

momentum
global investment management

G | globalmatters

Global Matters | Monthly

Market Review

May 2023

With us, investing is personal

m

Contents

Global market review & outlook

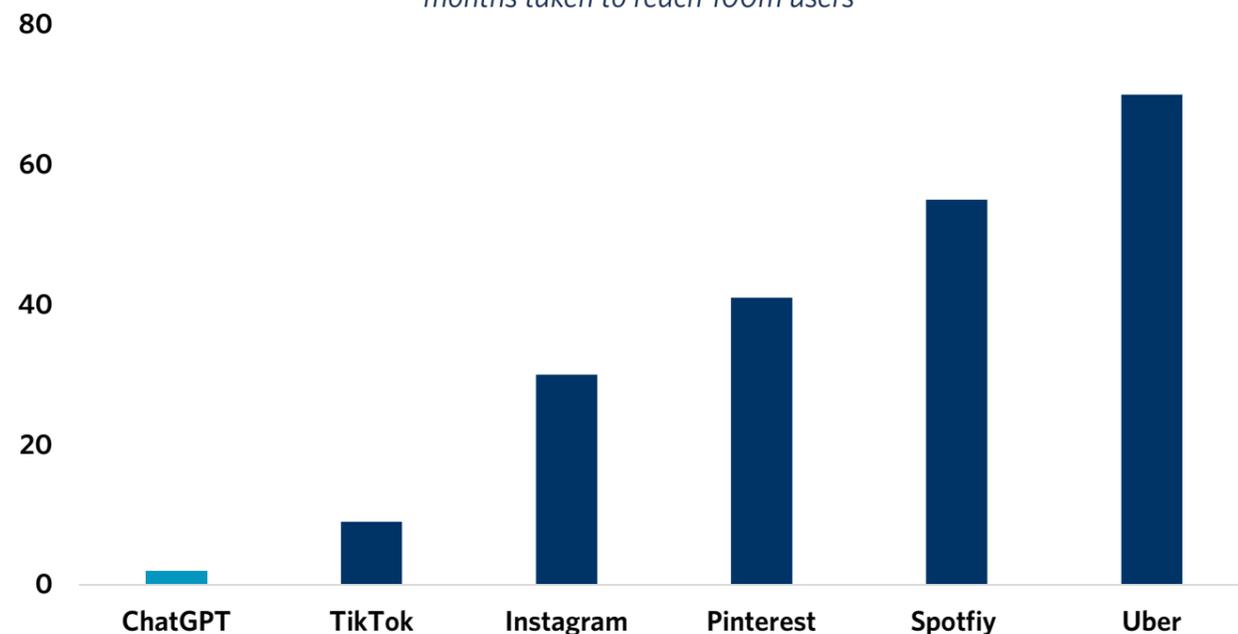
A month which began with the collapse of another large bank in the US, First Republic, and dramatic falls in the share prices of several other regional banks, ended with the euphoria of the rapidly unfolding AI boom reflected in extraordinary share price gains for the major beneficiaries, most notably Nvidia, whose share price gained 36% in May, taking its return YTD to 160% and a market cap of \$1trn. In between, markets worried about a US default, as negotiations to extend the Federal debt ceiling came down to the wire, and the increasingly challenging trade-off faced by central banks in controlling inflation whilst maintaining financial stability and avoiding recession.

Headline market returns for broad asset classes in the month masked considerable intra-month volatility, while within equities an extraordinarily narrow cohort of stocks dominated returns. The broad US equity market was little changed in May, with the S&P 500 index returning 0.4%, yet the FANG+ index of ten major US tech stocks was up by 17%, and the S&P 500 index of equally weighted stocks fell by 3.8%. Weaker markets in Europe, the UK and Asia ex-Japan, along with a recovery in the dollar, held back the MSCI World index of developed markets, which fell by 1%, while emerging markets fell by 1.7%, pulled down by a drop of 8.4% in China as the post-Covid growth surge appeared to be fading.

