MONTHLY REVIEW – JUNE 2023

OUR PERSPECTIVE

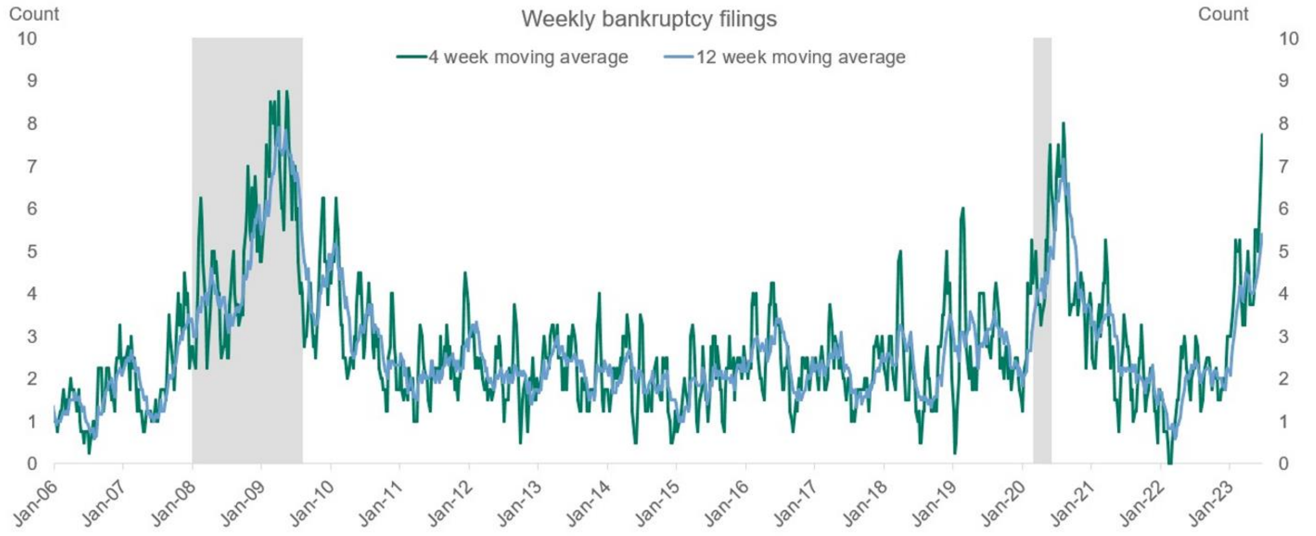
As we come to the mid-year junction it would appear that a recession in the UK is all but set in stone. Inflation has proven to be more persistent than anticipated, leading the Bank of England to continue raising interest rates. While this "higher for longer" approach may have initially benefited the pound through repriced interest rate differentials, tightening credit and increasing the cost of capital will ultimately slow economic growth and put renewed pressure on the currency. A weaker pound will further exacerbate inflation risks, potentially resulting in a deeper and more prolonged recession.

Interest rates everywhere have risen at a historically unprecedented rate, and corporate debt in the developed world is at historically unprecedented levels. In recent years corporates have been able to refinance at unjustifiably low levels. However, **the refinancing cycle is probably over for now!**

As we write this month's commentary, we ask ourselves what this means to credit markets globally. We certainly do not believe the bankruptcy of Thames Water is an isolated case, the question is whether it will be anything as bad as 2008 / 09?

Focusing on the UK, we anticipate a continued contraction in consumer sentiment and demand in the coming months. However, a collapse in demand will also drive down inflation; and considering the strength of the labour market, it could be argued that the recovery might arrive sooner than expected. It is important to remember that whilst situations are often not as promising as hoped, they're rarely as dire as they may seem.

Chart 1: US Bankruptcy filings rising at an extraordinary rate in recent weeks:



Source: Apolloacadamy.com, Bloomberg, Apollo Chief Economist. Note: Filings are for companies more than $50m in liabilities. For week ending June 21, 2023.

