MONTHLY REVIEW – AUGUST 2023

OUR PERSPECTIVE

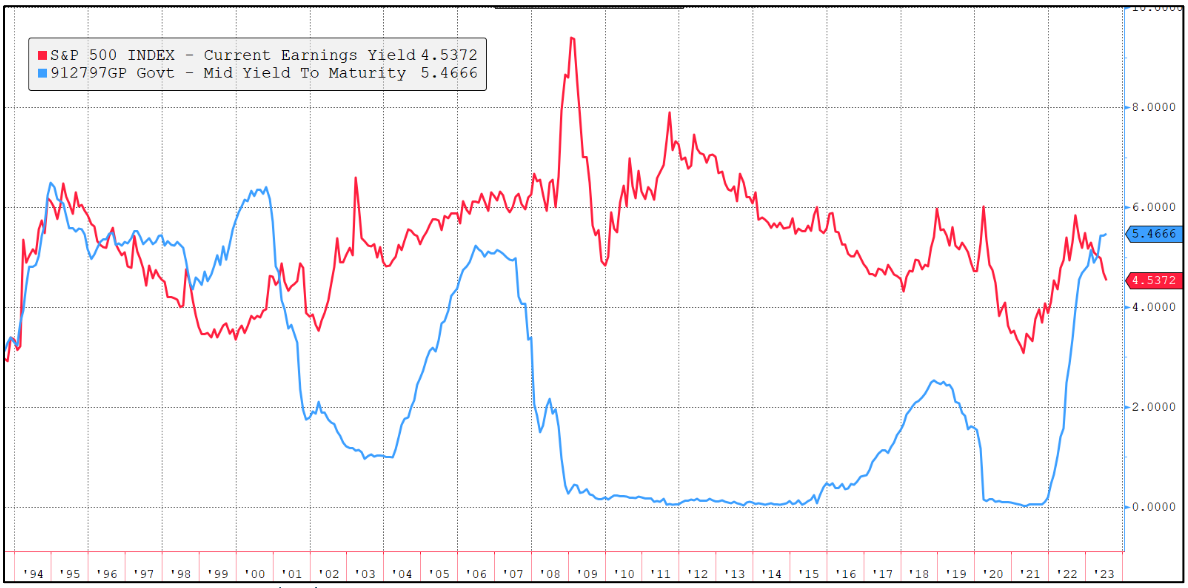
We now have 2nd quarter earnings results for the majority of companies in the S&P 500. The key question we ask ourselves this month is: whether the cracks we saw in corporate America and profit margins at the end of 2022 and in Q1 this year are on the mend, or whether deteriorating credit conditions are a sign of worse to come?

In aggregate, earnings per share (EPS) for companies in the S&P 500 fell for a third straight quarter, finishing down -4.1%. However, this was better than the -7% expected at the start of the reporting season. More importantly, the market's expectations for earnings in the third quarter and indeed for 2023 as a whole, are now positive, pointing to a robust recovery in US corporate profits. Certainly, this quarter is the first in 2 years where analysts are raising their quarterly earnings expectations for the S&P 500 into positive territory.

Whilst the relatively strong quarter was driven by companies with a greater focus on the US consumer and a handful of technology companies, looking under the bonnet it's clear that the aggregate results hide the pressure on companies in more cyclical sectors, the declines in manufacturing and difficulties to refinance debt. At the end of August, the US equity market is up almost 20% in 2023, with the price of the S&P 500 a mere 5% below its all-time at the end of 2021.

The reality is that the consequences of higher interest rates and tighter credit conditions are only now starting to show up. The probability of a rising default cycle, financial contagion, and a deteriorating labour market are definitely not reflected in valuations. Selectively, opportunities in the US market, and globally, definitely exist. But now is the time to be selective, embrace active management, and consider increasing that dry powder that is giving you a 5% plus risk free return!

Chart: The earnings yield on 6-month treasury bills are greater than the earnings yield on US equities for the first time since 2001.



