

JULY 2023 – MONTHLY MARKET REVIEW

Market Performance %	Jul 23	YTD*
S&P500	+3.11%	+19.52%
NASDAQ	+4.05%	+37.07%
DAX	+1.85%	+18.12%
Nikkei	-0.05%	+27.12%
Hang Seng	+6.15%	+1.50%
MSCI EM	+5.80%	+9.47%

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

Macro Developments

U.S.: Resilience of the economy; Cooling of inflation; Last Fed rate hike?

In 2Q, the U.S. GDP increased by 0.6%, exceeding estimates. The sub-index for new orders increased to 47.3 while the ISM Manufacturing PMI increased to 46.4 in July, both remained in "contraction". The labour market remained robust, as seen by the 3.6% unemployment rate in June and the decrease in weekly new claims for unemployment in July. In June, both the overall inflation rate and the core inflation rate in the US fell precipitously to 3% and 4.8%, respectively. The Federal Reserve's target range for interest rates was increased by another 25 basis points from 5.25% to 5.50%. Powell said the Federal Reserve's future policy "would depend on the data."

Europe: Uneven growth, irregular deflation, and further ECB rate increases

In 2Q, the economy of the eurozone expanded by 0.3%. The UK's monthly GDP figures showed a little decline in GDP in May, although basic retail sales rose by 0.8% in June. In July, the composite PMI indexes for the eurozone and the UK both fell. With manufacturing figures reaching a record low at 42.7, the eurozone is no longer in expansion. The trend of inflation has been erratic, with core inflation remaining at 5.5% in July despite a drop in total eurozone inflation to 5.3%. With core inflation at 6.9% and total inflation at 7.9% in June, the UK's inflation rate remained high. Another 25 basis points were added to the ECB's deposit interest rates, bringing them to 3.75%, and Lagarde promised that future rate

decisions would be made with an "open mind." Spain's general election results resulted in a deadlock in politics as the right-wing PP was unable to obtain a majority.

Rest of the world: Surprise from the Bank of Japan; Disappointment with China's GDP; Politburo meeting

China's GDP expanded less than anticipated in the 2Q at 6.3%. With total inflation decreasing to 0% in June, retail sales growth slowed, and the real estate market remained weak. The manufacturing sector continued to decrease to 49.3 in July, according to preliminary NBS PMI data, while the non-manufacturing sector expanded at a slower rate of 51.5. Core inflation in Japan marginally decreased to 4.2% in June. Markets were taken aback by the Bank of Japan's revisions to its yield curve management strategy, which increased the range around its objective of 0% for 10-year government bond rates to 100 basis points (from 50 basis points).

Market Impact

Stock market involvement surged as a result of a broad cyclical upswing that brought stocks to new yearly highs. Global government bond prices marginally fell by 0.3% in July, while global equities increased by further 3.7%. After the United States and China resumed negotiations last month during Treasury Secretary Yellen's visit to Beijing, geopolitical risks decreased. There were no developments on Ukraine's membership demands during the NATO summit, and Turkey no longer opposes Sweden's admission. The increase in commodity prices in July was partially attributed to better growth outlooks (oil +14.2% and copper +5.7%). Due to Russia's suspension of its Black Sea grain agreement, wheat prices increased by +4.6%. Lastly 2Q earnings reports from the United States showed a fall of -7.3%, which was in line with predictions.

Our Expectations

Macroeconomic data suggest that economic growth will moderate, and pricing pressures will ease in August 2023. Due to a projected rise in inflation and better economic performance than Europe, the US dollar is anticipated to recover. Inflation in Japan seems to be peaking, while China's data is becoming opaque.

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

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