2 in March, from 53.1 in February, after falls in both manufacturing and services, but remains in expansionary territory. And as had been expected the final figure for Q4 GDP growth showed a quarter-on-quarter increase of 0.1%, meaning the **UK** narrowly avoided a recession in 2022.

US tbanking failures dominated financial market news in March. The impact of this was felt globally as banks' business models, and indeed regulation, were questioned and risk appetite was muted. At the same time, major developed market central banks continued to raise interest rates to further push down inflation. Whilst economic data remained robust and pointed to a strengthening global economy, the fallout from the banking sector issues reduced expectations for future rate rises which caused bond yields to fall and hence bond prices to rise. Equity market performance was mixed: fragility and a risk-off sentiment broadly resulted in cyclical (and particularly financials) falling, but more growth-oriented stocks actually bounced as bond yields (and hence the discount rate on their future earnings) fell.

One of the more significant events in the US during the month was the failure of 3 regional financial institutions, sending shockwaves through the financial system globally. This prompted the US federal reserve to launch an emergency scheme to lend banks cash loans in return for government & agency debt. The last section of this monthly covers the events in much more detail. The Federal Open Markets Committee was also busy, voting to increase interest rates by 0.25%. Up until the bank failures, markets were expecting a 0.5% increase as whilst headline inflation continued to fall, down to 6% in February from 6.4% in January, core inflation only ticked down slightly from 5.6% to 5.5%. This core reading was the lowest reading in over a year but remains higher than hoped and is still dominated by elevated housing/shelter costs. Labour markets remain tight – unemployment remains near 50-year lows (but edged up to 3.6% in February) and non-farm payrolls showed that 311,000 jobs were added to the economy in February, higher than the 205,000 expected. This has boosted business expectations and was reflected in a rise in the composite PMI to 53.3 in March, from 50.1 in February.

The US bank failures hit bank share prices in mainland **Europe**, in particular those of Credit Suisse. They had been struggling for a few years and in March needed a state-backed takeover by UBS. Again, there will be more on this later. But not to be left out, the European Central Bank (ECB) raised rates by 0.5% in March, in-line with what they had said after their previous policy meeting in February. Future rate rises may be smaller, however, given that inflation fell further than expected to 6.9% in the flash March figure, from 8.5% in February. Core inflation, however, remained high and actually rose to 5.7% for March. Nevertheless, unemployment remained at a record-low 6.6% in February and the composite PMI for March rose to 54.1, from 52 in February. This reflected a strong bounce in services more than offsetting a fall in manufacturing.

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Sentiment in **Japan** has improved over the month. Inflation fell back down sharply to 3.3% in February, from 4.3% in January, although this largely reflected energy subsidies. Also, the composite PMI increased to 51.9 for March, the third consecutive reading in positive territory.

In **Emerging Markets**, China's economic re-opening remains a dominant theme. Data from China shows strong expectations for future economic activity as the composite PMI for February was 54.2, the strongest level since last June. Also, China hasn't suffered from high inflation like the rest of the world, aided by their zero-COVID policy, headline inflation fell to 1% in February from 2.1% in January.

Currencies - Sterling performance was mixed over the month. It was up 2.1% against the US dollar, but down 0.2% against the Japanese yen, and 0.3% weaker versus the euro. Against emerging market currencies, the pound was down 1.3% versus the South African rand and 0.8% weaker against the Brazilian real.

Asset Classes

March was a mixed month for asset class performance in both local currency and pound terms. Japanese equities were the best-performing equity asset class, closely followed by US and mainland European equities in pounds terms. UK equities really struggled this month, in particular smaller companies. Real assets also had a tough month, property was the worst-performing asset class, down 5%.

Within UK equities, larger companies were relative outperformers but still offered negative returns in March, down 2.5%; whilst the mid-cap FTSE 250 index lagged, down 4.6%.

Fixed income performance was relatively strong. Government bond yields fell and prices rose during March, partly as a result of a flight to safety following the banking sector concerns. Credit-exposed bond yields also fell, but less than government bonds. But the best-performing bond asset class was inflation-linked bonds as core inflation remained quite 'sticky' globally, raising inflation-linked bond prices.

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	£	£	£	£	£	£	£	£	£	£	£
0.33%	2.37%	3.26%	2.04%	0.43%	1.26%	1.18%	1.12%	-2.84%	1.79%	-1.55%	0.88%	0.80%	-5.10%	-2.29%	-2.47%	-4.63%

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