Monthly Review and Outlook — March 2023

Review

Turbulence in the financial sector drove global equity (share) markets down in the middle of the month. But markets recovered and ended March in positive territory overall.

US central bank the Federal Reserve (Fed) raised interest rates by 0.25 of a percentage point, as expected. This sent borrowing costs to their highest level since 2007.

In fixed income, turbulence in the banking sector drove up global government bond prices.

Company shares

UK equities fell during the month. Large financial and energy companies performed particularly weakly. But healthcare, utility and essential consumer goods companies, which can hold up relatively well in times of economic weakness, performed comparatively strongly overall.

US equities rose in March. The Fed raised its interest rate by 0.25 of a percentage point, as expected. But US inflation, as measured by the Core Personal Consumption Expenditure (PCE) index, climbed less than expected. This drove investor speculation that additional rate hikes will be limited. The Fed expressed confidence in the resilience of the US banking system, despite the Silicon Valley Bank (SVB) collapse in early March. Even so, financial companies generally performed relatively weakly in the month; information technology companies made stronger gains.

Volatility in the banking sector led eurozone shares to post a small negative return in local currency terms, as troubled Swiss investment bank Credit Suisse was bought by rival UBS. The financial sector, real estate and energy sector posted negative returns, while information technology and essential consumer goods companies made overall gains.

Asian equities (excluding Japan) performed slightly positively, despite volatile trading in early March, as investors' fears eased in the wake of the collapse of US bank Silicon Valley Bank. China's post-Covid reopening and encouraging economic data helped its stocks achieve positive returns. A weaker US dollar helped emerging markets rise slightly.

Bonds

Banking sector turmoil drove up global government bond prices. US and European high-quality (investment grade) corporate bonds also posted positive returns for the month. Higher risk (high yield) corporate bonds made only slightly positive returns. Yields on US government bonds with 10-year expiry dates fell from 3.92 percent to 3.47 percent (bond yields fall when bond prices rise). Yields on US government bonds with two-year expiry dates fell from 4.82 percent to 4.03 percent. Germany's 10-year yield decreased from 2.65 percent to 2.29 percent. The UK 10-year yield fell from 3.71 percent to 3.49 percent, and the two-year decreased from 4.07 percent to 3.44 percent.

Commodities

The Bloomberg Commodity Index, a benchmark for investment in global commodities, fell in March. Energy was among the worst-performing components of the index, with the price of natural gas falling sharply lower. But precious metals and industrial metals gained.

Outlook

We are all adjusting to a world of higher interest rates. One of the ways in which rates bite is by exposing investment speculation. This can lead to a cooling of investors' 'animal spirits' and to slower economic activity overall. Against this backdrop, a positive stance in government bonds could be appropriate.

We have a cautious stance on equities, given the risk of further financial stress and our expectations of an economic slowdown. We continue to like Chinese equities, partly due to their general cheap valuations.

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 March 2023.

Equities	🔴	We are cautious, given the risk of further financial stress and expectations of an economic slowdown.
Government bonds	🟢	We remain positive, as higher rates are beginning to bite and economic activity is showing signs of slowing.
Corporate bonds	🟢	We are positive, despite uncertainty over bank funding costs.
Commodities	🟡	Slowing global economic growth, combined with improved conditions for the production and transport of goods, suggests limited overall scope for commodity price rises. So we remain neutral.

	Legend
🟢	Positive outlook
🔴	Negative outlook
🟡	Neutral outlook

Source: Schroders, 13 April 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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