Wealth Management
Weekly Market Update

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Market Update

US stocks rose by +0.3% in local terms this week, but fell in Sterling terms due to currency fluctuations. The rise in US Dollar terms brought the index to +20% above its October lows – reaching the widely used definition of a bull market. This rally was mostly due to technology stocks which added almost +14% to US returns year to date. UK and EU stocks fell by half a percent each as European Central Bank President Christine Lagarde stressed that underlying inflationary pressures remain high and that more interest rate hikes may be necessary. Japanese stocks continued their recent strength, rising by +1.2% to multi-decade highs. The potential end to Japan's decades of deflation has spurred investor interest in recent months, and an upward revision to Japan's first quarter growth this week supported this sentiment. Emerging market equities advanced modestly, by +0.2%. Over the week, markets started pricing in a modestly higher chance of an interest rate hike at the Federal Reserve's upcoming meeting (from a 24% to a 30% probability) and this was reflected in bond yields and oil prices. Bond yields rose across the UK, US and Germany by 8.3 bps, 5.3 bps and 6.5 bps respectively, while oil prices fell by -2.9%.

UK Stocks	US Stocks	EU Stocks	Global Stocks	EM Stocks	Japan Stocks	Gilts	GBP/USD
▼ -0.5%	▼ -0.5%	▼ -0.5%	▼ -0.5%	▲ +0.2%	▲ +1.2%	▼ -0.3%	▲ +1.0%

all returns in GBP to Friday close

Macro News

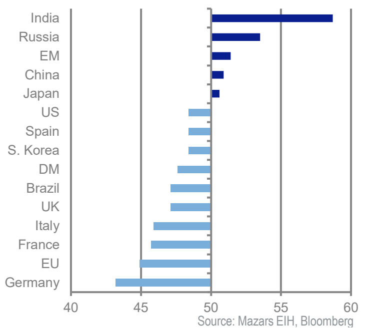
- Manufacturing PMIs in May showed strength in emerging markets. India's PMI manufacturing PMI rose to a 31 month high of 58.7 as demand for Indian products surged locally and internationally. However developed market PMIs were mostly in contractionary territory as high interest rates hampered activity. Services PMIs saw strong growth across regions, with India once again standing out with a reading of 61.2
- Revised data from the EU's statistics agency Eurostat showed that the eurozone has been in a technical recession, or two consecutive quarters of negative growth, since the start of the year. The revision showed that eurozone GDP fell in Q4 2022 and also Q1 2023.
- Japan's first quarter GDP growth was revised upwards from 1.6% to 2.7%, exceeding forecasts from economists. The revision was due to stronger capital expenditures by companies.

The Week Ahead

- Investors will be eagerly anticipating US inflation data, along with the Federal Reserve's interest rate decision. US retail sales will also be released on Thursday. Elsewhere, the ECB will also make an interest rate decision, and the UK will be releasing employment and GDP data.

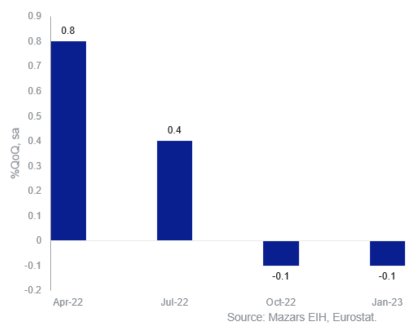
Week in Charts

Weak manufacturing in developed markets
Manufacturing PMIs by country (May)



Manufacturing fared better in emerging markets than in development markets in May. India showed particular strength as demand surged, while Germany's PMI fell at its fastest rate in three years.

Europe falls into technical recession
Real GDP (%QoQ, sa)



The Eurozone fell into technical recession at the start of 2023, according to data from Eurostat, which showed that GDP contracted in Q4 2022 and Q1 2023.

View From the Desk

For four hundred and twenty three years, Hamlet, Prince of Denmark, has presented audiences with the ostensibly ultimate dilemma: To Be, or Not To Be. This monologue is considered the Shakespearean epitome of philosophy, a journey through the inner depths of existence. What never ceases to amaze me is how great a writer William Shakespeare of Stratford-Upon-Avon was, how well he presented his argument, that in more than four centuries, almost no one called it out as a false dilemma.

Shakespeare is great for philosophy. However, as a Greek, I'll let you in on a little secret about philosophy. Most of it is about abstract, non-real life dilemmas, a play on words. Achilles will simply outrun the tortoise. I can do that too. The Ship of Theseus gets the same number of visitors whether the planks are new or old.

These 'thought experiments' are no more than a simple illustration that languages and mathematics are flawed. That there are dead ends to human thinking. Interestingly, these dead ends become most visible when we try to boil complex situations down to binary outcomes.

It is the same when thinking about interest rates. At 5%+ the question isn't whether rates will tighten a bit more. The question is how many investors, businesses and consumers are really ready for a credit crunch.

This week, the FOMC will decide whether it will hike interest rates once more, or whether it will pause. Traders and investors, who are faced with the dilemma of whether the Fed will hike or not, face, pretty much, the same situation as Hamlet: A false dilemma.

But truth is, ***it doesn't matter***. Fed officials have been explicit that at 4.9%, the inflation number is very far from their target and will continue to press on. Some want a pause, some a hike, and if anything is certain is that we are seeing fissures between members of the rate-setting committee.

Ultimately, whether we have one more rate hike ahead of us, or two, or even none, is largely irrelevant from a long-term investing perspective. **Money is the most expensive it's been for a long time and will likely become even more so.** Companies made decisions several years ago, assuming that the global debt burden and secular stagnation would keep rates permanently low.

Yet that world view has now collapsed. Credit conditions will most probably continue to tighten for the next year, as the more recent hikes have yet to take effect. Rates are bound to go higher, while bank credit standards are also tightening, a result of the recent banking crisis. And a deluge of US credit issuance, following the lifting of the debt ceiling, will probably push yields higher.

This means that companies who relied on cheap money, as opposed to a clever business plan, will find themselves under pressure. Some will fail. It means consumers will be forced to become more frugal. But most importantly, it means that fund managers who saw the world like Hamlet, 'Risk on or Risk off', will have to adapt to a more complex environment. Those who get it, have a chance at beating their benchmarks. Those who don't? Well, 'Not to Be' might be the option they will be left with.

George Lagarias – Chief Economist

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