MONTHLY INVESTMENT REVIEW

May 2023

VINTAGE ASSET MANAGEMENT

Over the month of April markets mostly saw some positive progress on the basis that the inflationary pressures were easing and that company profits were proving resilient.

There was also a sense that the banking sector crisis might prove short-lived, although the travails at First Republic have shown the way in which deposits can be withdrawn swiftly, in this case at a rate of $100bn in March if on a more limited scale in April. The bank became one of the largest to fail in the US, after Washington Mutual in 2008 and Silicon Valley Bank (SVB) in March. As with SVB there has been a rescue deal, with JPMorgan Chase taking over the deposits and most of the bank's assets. There have been specific issues at each of the banks that have floundered this year, including Credit Suisse, and there are likely to be further failures in the sector, especially in the US, as the end of an era of low interest rates expose the weak business models and poor habits of some companies. As before this need not presage a wider financial crisis, given that the financial sector is broadly in better shape than in 2007-2009, but there will be nervous moments in a world which faces a number of challenges, such as the level of the federal debt in the US.

The indicators on global economic activity have remained mixed. The International Monetary Fund (IMF) reduced its forecast for global growth a little for 2023, expecting output in the US to increase by 1.6% as against 0.8% in the eurozone and a possible decline of 0.3% in the UK - the economy here remains lacklustre although Standard & Poors upgraded its rating on the country's outlook from negative to stable as short-term risks have diminished. Trade with the EU has declined (at 42% of the total in 2022 as against 50-55% between 1999 and 2007), while the agreement to join the Trans-Pacific Partnership in the Asia-Pacific region might prove to be of limited benefit. The Fund noted the increased uncertainty arising from the banking crisis as well as a risk that investors might be too confident on the trajectory of future interest rate moves.

The number of personal computers shipped in the first quarter of 2023 was about a third lower than in 2022, reflecting lower business investment if also the ending of peak pandemic demand. China saw a sharp rise in exports in March after five months of declines, with particular demand for electric vehicles and solar panels, although the latest data shows that factory output has stalled. The Chinese economy expanded at a reported rate of 4.5% in the first quarter, ahead of expectations if a little behind the government's target of 5% for the year, and the recovery from the lock-down has been patchy, as the inflation rate of just 0.7% in March suggests. In the US the housing market has been slower and non-farm payrolls rose by a more modest amount of 236,000 in March.

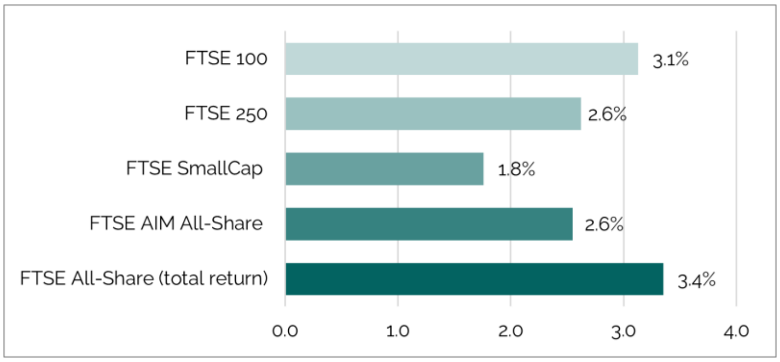
The rate of inflation has been stubbornly high in many areas, particularly in the UK where the consumer price index (CPI) remained over 10%, with the highest rise in food prices for forty-five years the main factor in only a modest dip to 10.1% in March. In the eurozone the core rate had moved up from 5.6% to a new high of 5.7% even as the overall rate in March fell to an annualised 6.9% from 8.5% the prior month. In the US the core inflation rate rose to 5.6% although a fall in gas and petrol prices contributed to a decline in the overall rate to 5%, the lowest since May 2021. However, the OPEC+ cartel announced a further cut in oil production of 1.15m barrels a day, to make a proposed total cut of 3.7m barrels or some 3.7% of global demand. The oil price rose, to offset some of the weakness that followed increased fears of a recession following the banking crisis.

The US Federal Reserve has needed to evaluate a range of factors in monetary policy to ensure that inflation falls to its target of 2%, although the US economy has shown signs of a recession while the banking crisis is likely to contribute to slowing economic growth, given some likely tighter regulation on lending. The central bank is expected to raise interest rates again in May although it may yet reduce them later this year. The European Central Bank and the Bank of England are also expected to raise their own base rates a little further. The new governor of the Bank of Japan, Kazuo Ueda, formally started his term and has tentatively moved to end the ultra-loose policy of negative interest rates and controlling the yield curve on government bonds.