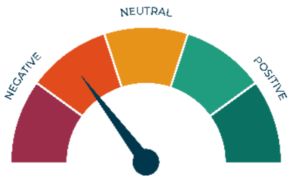
MARKET SNAPSHOT

				Total Return		
	Index	**Currency**	**As at Previous Close**	**MTD**	**YTD**	**1 Year**
Equities	Bloomberg World Equity Index	USD		5.78%	13.92%	16.49%
	Bloomberg World Equity - Growth	USD		5.77%	18.72%	18.56%
	Bloomberg World Equity - Value	USD		5.69%	5.51%	11.34%
	Bloomberg UK Equity Index	USD		4.09%	8.81%	13.48%
	Bloomberg US Equity Index	USD		6.65%	16.96%	19.46%
	Bloomberg Europe ex-UK Equity Index	USD		5.17%	16.30%	26.18%
	Bloomberg Japan Equity Index	USD		4.40%	13.88%	19.19%
	Bloomberg Asia ex-Japan Equity Index	USD		2.50%	2.56%	-1.87%
	Bloomberg Emerging Market Equity Index	USD		3.40%	3.97%	0.10%
Fixed Income	Bloomberg Global Aggregate Index	USD		-0.01%	1.43%	-1.32%
	Bloomberg US Treasury Index	USD		-0.75%	1.59%	-2.13%
	Bloomberg US Corporate Bond Index	USD		0.41%	3.21%	1.55%
	Bloomberg UK Gilt Index	GBP		-0.49%	-3.91%	-15.54%
	Bloomberg Sterling Corporate Bond Index	GBP		-1.23%	-1.03%	-6.91%
	Bloomberg EM Hard Currency Aggregate Index	USD		1.49%	3.30%	5.64%
	Bloomberg EM Local Currency Govt Index	USD		-0.03%	1.95%	2.00%
Commodities	Gold Spot $/Oz	USD	$ 1,919.35	-2.21%	5.23%	6.20%
	LME Copper Spot ($)	USD	$ 8,322.05	3.12%	-0.51%	0.82%
	Oil - Brent ($)	USD	$ 75.41	3.78%	-12.22%	-34.32%
	Bitcoin ($)	USD	$ 30,598.70	12.56%	85.00%	59.05%
Currencies	GBP-USD FX-Rate	USD	$ 1.27	2.11%	5.13%	4.31%
	EUR-GBP FX-Rate	GBP	£ 0.86	-0.01%	3.03%	0.19%
	USD-JPY FX-Rate	JPY	¥ 144.31	-3.44%	-9.14%	-5.95%
	EUR-USD FX-Rate	USD	$ 1.09	2.06%	1.91%	4.05%

Source: Bloomberg L.P., 30/04/2023

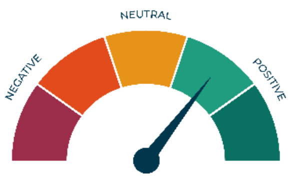
EQUITIES

Sentiment continued to improve, and the US equity rally broadened out as small and midcap companies outperformed their large cap peers. At the end of May, US small and midcaps were still in negative territory for the year, and now they are up 7% to 8%. The rally comes as the Fed took a pause in their hiking cycle in early June. The Fed hinted they will continue raising rates again later in the year. Whilst we didn't participate in the June rally to the extent we would've liked to, we're happy being UW equities given where we are in the macroeconomic cycle and what valuations seem to infer.



FIXED INCOME

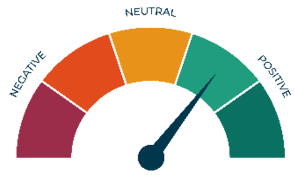
A pause in the Fed's hiking cycle had little impact on fixed income markets as the treasury market were relatively sanguine and credit marginally outperformed. In the UK inflation surprised to the upside and the Bank of England were forced to hike a further 50 basis points and the ECB followed suit. We retain a significant bias towards treasury markets with some short-term inflation-linked exposure. We retain however a significant UW towards credit markets given fears surrounding liquidity and credit risk.



REAL ASSETS

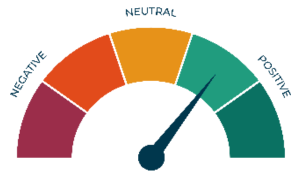
More rumours spread surrounding the impending collapse of the commercial real estate market. We note that things are rarely as bad as bear-pundits forecast, but certainly the extent and pace of the hiking cycle and tightening of lending standards will not be without consequences and we definitely share some of the concerns. We remain underweight property given prices do not reflect the significant re-pricing of interest rates and of weakening demand. We retain conviction in the infrastructure space, especially in the renewable and digital infrastructure.

Within the commodity complex, whilst positive on the longer-term trends, the near term the risk of an economic downturn could put further pressure on already weak prices, and we remain underweight. We retain however a significant overweight position in gold.



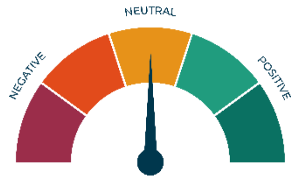
SPECIALIST STRATEGIES

Specialist strategies continue to play a significant stabilising role within our portfolios. Our managed futures & trend following exposures continue to see a recovery and has had a strong Q2 following a difficult Q1. Our market neutral exposures continue to deliver solid results. We retain limited exposure to private markets and retain concerns regarding NAV and risks of mark downs.



CURRENCIES

Generally, we remain neutral on currencies. On the margin we note that whilst inflation and interest rate differential would support a stronger USD, the risks of devaluation and trust in the US political systems remain longer-term concerns. We retain our positive view on the Japanese Yen, which we believe is both undervalued and under-owned, with potential catalysts for a revaluation higher.



CONTACT US

For further information on any of our services, or if you would like to arrange a meeting with an investment manager to see how we can work with you, please get in touch.

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