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ROYAL LONDON ASSET MANAGEMENT

Stocks back in bull market territory

2023 Q2 review by Jake Winterton, Multi Asset Analyst

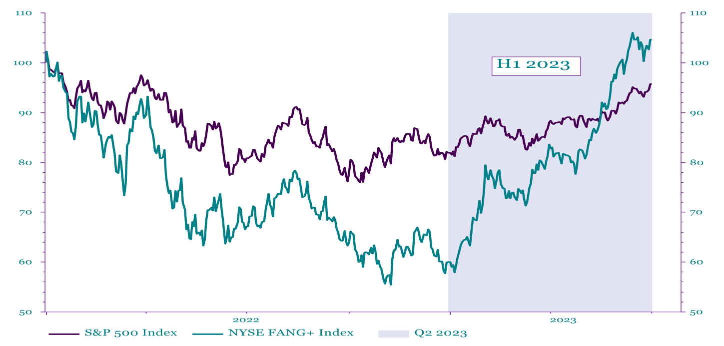
Following on from a dismal year for investors in 2022, in which stock markets recorded their worst annual losses since 2008, the new year has been much more positive for equity investors (Table 1). Over last quarter, markets shrugged off worries around the collapse of Silicon Valley Bank (SVB) and built on gains made in Q1 to end the period back in bull market territory (up 20% from their lows). The risk on tone of last quarter has not spread as widely to other risk assets though, with commodities and property remaining in negative territory for the year.

The second quarter of 2023 was characterised by a much narrower leadership within equity markets. Excitement around AI in particular has provided a catalyst for a strong outperformance of technology stocks, with the FANGS+ index rallying to take its year-to-date performance to +74% (Chart 1). This contrasts sharply with the outsized losses that technology stocks made compared to broader markets last year. Bond markets fell over the quarter, as stronger inflation data led to further hiking from central banks globally, yields rose and traders pushed back expectations for central bank rate cuts.

On a tactical level, we remain positive on equities. The near-term macro backdrop remains supportive, with lower energy prices and tight labour market helping global consumers stay resilient. However, in the absence of dramatic falls in core inflation, tight monetary policy will ultimately push economies into recession, which will make a defensive stance more necessary at a later point. We are monitoring macro data carefully to adjust our view accordingly. Elsewhere, we have been positive on Japanese equities, which have continued to outperform their global peers as a weaker yen, improved economic conditions and corporate earnings have seen the Japanese stock market reach its highest level since 1990 (Chart 2).

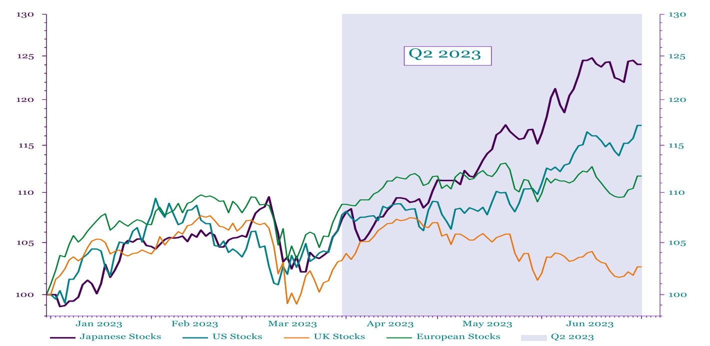
Please see the Investment Clock blog for our latest views.

Chart 1: 2022 losers rebounded strongly over Q2 2023



Source: Refinitiv DataStream as at 30/06/2023. Indices in local currency.

Chart 2: Japanese equities outperformed sharply



Source: Refinitiv DataStream as at 30/06/2023. Indices in local currency.

Table 1: Sterling-based annual returns from major asset classes 2016 – Q2 2023

Year	2016	2017	2018	2019	2020	2021	2022	YTD
1	EM Stocks +35.4%	EM Stocks +21.1%	Property +7.5%	Global Stocks +22.6%	Global Stocks +14.3%	Commodities +28.3%	Commodities +30.7%	Global Stocks +8.0%
2	Commodities +33.3%	Global Stocks +14.0%	Cash +0.6%	UK Stocks +19.2%	EM Stocks +11.9%	Global Stocks +20.0%	Cash +1.0%	UK Stocks +2.6%
3	Global Stocks +30.3%	UK Stocks +13.1%	Gilts +0.6%	EM Stocks +15.9%	Gilts +8.3%	Property +19.9%	UK Stocks +0.3%	Cash +1.9%
4	UK Stocks +16.8%	Property +11.2%	**Multi Asset -1.6%**	**Multi Asset +10.0%**	**Multi Asset +4.9%**	UK Stocks +18.3%	EM Stocks -6.4%	**Multi Asset +1.5%**
5	**Multi Asset +14.1%**	**Multi Asset +6.3%**	Global Stocks -3.1%	Gilts +6.9%	Cash +0.3%	**Multi Asset +8.3%**	**Multi Asset -7.3%**	Property +1.2%
6	Gilts +10.1%	Gilts +1.8%	Commodities -5.7%	Commodities +3.5%	Property -1.0%	EM Stocks +1.0%	Global Stocks -7.8%	EM Stocks -1.7%
7	Property +2.6%	Cash +0.3%	EM Stocks -7.6%	Property +2.1%	Commodities -6.1%	Cash +0.0%	Property -10.1%	Gilts -3.5%
8	Cash +0.4%	Commodities -7.1%	UK Stocks -9.5%	Cash +0.7%	UK Stocks -9.8%	Gilts -5.2%	Gilts -23.8%	Commodities -12.8%