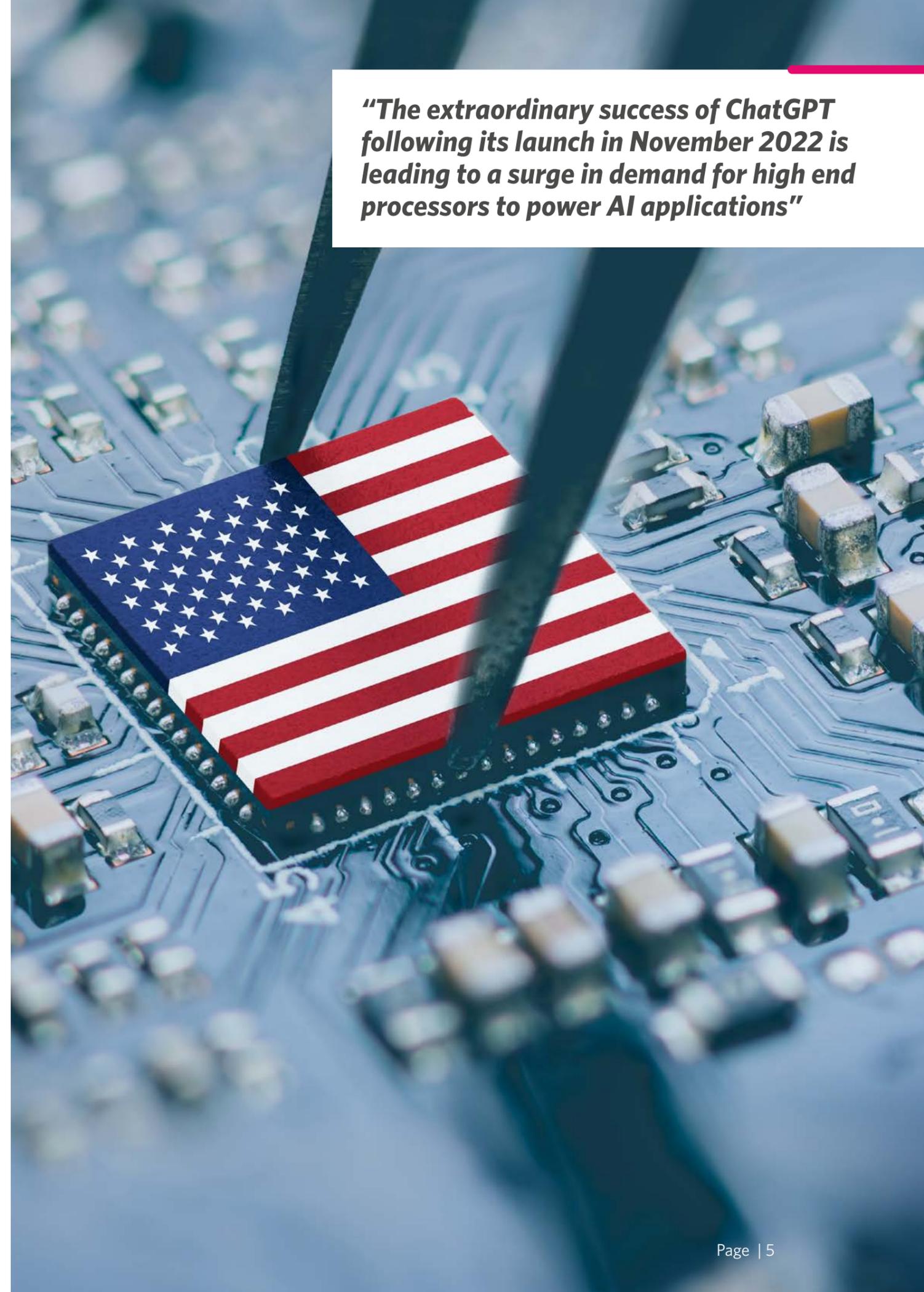
The extraordinary success of ChatGPT following its launch in November 2022 is leading to a surge in demand for high end processors to power AI applications, of which Nvidia is a leading supplier, and an acceleration in the race to embrace the AI boom. Once again, the US is the leader in this wave, with spill-over benefits to some Asian and European companies. Nvidia's quarterly results announced in late May illustrate the potential for the sector: the company anticipates revenue of \$11bn in the current quarter, compared with \$7.2bn in the quarter ended 30 April, 50% higher than market expectations.

