

3 April 2023

Dear Equity Client

GLOBAL EQUITIES – 1st Quarter 2023

Equity investors enjoyed a strong first quarter. The MSCI World Index (including Emerging Markets and dividends) grew by +7.3% (in US\$ terms, +5.1% in UK£ terms)*. This builds further on the strong final quarter of 2022, but another +14.4% (in US\$ terms, +5.2% in UK£ terms)* is still required to recover all the bear market losses.

This stock market recovery follows positive economic developments on important fundamental fronts. Supply Constraint indices have dropped below pre-Pandemic levels, along with Shipping Container indices. The main International Container Index is now 80% lower than the level a year ago. Delivery times have again normalised. The UN Food Price Index peaked a year ago. The Oil price is almost a quarter lower than a year ago*. New cars are starting to be offered on discounts. All of these contribute towards the easing of inflation.

US headline inflation peaked nine months ago, dropping every month since then. It has already shed a third of its peak level of 9.1%. The Federal Reserve (Fed)'s key inflation metric – PCE (Private Consumer Expenditure) has followed suit and is currently almost a quarter lower than headline inflation. It does not yet reflect symptoms of materially sticky inflation. US wage growth has moderated to 4.6%, the same level as PCE. Huge layoffs in the tech sector and slowing job quit numbers may ease further downward pressure on wage growth. Critically, general long-term inflation expectations remain muted, and are currently at 2.3%*. It would appear that US inflation is getting under control.

The current mini banking crisis brought new and quite fundamental economic perspectives to the fore. The US and Swiss central banks have acted very swiftly and firmly to address the risks that their respective 'bad apples' caused. US banks have also been offered a mechanism by which to avoid the crystallization of Bond losses. In addition to the banking calm that these actions brought (along with the moderating inflation), US interest rates dropped materially (over 1% on the shorter end). Whilst still in deep inverted territory, the yield curve has sharply steepened from -1.08% to -0.57%*. While tighter lending standards may negatively affect the economy, the lower debt service costs can compensate to some degree. The net effect of these is a positive shift towards risk appetite and equity valuations.

World trade is currently declining marginally. The re-opening of the Chinese economy has happened at an opportune time for the world's second largest economy to support overall trade. The positive effects of this important swing factor are yet to materialize.

All-in-all, we believe the combination of lower inflation and lower than expected interest rates can absorb the effects of a dull economic outlook. We also believe that this macro theme has begun shifting investor focus back to the Growth style of investing. Some of our high quality growth franchises are already trading at new highs.

Thank you again for all your support.

With best wishes.



Gerrit Smit
Partner – Head of Global Equity Management

* Source : Bloomberg, April 2023

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