

# Global Economic & Market Review

## First Quarter 2023

### CONTENTS

Summary

United States

Europe

Asia Pacific

Emerging Markets

Commodities

### Highlights

- Major equity markets saw gains for the second consecutive quarter despite volatility in the financial sector. Bond markets also showed positive returns. In the commodities market, gold posted respectable gains, while oil faltered.
- Developed market central banks continued their rate hiking cycles in order to control persistently high inflation. While prices cooled in some regions, inflation remained relatively high.
- Economic growth showed signs of slowing in the final quarter in 2022. It is likely that the slowdown in growth will continue this year as the effects of interest rate hikes materialize and ongoing headwinds, including the Russia-Ukraine war continue.
- The collapse of Silicon Valley Bank disrupted markets for a short time but exposed the vulnerabilities in the US banking sector. SVB's ultimate decline reverberated throughout the global financial sector.
- China's broad based relaxation of its zero-COVID policy led to a rebound in economic activity in the first quarter. However, it may be some time before GDP growth in the world's second largest economy returns to pre-pandemic levels.
- In its January 2023 World Economic Outlook, the International Monetary Fund projected that global growth would fall from an estimated 3.4% in 2022 to 2.9% in 2023 before rising to 3.1% in 2024. Global inflation is expected to fall from 8.8% in 2022 to 6.6% in 2023 and 4.3% in 2024.

---

## CFAL Global Economic & Market Review Q1-2023

### United States

Despite markets being rocked by the collapse of Silicon Valley Bank during the final weeks of the quarter, US equities reported positive results in Q1-23. While SVB's demise exposed vulnerabilities in the banking sector, the ensuing market turmoil was relatively brief. Among the three major indices, the Nasdaq showed the best returns, surging by +16.77% as investors regained confidence in tech stocks. The S&P 500 index was up +7.03% while the Dow Jones Industrial Average lagged with a slight return of +0.38%. Bond markets also posted positive returns even as the US Federal Reserve continued to hike rates in an effort to fight inflation. US high yield issues (+3.72%) were the best performers, outpacing US corporates (+3.45%) and US Treasuries 1-10 years (+2.24%). During the quarter the Fed announced two 25 basis points hikes, bringing its benchmark interest rate to 5.00%, the highest since 2007. Inflation trended downward in Q1-23 but remained at relatively high levels. The US Consumer Price Index rose 6.0% in February from the previous year, an improvement on January's reading of 6.4%. The US economy grew by 2.6% in Q4-22, compared to 3.2% in the previous quarter. Growth was primarily driven by increases in private inventory investment and consumer spending. Real GDP increased by an annual rate of 2.1% for the full year 2022, a slowdown from the 5.9% growth in 2021.

### Europe

Eurozone equities posted strong gains in Q1-23, with the DJ Euro Stoxx 50 Index rising +13.74% against a backdrop of slowing growth. Euro area growth was flat in the final quarter of 2022 compared to the previous quarter as increases in public expenditure, inventories and net trade were offset by declines in household spending and gross fixed capital formation. Greece (+1.4%) saw the largest expansion in GDP, while Poland (-2.4%) reported the biggest contraction. Growth was up 3.5% for 2022 compared to 5.3% in 2021. Despite an increase in energy prices, annual inflation for the euro area was estimated to have fallen to 6.9% in March, down from 8.5% in February but still well above the European Central Bank's target of 2%. The ECB continued to raise rates, with another 50 basis point hike in March even as Europe's banking sector faced turmoil including a dramatic sell-off of Credit Suisse shares, which fell 30% in one day in the wake of SVB's insolvency. Credit Suisse's woes ultimately led to a surprise takeover of the bank by its long-time rival UBS. Meanwhile, the UK economy avoided a technical recession in Q4-22, with growth of 0.1% over the previous quarter. For the year 2022, GDP grew by 4.1% compared to 7.6% in 2021. As with other developed countries, high inflation remains a concern, and the Bank of England raised rates by another quarter percent to 4.25% in March following an increase in the inflation rate to 10.4% in February. UK stocks ended the quarter in the green, the FTSE 100 returned +2.42%.