“The extraordinary success of ChatGPT following its launch in November 2022 is leading to a surge in demand for high end processors to power AI applications”

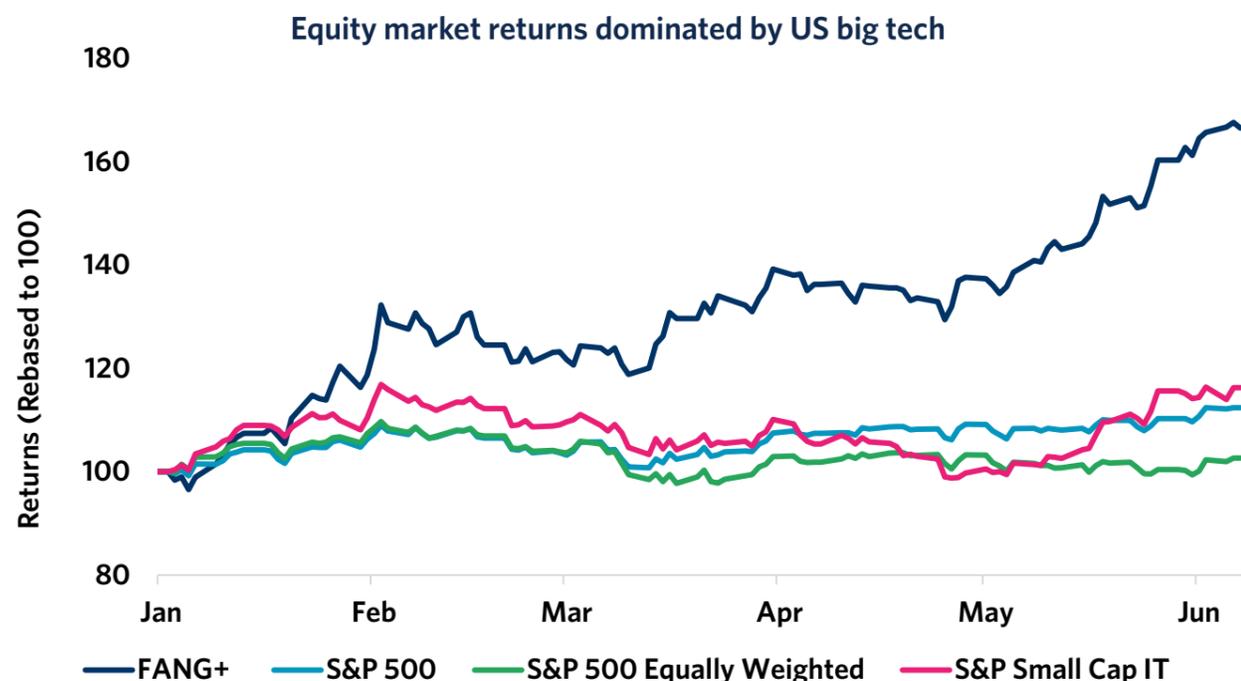
Unprecedented surge in take-up of ChatGPT
months taken to reach 100m users



Source: UBS as at 3 May 2023.



Returns in May cap an extraordinary five months for US big tech, following the sharp falls of 2022. The FANG+ index has returned 61% YTD leaving it just 7% below its all-time-high of November 2021. The five largest stocks in the US - Apple, Microsoft, Alphabet, Amazon and Nvidia - all of which are constituents of FANG+, now make up 24% of the S&P 500 index and 16% of MSCI World, a concentration level which presents challenges for active managers holding broadly diversified equity portfolios. So far this year the S&P 500 has returned 9.4%, but the scale of the contribution made by big tech stocks is reflected in a 1% fall in the S&P 500 equally weighted index; most active managers hold weightings in big tech well below benchmark weights given the sheer size of these companies.



