

Global Economic & Market Review

Second Quarter 2023

CONTENTS

Summary

United States

Europe

Asia Pacific

Emerging Markets

Commodities

Highlights

- For the most part, economic output amongst the world's developed economies was positive in the first quarter, but concerns regarding a slowdown in 2023 remained. In its April 2023 World Economic Outlook, the International Monetary Fund revised its 2023 global growth forecasts downward, from 2.9% to 2.8%.
- Developed market central banks maintained their hawkish stance as inflation rates remained elevated. While headline inflation cooled in many instances, overall inflation continued to surpass central bank targets.
- Enthusiasm over China's relaxation of its Covid-19 policies waned in the second quarter, leading to weaker growth expectations for the remainder of the year. Investors directed their capital to India, which has become one of the fastest growing emerging economies.
- Most developed equity indices posted positive returns in the second quarter as enthusiasm over AI stocks drove gains in the technology sector. Higher interest rates resulted in losses in some sectors of the bond markets.
- In the commodities market, precious metals including gold and silver along with copper and oil were all negative as global economic uncertainty continued.

CFAL Global Economic & Market Review Q2-2023

United States

Major US indices saw another quarter of positive returns as inflation showed signs of moderating. This eased investor concerns about the pace of interest rate hikes and fueled gains in the stock market particularly in the technology sector where returns were led by artificial intelligence (AI) stocks. Similar to the previous quarter, the Nasdaq posted the highest returns as tech stocks soared, jumping +12.81% to close its best first half of a year since 1983. The S&P 500 index followed with a gain of +8.30% while the Dow Jones Industrial Average saw returns of +3.41%. Year to date the indices were up +31.73%, +15.91% and +3.80% respectively. Bond markets were mixed, US Treasuries 1 - 10 years (-1.13%) and US Corporates (-0.21) fell, while US high yield issues gained +1.63%. Despite falling inflation, the US Federal Reserve maintained a hawkish stance, and announced another 25 basis points rate hike in early May. This brought the Fed's benchmark interest rate to 5.25%. The Fed opted not to increase rates in June but stated that more hikes were likely before the end of the year as inflation, while falling, remained well above the 2% target. The Consumer Price Index rose at an annual pace of 4% in May, the lowest reading since April 2021. The annual CPI was reported as 5% in March and 4.9% in April. The US economy grew by a stronger than expected 2.0% in Q1-2023 from the previous year, compared to 2.6% in the previous quarter. Growth was boosted by a rise in consumer spending, stronger exports, and increased government spending.

Europe

Eurozone equities ended the second quarter on a positive note even as growth remained slow and core inflation rose. The Stoxx Europe 600 Index gained +0.89% in Q2-2023 to close out the first half of the year with a +8.72% return. The euro area reported quarter over quarter growth of 0.1% in the first quarter. Poland (3.8%) saw the largest expansion while Ireland (-4.6%) reported the biggest contraction. Growth was 1.8% year over year. Improvements in net trade with the rest of the world contributed to growth, in Q1-2023 exports grew by 7.5% while imports fell by 10%. However, the purchasing managers' index, which is regarded as the benchmark business activity survey for the region, signaled a sharp slowdown in second quarter economic growth and fell to a five month low of 50.3 in June, compared to 52.8 in May. Readings below 50 indicate economic contraction. Inflation remained elevated, while annual inflation unexpectedly fell from 6.1% in May to 5.5% in June. Core inflation, which excludes energy and food, rose from 5.3% to 5.4%. The European Central Bank stated that it would continue to raise rates until inflation showed clear signs of falling towards the 2% target. In June, the ECB hiked rates by another 25 basis points to a 22-year high of 3.5%. Similarly, the UK continued to grapple with stubbornly high inflation which stood at 8.7% in May, unchanged from the previous month but down from 10.1% in March. In June, the Bank of England announced a surprise 50 basis point hike, which raised interest rates to 5.0%. Continued rate hikes increased the possibility of a recession, however, high inflation has also dampened economic growth. The UK saw tepid GDP growth of 0.1% in the first quarter, as high prices drained household disposable income. UK stocks fell in Q2-2023, the FTSE 100 shed -1.31%.

