Monthly Review and Outlook

April 2023

Review

Global shares rose in April, supported by some resilient economic data.

Emerging markets fell amid weakness in Chinese shares.

All main corporate bond markets generated positive returns.

Company shares

UK equities rose in the month. Financials were the top contributor, driven in large part by the banking sector, which recovered in line with global trends as fears around the health of US banks receded. Global energy groups were another top contributor, supported by a recovery in oil prices as Saudi Arabia announced a surprise decision to cut oil production. Domestically focused sectors held up well, despite disappointing inflation and wages data and a resulting rise in expected UK interest rates, which could hinder economic growth.

US equities made limited gains. There was investor optimism stemming from the US central bank's anticipated moderation of interest rate rises, as higher interest rates can restrict economic growth. But this was tempered by the central bank's viewpoint that economic growth is likely to reduce anyway. Uncertainty in the banking sector also continued. The collapse of First Republic Bank looked unavoidable by the end of April. First Republic was ultimately acquired by JP Morgan. Investors appeared to take the news in their stride, with shares in large US banks rising overall. Even so, some apprehension lingers over smaller banks.

Eurozone shares rose. All sectors advanced, aside from information technology (IT). Shares were supported by the release of some resilient company earnings figures. Top performing sectors included energy and real estate, which had previously underperformed so far this year. The IT sector fell after warnings from several semiconductor companies, in Europe and elsewhere, that a slowdown in demand is lasting longer than expected.

The Japanese stock market maintained positive momentum during April. But Asian equities (excluding Japan) performed negatively, with sharp declines in China, Taiwan and Thailand offsetting share price gains in Indonesia and India. China performed particularly weakly, despite economic growth expanding at a faster rate than expected in the first quarter of 2023. Ongoing tensions with the US and other Western nations over Taiwan weakened investor sentiment towards the country. Emerging market equities declined due to renewed US-China tensions. These concerned Taiwan along with potential new restrictions from the US administration on foreign direct investment into China.

Bonds

Overall, bond markets were calmer than in March. US bond yields were largely flat. The yield on US government bonds with 10-year expiry dates edged down from 3.47 percent to 3.42 percent (bond yields fall when bond prices rise), with the yield on two-year US government bonds dropping very slightly from 4.03 percent to 4.01 percent. Germany's 10-year yield increased from 2.29 percent to 2.31 percent. The UK 10-year yield rose from 3.49 percent to 3.72 percent and the two-year increased from 3.44 percent to 3.78 percent. All main corporate bond markets generated positive returns in April.

Commodities

The Bloomberg Commodity Index (a benchmark for investment in global commodities) fell in April as weaker prices for agriculture, industrial metals and energy offset price gains in livestock and precious metals. Agriculture was the worst-performing component of the index, with sharp falls in the price of wheat and corn. Within the energy component, heating oil, gas oil and unleaded gasoline all recorded price declines, while crude oil, Brent crude and natural gas all achieved modest price gains. The Opec+ nations, a group of 23 oil-exporting countries, announced production cuts of more than one million barrels per day.

Outlook

We have been gradually adjusting our investment outlook to accommodate a US economic slowdown as a result of higher interest rates. We have decided to adopt a negative stance on equities. The biggest risk to our view is that economic growth remains resilient for longer than we expect and that recession is postponed to 2024.

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 April 2023.

Equities	🔴	We believe the likely fall in company earnings, based on our expectations of an economic slowdown, is not reflected in current share prices.
Government bonds	🟢	Signs of inflation peaking, labour markets starting to weaken and growth slowing all suggest we are close to the peak in interest rates. Government bond prices often rise when interest rates fall.
Corporate bonds	🟡	Economic indicators still point to a slowdown and valuations on offer are not sufficiently attractive.
Commodities	🟢	The supply of commodities and commodities held as inventory by companies look stable, creating a neutral outlook for these assets. But we have a positive stance on gold, which we believe could benefit from peaking interest rates and a weaker US dollar. This leaves us with an overall positive stance on commodities.

	Legend
🟢	Positive outlook
🔴	Negative outlook
🟡	Neutral outlook

Source: Schroders, 11 May 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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