Political and geopolitical issues have been complex. President Xi of China has been prominent, negotiating agreements and meeting leaders, although France's President Emmanuel Macron may have rued his visit, while the president of the European Commission Ursula van der Leyen was somewhat snubbed given her more hawkish approach. President Joe Biden of the US marked the 25th anniversary of the Good Friday agreement with a visit to Ireland, his ancestral homeland, then announced that he would run for a second term at the end of which he would have reached the age of eighty-six. China stepped up its military drills in relation to Taiwan in response to a meeting between Tsai Ing-wen, Taiwan's president, and the speaker of the US House of Representatives. The war in Ukraine appears set for a new stage and the fighting in Sudan has added to the pressures in that region.

Companies have mostly responded well to the issues they face and many have beaten reduced market expectations. Businesses have increased prices without too heavy an impact on demand and have managed to maintain margins. Innovative technology has driven investment or corporate activity, in medicine and especially in the realm of Artificial Intelligence, still a transformative development if fraught with potential issues such as false imagery.

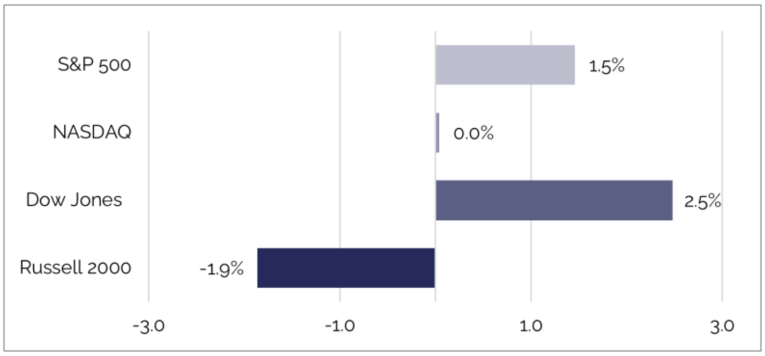
United Kingdom



The FTSE 100 index was 3.1% higher over the month to close at a level of 7871, which reversed the loss in March and left it up 5.6% over the year to date. The FTSE 250 index of mid-sized companies rose by 2.6% and the FTSE SmallCap index by 1.8%, while the FTSE AIM All-Share was up by 2.6%.

The total return for the FTSE All-Share index including income was 3.4% in the month to make 6.5% for the year to date.

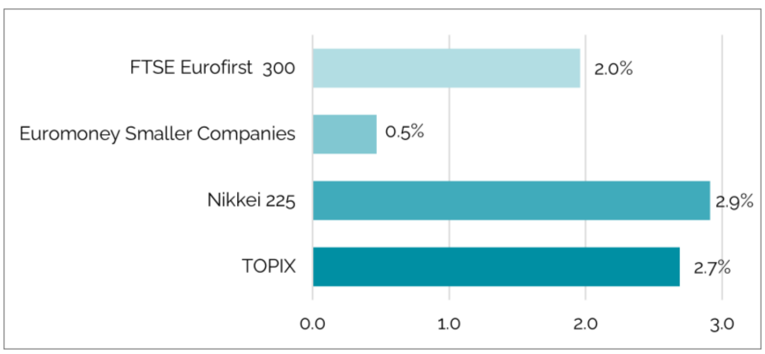
United States



In the US the S&P 500 index was up in the month by 1.5%, which meant it was 8.6% higher over the course of 2023, although just seven large constituents accounted for four-fifths of this rise.

The technology-oriented NASDAQ index rose marginally by 0.04% and the more value-oriented Dow Jones Industrials was up 2.5%, while the Russell 2000 index of smaller companies fell again, by 1.9%.

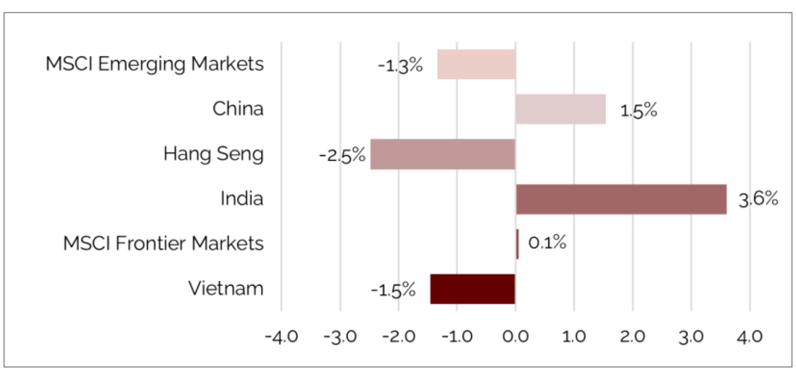
Europe & Japan



In Europe the FTSE Eurofirst 300 index rose by 2% over the month, when Germany and France did better than Italy and Spain in the major markets, while the Euromoney index of smaller companies rose by a more modest 0.5%.

In Japan the Nikkei 225 index rose by 2.9% over the month and the TOPIX by 2.7%.