Past performance is not a reliable indicator of future results. Source: RLAM, DataStream as at July 2023; property as at June 2023. 'Multi Asset' returns are based a mixture of 8.12% UK equities, 21.13% in global equities, 3.25% in EM equities, 7.5% in property, 5% in commodities, 5% in global high yield, 6.25% in UK IG credit, 2.5% in global IG credit, 10% in UK SD IG credit, 2.5% in UK linkers, 1.5% in UK SD linkers, 3.5% in global SD linkers, 6.75% in gilts, 2% in overseas government bonds, 5% in SD gilts and 10% in cash. Indices used are FTSE All Share, FTSE World, MSCI Emerging Markets ESG Leaders, MSCI/AREF UK All Balanced Quarterly Property Fund, Bloomberg Commodity Index, BoAML BB-B Global Non-Financial High Yield Constrained Index, iBoxx Sterling Non-Gilt Index, Bloomberg Barclays Global Aggregate Corporate Index, FTSE Actuaries UK Index Linked Gilts, Bloomberg Barclays UK Government Inflation Linked Bond 1-10 year Index, Bloomberg Barclays World Government Inflation Linked Bond (ex UK) 1-10 year, FTSE Actuaries UK Conventional Gilts Index, JPM Global ex-UK Traded Index, FTSE Actuaries UK Conventional Gilts up to 5 Years Index, SONIA. Total returns in sterling terms.

Markets: Growth stocks surged in narrow equity market rally

- Global equities entered bull market territory over the quarter, brushing off losses from SVB and fears around the US debt ceiling, as resilient economic data led to renewed investor optimism.
- Growth sectors surged over the quarter, benefitting from the hype around generative AI and resilient economic picture despite continued central bank rate hikes. Defensive sectors continued to lag.
- Japanese equities rose to 33-year highs, boosted by weaker Yen, resilient data and improving corporate earnings. UK shares fell amid stagflation concerns and relatively low exposure to growth sectors.
- Bond markets suffered losses as yields rose on the back of resilient inflation data and continued central bank hiking. Gilts underperformed on particularly sticky UK inflation data.
- Metals led commodities lower on the quarter, as weaker than expected Chinese data weighed on the industrial complex, while risk-on mood in the markets saw demand for precious metals wane.
- Sterling continued to appreciate against other G10 currencies on sharply higher interest rate expectations. Japanese Yen suffered significant weakness as the Bank of Japan maintained their yield curve control policy intact.

FX	1 GBP buys	%chg Q2 (vs GBP)	%chg 2023
USD	1.27	-2.9	-4.9
EUR	1.16	-2.3	-2.9
CHF	1.14	-0.7	-1.6
JPY	183.2	-10.6	-13.5
AUD	1.90	-3.1	-6.9
CAD	1.68	-0.9	-2.6

CB rates	Rate (%)	chg in Q2 (%)	chg 2023 (%)
Fed	5.25	0.25	0.75
BoE	5.00	0.75	1.50
ECB	3.50	0.50	1.50
BoJ	-0.08	-0.05	-0.06

Bond Yield	Yield (%)	chg in Q2 (bps)	chg 2023 (bps)
US 10 Year	3.84	37	-4
UK 10 Year	4.39	90	72
EU 10 Year	2.39	10	-18
JP 10 Year	0.40	5	-2

	Local Currency		GBP	
Multi Asset	Q2	2023	Q2	2023
UK Stocks	-0.5	2.6	-0.5	2.6
Global ex UK Stocks	7.0	14.6	3.5	8.0
Gilts	-5.4	-3.5	-5.4	-3.5
UK Cash	1.0	1.9	1.0	1.9
UK Property	1.0	1.2	1.0	1.2
Commodities	-2.6	-7.8	-5.2	-12.8

	Local Currency		GBP	
Equity Regions	Q2	2023	Q2	2023
UK	-0.5	2.6	-0.5	2.6
North America	8.4	16.6	5.5	10.4
Europe ex UK	3.0	13.0	0.6	9.3
Japan	15.0	23.2	3.0	6.4
Pacific ex Japan	2.5	8.9	-1.7	0.9
Emerging Markets	1.4	3.9	-1.9	-1.7

Global	Local Currency		GBP	
Equity Sectors	Q2	2023	Q2	2023
Consumer Discretionary	9.1	24.5	5.4	17.2
Industrials	7.6	14.6	3.6	7.7
Financials	5.7	4.0	2.6	-1.6
Consumer Staples	0.5	3.4	-2.2	-1.5
Utilities	0.1	-1.0	-2.5	-5.6
Healthcare	2.5	0.6	-0.4	-4.6
Energy	0.6	-2.8	-1.7	-7.1
Materials	-0.4	4.6	-3.4	-0.9
Communication Services	-1.7	3.6	-5.6	-2.8
Technology	14.3	37.6	10.6	29.7

	Local Currency		GBP	
Bonds	Q2	2023	Q2	2023
Conventional Gilts	-5.4	-3.5	-5.4	-3.5
Index Linked Gilts	-6.6	-2.6	-6.6	-2.6
GBP Credit	-3.4	-1.1	-3.4	-1.1
Global High Yield	1.2	4.4	1.0	4.0

	Local Currency		GBP	
Commodities	Q2	2023	Q2	2023
Energy	-1.6	-20.0	-4.3	-24.3
Agriculture	-1.0	-1.0	-3.7	-6.3
Industrial Metals	-10.5	-12.4	-13.0	-17.1
Precious Metals	-3.1	3.0	-5.8	-2.6

Note: Standard indices sourced from DataStream and Bloomberg as at 30 June 2023; Property data as at 31 May 2023.

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Our ref: PDF RLAM W 0024