Top 5 US stocks - returns and (%) age weight in key indices

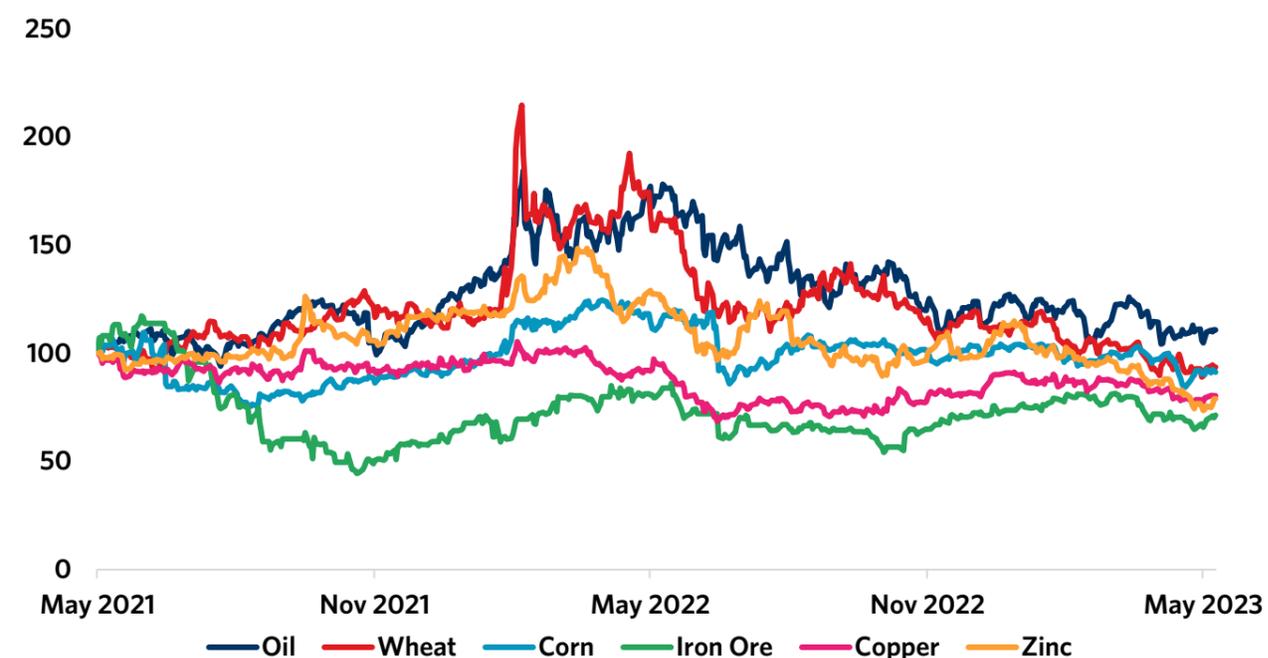
	S&P 500 Weight	MSCI World Weight	YTD Performance	May Performance
Apple	7.4%	5.2%	38.4%	4.6%
Microsoft	6.9%	4.3%	36.6%	7.1%
Alphabet	4.0%	2.6%	40.8%	14.5%
Amazon	3.1%	2.1%	46.8%	14.4%
Nvidia	2.7%	1.8%	163.8%	36.3%
Total	24.1%	15.9%		

Source: Bloomberg Finance L.P. as at 7 June 2023.

Away from the excitement of AI, markets were more subdued. The debt ceiling problem, now resolved at least until 1st January 2025, with Federal spending capped and the ceiling suspended until then, caused a minor ripple in mid-month, but investors focussed increasingly on rate hikes and the prospect of more to come as inflation in the US, Europe and UK proved more persistent than expected, raising fears that monetary policy would need to stay higher for longer.