Asia Pacific

The Shanghai SE Composite lost -2.16% in the second quarter as enthusiasm over China's reopening waned. The Chinese economy grew by a better than expected 4.5% year over year in the first quarter. Growth reflected improvements in consumer consumption and exports during the first few

months following the discontinuation of the majority of China's strict pandemic related restrictions. However, the economy lost momentum in the second quarter with economic data showing weakening consumer confidence and industrial production. China also remained plagued by high youth unemployment (ages 16 - 24), which hit a record 20.8% in May. The rate is expected to get worse during the summer as a slew of graduates enter the job market. The lackluster second quarter economic data prompted the People's Bank of China to lower its key policy rate from 2.75% to 2.65% in June. The rate cut was taken as a signal by economists that policymakers were not opposed to shore up support for the economy. In contrast to Chinese stock markets, Japanese equities soared in Q2-2023 with the Nikkei 225 index reporting a gain of +18.36%. The index hit a 33- year high in June as investors expressed optimism over the Bank of Japan's decision to maintain its ultralow interest rate policy. Shares of net exporters were also supported by the weakness of the Yen against the US dollar. The Japanese economy grew at an annualized rate of 2.7% in Q1-2023 as factor activity improved and private demand increased. However, exports fell by 4.2% as the pace of the global recovery slowed. Elsewhere in the region, equity indices in Taiwan and South Korea advanced as investors eagerly picked up shares of AI companies.

Emerging Markets

The MSCI Emerging Markets Index was flat (-0.08%) in the second quarter, underperforming the MSCI World Index which gained +6.28%. Many EM countries continued to benefit from the post COVID recovery, even as global growth moderated, and interest rates remained high. Brazil saw better than expected quarter over quarter GDP growth of 1.9% in Q1-2023 as agricultural output surged by 21.6%. While Latin America's largest economy experienced declining inflation, the country's central bank maintained rates at a six-year high of 13.75%. Notably, Brazil's Ibovespa was up +15.91% during the quarter. South Africa experienced positive growth of 0.40% in the first three months of 2023. The economy narrowly managed to avoid a technical recession amidst ongoing power supply issues at the state owned Eskom power plant. The manufacturing industry (1.5%) recorded the largest increase in output while agriculture, forestry, and fishing (-12.3%) saw the largest decline. Economic growth is expected to remain weak for the remainder of the year as load shedding continues to hamper activity and erode business confidence. In India, growth accelerated by 1.9% in Q1-2023 from the previous quarter or 6.1% year over year as manufacturing and agricultural output rose while private consumption remained tepid. India remains one of the fast growing emerging economies and is projected to have a full year growth of 7.2% even as global demand weakens and financial market volatility weighs on foreign direct investment inflows.

Commodities

In the commodities market, gold futures reached the highest level seen since August 2020 in early May but steadily declined afterwards to end the quarter with a loss of -2.01%. However, gold remained in positive territory year to date and will likely see further returns if the global economy continues to slow. Silver also shed -5.57% in Q2-2023 as central bank action contributed to the white metal's price volatility. Despite positive returns in June, both copper (-8.45%) and WTI crude oil (-6.36) ended the quarter in the red. The decline in copper, which is commonly used in industrial production, signalled lower global economic activity particularly in China who is one of the top consumers of the metal. Similarly, oil prices also fell on economic uncertainty and political instability surrounding the Russian-Ukraine war.

Market Returns Q2-2023

	As at June 30, 2023			
	MTD	QTD	YTD	1 year
Equity Indices (% local currency)				
S & P 500	6.47	8.30	15.91	17.57
Dow Jones Industrial Average	4.56	3.41	3.80	11.80
NASDAQ	6.59	12.81	31.73	25.02
FTSE 100	1.15	-1.31	1.07	5.05
Stoxx Europe 600	2.25	0.89	8.72	13.44
Shanghai SE Composite	-0.08	-2.16	3.65	-5.78
Nikkei 225	7.45	18.36	27.19	25.75
MSCI Emerging Markets	3.23	-0.08	3.46	-1.12
MSCI World	5.93	6.28	13.99	16.52
ICE BofA Bond Indices (% local currency)				
US Treasuries 1-10 years	-0.92	-1.13	1.09	-1.12
US Corporates	0.28	-0.21	3.24	1.41
US High Yield	1.63	1.63	5.42	8.87
UK Gilts 1-10 years	-1.73	-4.13	-2.62	-7.84
Euro Government	-0.29	0.09	2.10	-4.85
Global High Yield & Emerging Markets	2.35	1.86	5.09	10.19
Global Broad Market Index	0.04	-1.37	1.57	-1.59
Currencies vs. USD				
British Pound	2.11	2.97	5.13	4.31
Euro	2.06	0.65	1.91	4.05
Japanese Yen	3.57	8.62	10.06	6.33
Swiss Franc	-1.66	-2.15	-3.13	-6.23
Commodities (% USD)				
Gold	-1.76	-2.01	5.65	6.76
Silver	-3.29	-5.57	-5.12	12.46
Copper	2.90	-8.45	-1.45	0.51
WTI Crude Oil	3.52	-6.36	-10.99	-17.87