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JUNE 2023 – MONTHLY MARKET REVIEW

Market Performance%	Jun 23	YTD*
S&P500	+6.61%	+16.88%
NASDAQ	+6.66%	+32.32%
DAX	+3.09%	+15.98%
Nikkei	+7.56%	+28.65%
Hang Seng	+4.49%	-2.76%
MSCI EM	+3.83%	+5.02%

**Local Returns-to-date calculated as of month end*

Macro Developments

U.S.: Strong Growth, Moderated Inflation, and Weakening Fed Control.

Core retail sales and core durable goods orders both outperformed forecasts in May, while real estate activity recovered as well. Although the carefully regarded new orders sub-index rose to 45.6, still suggesting contraction, the ISM Manufacturing PMI fell to 46 in June. The unemployment rate increased to 3.7%, and new requests for unemployment benefits momentarily reached levels seen in late 2021, which are tepid signals of a softening job economy. On an annual basis, overall inflation dropped significantly to 4%, while core inflation only fell to 5.3%. Although the latest dot plot predicted two further 25-basis-point increases for this year, the Federal Reserve took a break for the first time in fifteen months, setting its target interest rate range at 5-5.25%.

Europe's activity slows, the UK CPI is disastrous, and monetary policy tightening is ongoing.

While composite PMIs in the UK and the Eurozone remained in expansion in June, business surveys continued to decline. The Eurozone entered a technical recession in 1Q, according to downwardly revised GDP numbers, while April's (+0.2%) growth in the UK's GDP was quite weak. Inflation in the UK was unsatisfactory: in May, the overall rate stayed at 8.7% YoY, while core inflation increased to 7.1%, its highest level since 1992. Although core inflation rose to 5.4% in June in the Eurozone, overall inflation fell to 5.5%. The ECB (+25 basis points to 3.5%), the BoE (+50 basis points to 5%), the SnB (+25 basis points to 1.75%), and even the Central Bank of Turkey (+650 basis points to 15%) all proceeded to increase interest rates. Political news includes the signing of the "Atlantic Declaration" by Sunak and Biden, which aims to increase trade and collaboration between the UK and the US in crucial minerals, military, and other sectors.

Japan's inflation is continuing, the People's Bank of China is less restrictive, and the BoJ is maintaining monetary easing.

China's economic recovery slowed down in May. Industrial production YoY fell to 3.5%, while retail sales fell to 12.7%. The non-manufacturing sector continued to expand in June, according to the NBS PMI indexes, while manufacturing had a slight decline. The People's Bank of China also announced slight reductions in a number of important interest rates. According to the Tankan surveys on business conditions in Japan, both the manufacturing and non-manufacturing sectors had a stronger second quarter. The Bank of Japan did not alter its yield curve control policy while core inflation increased to 4.3%, its highest level since 1981.

Market Impact

After Antony Blinken, the U.S. Secretary of State, unexpectedly met with Xi during his visit to Beijing, tensions between the two countries seemed to ease. Following a tumultuous month in May, market participation increased in June, with all sectors doing favourably. However, despite Saudi Arabia's new oil production cutbacks being announced at the OPEC+ summit, Brent crude only increased by 3.1% in June. Although European natural gas prices rose significantly last month (+38%), they are still over 90% below all-time highs. Global government debt fell by 0.1% (in USD, on a hedged basis), while global equity markets recovered by 5.8% in June.

Our Expectations

According to our projection, the current inflationary tendency is simply transitory and will soon wane. By the end of 2024, according to our baseline prediction, we expect CPI inflation to be below 3%. There is a general confidence that the present generation of people and businesses will avoid the economic difficulties experienced during the protracted period of inflation and the severe deflation that followed between 1970 and 1985.

This Economic Outlook report was prepared by the Aris PrimePartners Asset Management Investment team.

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