Headline inflation continues to fall, helped by sharp falls in energy and other commodity prices, and easier comparisons with year earlier figures. The oil price fell by a further 9% in May and is down by 40% over the past year, European natural gas prices continued their freefall with a drop of 33% in May, taking the drop over a year to 70%, a number of agricultural commodity prices have eased, wheat down 4% in May and 45% over a year, corn fell 7% and 21% over the same periods, and industrial metals prices are also down sharply in recent weeks, with drops from peak levels earlier this year of 13% for copper, 21% for iron ore, and 35% for nickel and zinc. Several factors have contributed to the falls: eased post-Covid supply constraints, the diminishing impact of war in Ukraine on commodity markets, disappointing recovery in China, and growing concerns about a sharp slowdown in global economic activity as the year progresses.

Commodity prices continue their sharp falls from 2022 peaks



Source: Bloomberg Finance L.P. as at 7 June 2023.

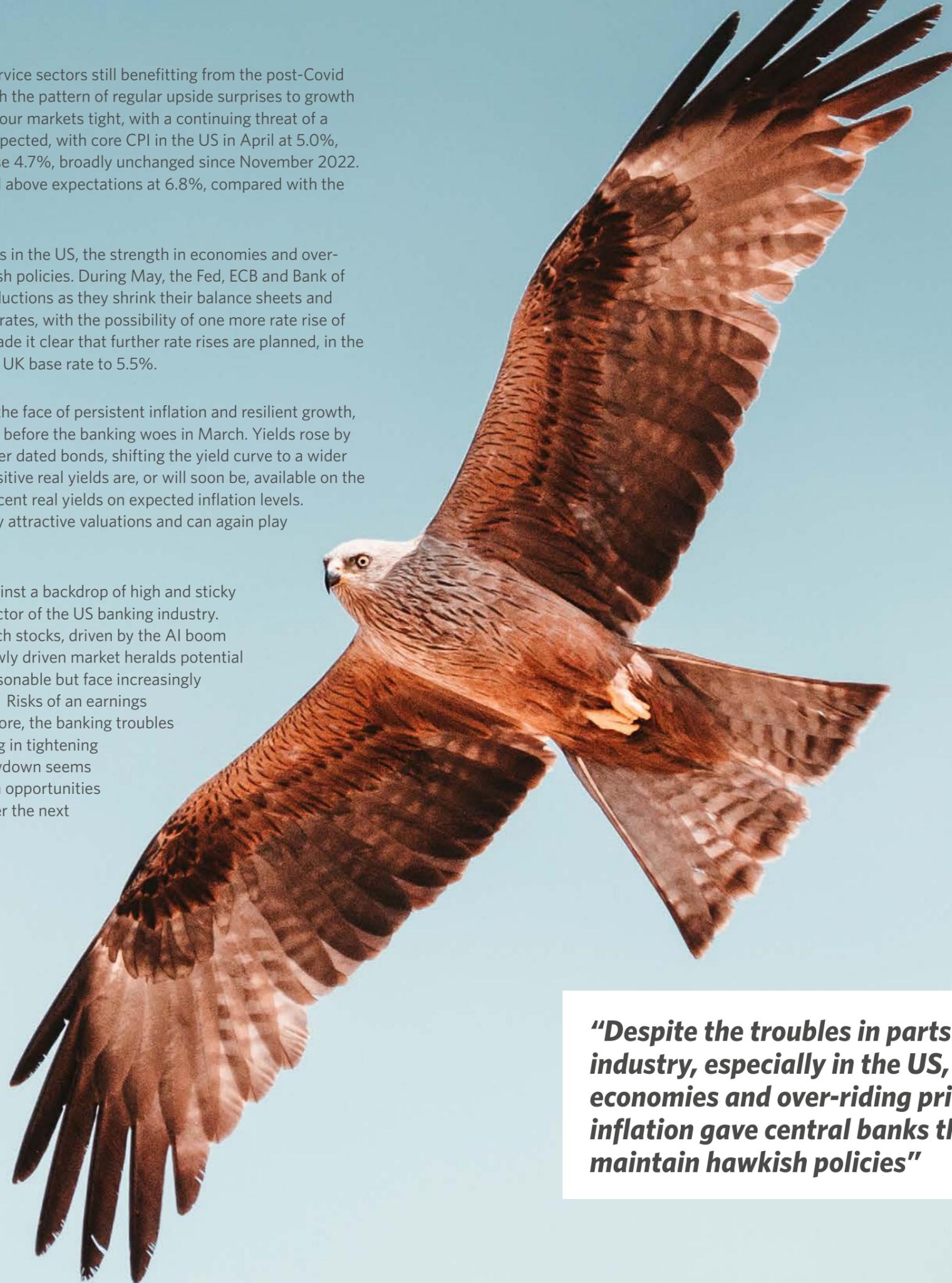
“European natural gas prices continued their freefall with a drop of 33% in May, taking the drop over a year to 70%”