Source: Bloomberg L.P., 31/08/2023

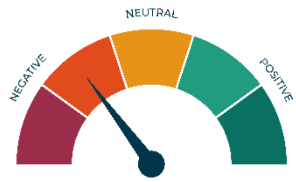
MARKET SNAPSHOT

				Total Return		
	Index	**Currency**	**As at Previous Close**	**MTD**	**YTD**	**1 Year**
Equities	Bloomberg World Equity Index	USD		-2.77%	14.79%	13.83%
	Bloomberg World Equity - Growth	USD		-2.33%	19.58%	14.34%
	Bloomberg World Equity - Value	USD		-3.67%	6.18%	11.08%
	Bloomberg UK Equity Index	USD		-3.95%	7.91%	14.96%
	Bloomberg US Equity Index	USD		-1.72%	18.90%	15.54%
	Bloomberg Europe ex-UK Equity Index	USD		-4.09%	14.79%	25.91%
	Bloomberg Japan Equity Index	USD		-2.55%	14.15%	15.98%
	Bloomberg Asia ex-Japan Equity Index	USD		-5.67%	2.41%	-1.15%
	Bloomberg Emerging Market Equity Index	USD		-5.54%	3.86%	-0.19%
Fixed Income	Bloomberg Global Aggregate Index	USD		-1.37%	0.74%	-0.09%
	Bloomberg US Treasury Index	USD		-0.52%	0.70%	-2.07%
	Bloomberg US Corporate Bond Index	USD		-0.78%	2.76%	0.90%
	Bloomberg UK Gilt Index	GBP		-0.53%	-3.63%	-10.30%
	Bloomberg Sterling Corporate Bond Index	GBP		-0.21%	1.12%	-1.52%
	Bloomberg EM Hard Currency Aggregate Index	USD		-1.20%	3.26%	3.98%
	Bloomberg EM Local Currency Govt Index	USD		-1.68%	2.18%	2.41%
Commodities	Gold Spot $/Oz	USD	$ 1,940.06	-0.22%	6.36%	14.29%
	LME Copper Spot ($)	USD	$ 8,411.00	-1.34%	1.37%	10.81%
	Oil - Brent ($)	USD	$ 86.08	4.29%	3.07%	-4.13%
	Bitcoin ($)	USD	$ 27,368.49	-11.32%	56.13%	29.32%
Currencies	GBP-USD FX-Rate	USD	$ 1.27	-1.46%	4.20%	9.05%
	EUR-GBP FX-Rate	GBP	£ 0.86	0.43%	3.42%	0.64%
	USD-JPY FX-Rate	JPY	¥ 145.79	-1.97%	-10.33%	-4.11%
	EUR-USD FX-Rate	USD	$ 1.09	-1.86%	0.70%	8.39%

Source: Bloomberg L.P., 31/08/2023

EQUITIES

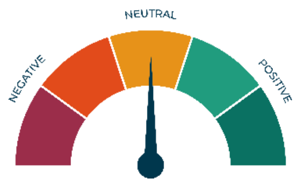
Equity markets globally struggled, especially Chinese equities, which in some instances, were down double digits over the course of August. Sentiment and news flow on China is as negative as we've seen, and valuations are very attractive. How bad things might get remains to be seen, but the economic, demographic and financial headwinds are real. That said, security specific opportunities are bound to arise as market participants deem China to be 'un-investable'.



On the other side of the pond, US earnings season are drawing to a close. US corporates posted a third straight quarter of negative YoY earnings growth. As discussed above, the key question is whether a corporate profit recession is all we'll see, or whether a broader economic recession is on the horizon.

FIXED INCOME

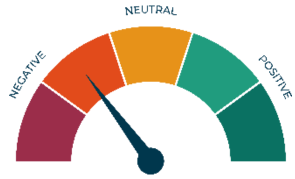
Yields rose as sentiment towards continued disinflation faded. Yields in western economies remain inverted, especially at the shorter end as bond markets price in rate cuts in over the next 12 months. Given the demographic headwinds in debt-laden western economies, Gilts and Treasuries offering yields of 5% plus, looks attractive. Given we struggle to see how long-term inflation risks remain elevated in the absence of new quantitative easing programs, longer duration bonds offer attractive risk-reward and diversification away from risk-assets.



Whilst credit spreads widened marginally, the significant slowdown and material risks we are seeing in credit markets are not being priced accordingly and we remain underweight.

REAL ASSETS

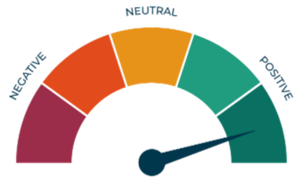
Energy commodity price increased on the back of continued supply cuts and geopolitical uncertainty. The disinflationary benefits of the collapse in energy prices over the last 12 months are most likely behind us. Energy aside, commodities had a tough month generally, and most declined in value.



Listed Real Estate markets also struggled, in line with equity markets. The underlying economic data does not reflect a robust demand outlook. We struggle to see how commercial real estate markets avoid a more severe de-rating given the differential between cap-rates and short-term government bond yields.

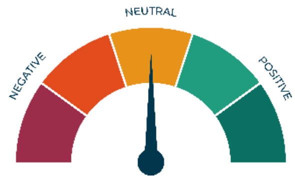
SPECIALIST STRATEGIES

Our specialist strategies continue to play a significant stabilising role within our portfolios. Our managed futures & trend following exposures continue to deliver strong performance and hour market neutral and relative value hedge fund exposures had a very strong August. We retain limited exposure to private markets, both credit and equity, given our concerns regarding debt and the refinancing cycle.



CURRENCIES

Generally, we remain neutral on currencies. On the margin we note that whilst inflation and interest rate differential would support a stronger USD, we also retain some conviction in continued strength in GBP. The US Dollar however remains the global reserve currency of choice, and in a severe market sell-off, we expect it to do well. Indeed, the US Dollar Index appreciated about 1.7% over the course of August. We also retain our positive view on the Japanese Yen, which we believe is undervalued with clear catalysts for a potential revaluation on the horizon.



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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