

## Review

Global equities and bond prices fell overall as recession risks weighed on investor sentiment.

US shares fell, with declines seen in all main market sectors.

The US Federal Reserve raised interest rates by 0.75%, the biggest rate increase since 1994, in an attempt to combat rising inflation.

## Company shares

UK equities (shares) fell during the month. Companies sensitive to economic conditions performed poorly amid rising recessionary risks, with the resources sectors (which include mining and oil and gas) selling off sharply overall. Large companies generally performed better than small and medium-sized companies. Many large companies are in sectors with relatively low sensitivity to the performance of the economy and so were less affected by recessionary risks. US equities fell in June, with declines in all main market sectors. The Federal Reserve (Fed) raised interest rates by 0.75%, the biggest rate increase since 1994, in an effort to try to contain rising inflation. Fed Chair Jerome Powell said a recession is a possibility. Oil and gas stocks had some of the steepest declines, but healthcare was more resilient. Eurozone shares overall had sharp falls. Concerns mounted about possible disruption to Russian gas supplies, given the ongoing tragic events in Ukraine, and the potential for gas rationing later this year. All sectors posted negative returns for the month, with real estate among the weakest performers. Asian equities (excluding Japan) had a negative return in June, with sharp falls recorded in South Korea, Taiwan and the Philippines. Emerging market equities were firmly down in June, with Colombia, Brazil and Chile performing particularly poorly. China delivered a positive return as economic data picked up following the easing of lockdowns in some cities.

## Bonds

Bond prices fell overall in June. But there was a rally late in the month on concerns about economic growth, as government bonds can potentially provide some financial security in more uncertain economic times. The yield on US government bonds (Treasuries) with a 10-year expiry date rose from 2.85% to 2.97% (bond yields rise when prices fall). The yield on two-year US Treasuries rose from 2.56% to 2.93%. The German 10-year yield increased from 1.13% to 1.37%; and the Italian 10-year yield rose from 3.12% to 3.39%. The UK 10-year yield rose from 2.10% to 2.24%, while the two-year yield was up from 1.58% to 1.88%. Corporate bonds had further negative total returns and, overall, their prices fell by more than those of government bonds.

## Commodities





The S&P GSCI Index of commodity markets had a negative return in June, driven lower by sharp price falls in industrial metals and agricultural goods. Industrial metals was the worst performing component of the index, with steep falls in the price of nickel and zinc.




## Outlook

Markets continue to be affected by concerns about interest rate rises on the one hand and recessionary risks on the other. Despite significant falls in equity prices, we have maintained our cautious stance on shares due to uncertainty about corporate earnings. But we are positive on Chinese equities. We think interest rate rises are less likely in China, which provides a potential investment opportunity. We maintain our neutral view on fixed income assets, despite significant overall price falls. Inflationary pressures remain high, which suggests central banks are unlikely to reduce interest in coming months. This, in turn, suggests bond yields could remain at higher levels than in recent years and that bond prices could remain relatively low. We have moved from a positive to a neutral stance regarding broad commodities. This is largely because weakening economic growth is leading to signs of reduced demand for oil and gas.

## Asset overview

Our general view of assets over the coming months can be summarised as follows:

Equities		We maintain our cautious view, due to uncertainty regarding corporate earnings.
Government bonds		We remain neutral. In particular, we think the yield on the 10-year US government bond is too low when inflation is taken into account.
Corporate bonds		We are seeing some indications of a potential economic slowdown. Even so, bond prices have fallen, leading to a neutral view overall.
Commodities		We have downgraded our view from positive to neutral. We are seeing signs of reduced economic demand, particularly for oil and gas, as global growth slows.

Legend	
	Positive outlook
	Negative outlook
	Neutral outlook

Source: Schroders, 11 July 2022

## 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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