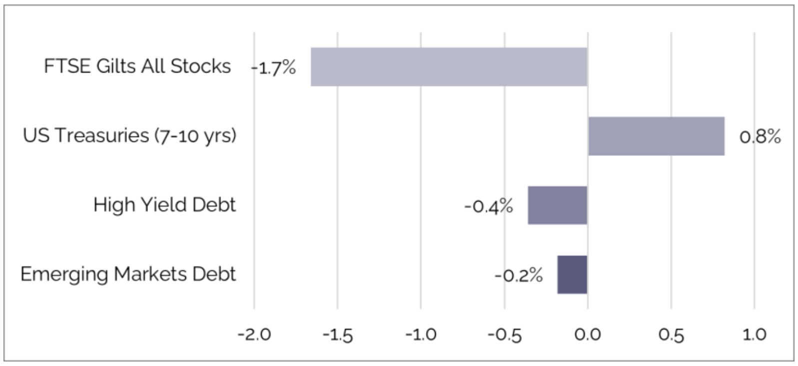
Emerging Markets



The MSCI Emerging Markets in US$ was down by 1.3% in the month, with currency a factor. The Indian market rallied by 3.6% and the Brazilian market was up by 2.5%. The Chinese Shanghai index rose 1.5%, although the Hang Seng index in Hong Kong was down by 2.5%.

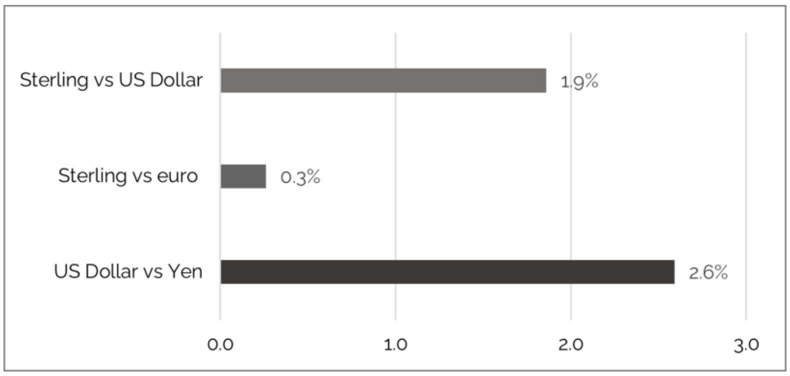
The MSCI Frontier Markets index gained by a marginal 0.05% and the Vietnamese market was down by 1.5% in the month.

Bond markets



In bond markets, the UK 10-year gilt yield rose from 3.49% to 3.72%, similar to the 3.67% at the start of the year, and the total return for the FTSE Gilts All Stocks index in the month was -1.7%. In Germany the 10-year bund yield rose slightly, from 2.29% to 2.31% while the US ten-year yield was a little lower at 3.42% as against 3.47% the prior month. There were mixed and limited moves across other fixed interest assets, with US Treasuries showing a small gain.

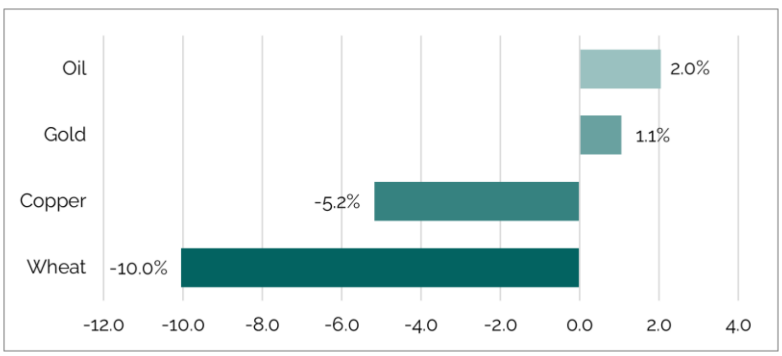
Currencies



Sterling gained by a further 1.9% against the US$ and closed at a rate of $1.26 which compared to $1.21:£ at the start of the year. Against the euro Sterling saw a small rise of 0.3% in the month to end at a rate of €1.14:£, still up a modest amount over the rate of €1.13:£ at the start of the year.

The US$ rose by 2.6% against the Japanese yen.

Commodities



The price of Brent oil closed 2% higher at $81 per barrel, while the volatile US natural gas price rose by 8% in the month. The price of gold saw a gain of 1.1% in April to $1990 per troy ounce. The prices of major metals were mixed in the month, with the bellwether copper down by 5.2% while platinum rose 8.4%, and the prices of the main agricultural commodities also varied, with wheat down a tenth and sugar up a fifth.

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Visit: vintageassetmanagement.co.uk

Find us at:
7a Wyndham Place,
London W1H 1PN

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