Monthly Review and Outlook

June 2023

Review

Global equities (shares) rose in June.

Bond markets had a period of calm after months of volatility.

US central bank the Federal Reserve paused rate rises, although there were further increases from other big central banks.

Company shares

UK equities rose in the month, driven by strong overall performances from large, diversified energy groups and from groups selling products that use natural resources as raw materials. Several domestic areas of the market performed relatively weakly as the Bank of England raised the UK interest rate to 5 percent.

US equities rose in June, amid signs of a resilient economy and a deal on government debt limits, while the Federal Reserve (Fed) left interest rates unchanged. Companies in the non-essential consumer goods, industrials and materials sectors performed strongly overall, but utilities companies generally performed relatively weakly.

A strong overall performance from companies in the non-essential consumer goods and financials sectors helped eurozone equities to rise in June. The European Central Bank (ECB) raised interest rates by 0.25 percentage points, as expected. Data indicated slowing momentum in the economy, with the eurozone composite purchasing managers' index, which measures the direction of manufacturing trends, falling in June.

Asian equities (excluding Japan) performed positively in the month. Equity markets rose in India and Hong Kong, while those in Thailand, Malaysia and Indonesia declined. Share prices in China rose modestly, recovering somewhat from sharp falls in May. Emerging market (EM) equities in general made positive returns but they performed less strongly than global equities.

Bonds

Bond markets were relatively calm in June, following months of volatility. Government bond prices in developed markets generally fell, but the price rose for Italian government bonds with a 10-year expiry date. The ECB continued to raise interest rates, despite signs of slowing growth in the manufacturing sector. The Bank of England delivered a surprise 0.5 percentage point interest rate rise. The US Federal Reserve, despite leaving interest rates unchanged, signalled it would likely resume rate rises in the near future. Corporate bonds, from high-quality (investment grade) to higher risk (high yield), generally performed more strongly than government bonds. Global high yield bonds performed more strongly than global investment grade bonds in the month.

Commodities

In commodities, the Bloomberg Commodity Index (a benchmark for investment in global commodities) rose in June. Livestock and energy performed relatively strongly, while precious metals fell. Within energy, natural gas rose sharply. In precious metals, the price of both gold and silver fell in the month.

Outlook

We continue to expect the US economy to slow as we move into 2024. But we don't now believe this slowdown is imminent, so the short-term risk of a decline in corporate earnings has reduced. As a consequence, the stance we now have on equities is one of slight caution. We do, though, have a positive stance on US smaller companies due to the prospect of a postponed recession.

Regarding bonds, the main challenge is the yields (income) on US government bonds with long expiry dates are lower than the yields on US government bonds with short expiry dates (bond yields rise when bond prices fall). We have moved to a cautious stance on government bonds in general but are positive overall on corporate bonds, mainly due to the relatively large yields offered by high-quality European corporate bonds.

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 June 2023.

Equities	🔴	We have a slightly cautious view on equities despite postponing our expectations on the timing of a global economic slowdown.
Government bonds	🟡	We have moved from a positive to a neutral stance as the yields on US government bonds with long expiry dates are now lower than the yields on US government bonds with short expiry dates.
Corporate bonds	🟢	We have moved from a neutral to a positive overall stance, mainly due to the relatively large yields offered by high-quality European corporate bonds.
Commodities	🟡	We remain neutral as economic demand for commodities from China has been weaker than expected and as the supply of industrial metals has increased.

	Legend
🟢	Positive outlook
🔴	Negative outlook
🟡	Neutral outlook

Source: Schroder Investment Management and Schroders Personal Wealth, 12 July 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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