
# Monthly Review and Outlook July 2023

## Review

Global shares rose in July.

Emerging market equities (shares) performed more strongly than developed market equities.

Corporate bonds performed more strongly than government bonds.

## Company shares

UK equities rose, led by a number of domestically focused industry sectors such as real estate and housebuilders, as investors began to reduce their expectations of interest rate rises. Internationally focused areas of the market, including the basic materials and energy sectors, recovered in line with commodity prices. Industrials companies also performed well overall, in line with an improving outlook for the global economy. Most UK industry sectors rose in the month, with the exception of utilities and healthcare.

US equities also rose, with data indicating resilient economic growth and inflation starting to fall. Energy companies rose following the positive growth data. Some media and technology giants made strong gains, along with several banking companies. Healthcare and essential consumer goods companies lagged behind, but no industry sectors had negative returns overall.

Eurozone shares made gains in July, supported by a fall in inflation and positive economic growth data. The real estate, energy, and materials sectors performed particularly strongly. But the essential consumer goods, information technology and utilities sectors lagged behind. Second-quarter earnings reports began to be released during the month. Company earnings have so far generally been resilient and earnings from banks continued to benefit from higher interest rates. Some food and beverage companies highlighted weaker trading volumes due to the higher pricing of their goods.

Japanese equities continued to rise modestly in July, driven by the performance of small and medium sized companies. Asian equities (excluding Japan) also rose, while emerging market (EM) equities rallied, performing more strongly than developed market equities. China, Malaysia, and Singapore were the best-performing Asian markets, while there were smaller gains in Taiwan, Indonesia and the Philippines. Share prices in China rose sharply after Beijing promised to boost sluggish economic growth by supporting real estate sales and other struggling sectors. The Chinese government also announced new initiatives to boost consumption in order to support China’s flagging economy.

## Bonds

Global government bond markets had negative returns overall in July. The yield (income) on US government bonds with 10-year expiry dates continued on an upward trend, rising from 3.81 percent to 3.95 percent (bond yields rise when bond prices fall). But the yield on two-year US government bonds was unchanged at 4.87 percent. The yield on 10-year German government bonds continued to rise, from 2.40 percent to 2.47 percent, while the two-year fell from 3.27 percent to 3.21 percent. Similarly, French, Italian and Spanish 10-year bond yields all increased while two-year yields decreased. UK government bonds (gilts) performed better than other major government bond markets: the 10-year yield fell from 4.39 percent to 4.31 percent while the two-year yield dropped from 5.26 percent to 4.98 percent. Lower inflation and resilient US growth helped support corporate bonds. US and European high-quality (investment grade) and higher risk (high yield) corporate bonds had positive returns overall and performed more strongly than government bonds.

## Commodities

The Bloomberg Commodity Index (a benchmark for investment in global commodities) rose in July. Energy prices rose particularly strongly as sharply higher prices for gas oil, heating oil and unleaded gasoline offset a small decline in natural gas. Nickel and zinc had the largest rises in the industrial metals category. In agriculture, there were strong price gains for sugar, cocoa, coffee, and cotton. Wheat prices also climbed after Russia withdrew from a UN deal allowing the export of Ukrainian grain via the Black Sea. In precious metals, the price of silver was sharply higher, while the gold price rise was more muted.

## Outlook

US economic growth is still positive, which could support US equities for the time being. We remain neutral on equities for now and favour small US companies versus their larger peers on the basis of a possible economic ‘soft landing’. We move to a neutral stance on corporate bonds. We continue to have a positive stance on EM government bonds priced in local currencies, which we believe could benefit from a weaker US dollar. In commodities, we have switched from a positive stance on gold to a positive stance on broad commodities. Commodities have fallen in the past year, partly due to weaker than expected Chinese economic growth. But we expect to see a constrained supply of key commodities as natural gas prices fall close to levels at which production ceases to be profitable and as El Niño hinders grain supply. This could potentially lead to higher commodity prices.

## Asset overview

Our general view of assets in the coming months is summarised as follows. These are our in-house views as at the end of July 2023.

| | | |
|---|---|---|
| Equities | | We remain neutral. Economic growth and lower inflation may be favourable for equities, but we believe equities are now more expensively priced. |
| Government bonds | | We have a slightly cautious stance at a time when the overall yields on bonds with long expiry dates are lower than those with short expiry dates. |
| Corporate bonds | | We move to a neutral stance on corporate bonds. We believe the yields on US corporate bonds aren’t sufficiently high compared with government bonds (which are lower risk). |
| Commodities | | We have upgraded our stance on commodities as we expect supplies to become more constrained in the energy and agricultural sectors, creating upward pressure on prices. |

| | Legend |
|---|---|
| | Positive outlook |
| | Negative outlook |
| | Neutral outlook |

Source: Schroder Investment Management and Schroders Personal Wealth, 8 August 2023

## Important information

Forecasts of future performance are not a reliable guide to actual results, neither is past performance a reliable indicator of future results. The value of investments and the income from them can fall as well as rise and are not guaranteed, and the investor might not get back their initial investment.

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