### Asia Pacific

The Shanghai SE Composite index gained +5.94% in the first quarter, reflecting investor optimism after China relaxed most of its pandemic related restrictions at the end of 2022. The country's strict zero COVID policy had restrained economic growth since 2020, forcing many businesses to close or halt production, resulting in lower economic activity and higher unemployment. China's National Bureau of Statistics reported GDP growth of 3.0% in 2022, better than analysts' forecasts but still below the country's official target of 5.5%. The government set an even lower growth target of 5.0% for 2023, which is likely more attainable as the country continues to recover from the pandemic. Following the relaxation of the restrictions, the economy appeared to quickly rebound with industrial production and

---

retail sales rising for the first two months of the year. However, the youth unemployment rate jumped to 18.1% in the same period from 16.7% in December. The overall unemployment rate rose to 5.6%. Elsewhere in the Asia, Japan's economy expanded by 1.1% in 2022 compared to 2.1% in the previous year. The slowdown was attributed to rising fuel costs due to the Russia-Ukraine war and a depreciation of the yen and which resulted in higher import costs. Japan's trade imbalance continued to weigh on the economy, as export growth (4.9%) lagged the growth in imports (7.9%). Exports are expected to remain weak as global demand wanes. Japanese equities rose during the quarter, the Nikkei 225 returned +7.46%. Down under, the Australian Bureau of Statistics reported GDP growth of 2.7% for 2022, owing to increases in net trade and consumption.

## Emerging Markets

The MSCI Emerging Markets Index rose +3.54 in Q1-23, underperforming the MSCI World Index which gained +7.25%. Despite ongoing challenges and increasing interest rates worldwide, many EM countries experienced positive, albeit slowing, economic growth. Brazil's economy expanded 2.9% in 2022, despite a slowdown in the final months of the year. Growth was led by strong activity in the services sector and was also boosted by increased government spending ahead of the presidential elections. The country continues to grapple with high inflation and in March, policymakers opted to keep rates unchanged at a six-year high of 13.75% despite public pressure to reduce borrowing costs. Elsewhere, South Africa's growth remained hampered by rolling blackouts due to malfunctions at the state-owned Eskom power plant. The country's central bank estimated that the power outages cost the economy \$50 million a day. GDP contracted by -1.3% in the final quarter of 2022 as business and factories were forced to shut down operations. Growth for the full year was reported as 2.0%. Load shedding continued to intensify in the first quarter and the economy is expected to report weak economic growth in 2023. Meanwhile, the Indian economy is estimated to have expanded by 7.0% for the 2022 calendar year compared to 9.0% in the previous year. The country continues to attract foreign direct investment inflows, which reached a record high of USD85 billion in the 2021/22 fiscal year.

## Commodities

In the commodities market, gold futures posted a respectable gain of +7.82% in Q1-23 amid turmoil in the banking sector, increasing recession fears and heightened geopolitical tensions. Despite a price surge in March, silver (+0.48%) was relatively flat for the quarter. WTI crude oil fell -5.72%, as weakening global economic growth led to lower demand. Prices dropped to a one year low in mid-March, before bouncing back to end the quarter just below \$76 and are expected to average below \$100 per barrel for the remainder of 2023. Copper, an indicator of long-term economic growth, gained +7.45%, continuing its bullish trend for the second consecutive quarter. Volatility in the commodities market is expected to persist, as the lingering impact of the pandemic, high inflation and the Russia-Ukraine war continue to weigh on investor sentiment.

## Market Returns Q1-2023

As at 31 March 2023

	MTD	QTD	YTD	1 year
<b>Equity Indices (% local currency)</b>				
S & P 500	3.51	7.03	7.03	-9.29
Dow Jones Industrial Average	1.89	0.38	0.38	-4.05
NASDAQ	6.69	16.77	16.77	-14.05
FTSE 100	-3.10	2.42	2.42	1.54
DJ Euro Stoxx 50	1.81	13.74	13.74	10.57
Shanghai SE Composite	-0.21	5.94	5.94	0.64
Nikkei 225	2.17	7.46	7.46	0.79
MSCI Emerging Markets	2.73	3.54	3.54	-13.27
MSCI World	2.83	7.25	7.25	-8.57
<b>ICE BofA Bond Indices (% local currency)</b>				
US Treasuries 1-10 years	2.42	2.24	2.24	-1.58
US Corporates	2.56	3.45	3.45	-5.19
US High Yield	1.13	3.72	3.72	-3.56
UK Gilts 1-10 years	1.50	1.58	1.58	-5.76
Euro Government	2.34	2.00	2.00	-11.88
Global High Yield & Emerging Markets	0.90	3.18	3.18	-4.70
Global Broad Market Index	3.21	2.98	2.98	-8.37
<b>Currencies vs. USD</b>				
British Pound	2.62	2.10	2.10	-6.10
Euro	2.49	1.25	1.25	-2.06
Japanese Yen	-2.43	1.33	1.33	9.17
Swiss Franc	-2.86	-1.00	-1.00	-0.78
<b>Commodities (% USD)</b>				
Gold	7.20	7.82	7.82	1.02
Silver	15.24	0.48	0.48	-3.89
Copper	-0.07	7.45	7.45	-13.82
WTI Crude Oil	-1.79	-5.72	-5.72	-24.54