So far this year economic activity has held up better than most expectations, with service sectors still benefitting from the post-Covid surge in spending. Purchasing Managers' Indices point to continuing growth, although the pattern of regular upside surprises to growth seen in Q1 waned in recent weeks. The surprising strength in economies has kept labour markets tight, with a continuing threat of a wage-price spiral. Core levels of inflation remain more persistent and stickier than expected, with core CPI in the US in April at 5.0%, higher now than headline numbers, and the closely watched core PCE price index rose 4.7%, broadly unchanged since November 2022. In the Eurozone, core inflation in April was 5.6% while in the UK core prices rose well above expectations at 6.8%, compared with the March figure of 6.2%.

Despite the troubles in parts of the banking industry, especially among regional banks in the US, the strength in economies and over-riding priority to rein in inflation gave central banks the conviction to maintain hawkish policies. During May, the Fed, ECB and Bank of England (BoE) all continued with rate rises, in each case 25bps, and with liquidity reductions as they shrink their balance sheets and reduce the huge books of bonds bought in the QE era. The Fed is closest to a peak in rates, with the possibility of one more rate rise of 25bps in June or July, followed by a lengthy pause, whereas the ECB and BoE both made it clear that further rate rises are planned, in the case of the BoE as much as 100bps being priced in by markets, which would take the UK base rate to 5.5%.

Policy rate rises along with growing concerns that rates will stay higher for longer in the face of persistent inflation and resilient growth, pushed bond yields higher over the month, returning yields closer to levels prevailing before the banking woes in March. Yields rose by around 20bps in May in longer dated US Treasury maturities, and by 40bps on shorter dated bonds, shifting the yield curve to a wider inversion. With dollar cash now yielding close to 5% and 2-year Treasuries 4.4%, positive real yields are, or will soon be, available on the world's pre-eminent risk-free asset, and longer dated bonds are already providing decent real yields on expected inflation levels. For the first time in years, government bonds are offering reasonable and increasingly attractive valuations and can again play an important role in multi-asset portfolio construction and risk control.

Markets have generally performed above expectations so far this year, especially against a backdrop of high and sticky inflation, aggressive tightening of monetary policy and difficulties in an important sector of the US banking industry. Much of the rise in equity markets has been due to an exceptional move in US big tech stocks, driven by the AI boom and the expected resilience of these companies' earnings through the cycle. A narrowly driven market heralds potential problems, with valuations of big tech getting stretched; elsewhere valuations are reasonable but face increasingly tough economic conditions as the long stretch of monetary tightening begins to bite. Risks of an earnings downturn are real but do not seem to be fully factored into market pricing. Furthermore, the banking troubles in the US, which we do not believe are in any way systemic, are nevertheless resulting in tightening lending standards, adding to the headwinds for the economy. A sharp economic slowdown seems highly likely and a recession in coming months cannot be ruled out. We see valuation opportunities opening up in some asset classes, notably US Treasuries, and recovery lies ahead over the next twelve months, but we continue to be patient before adding to risk assets.



“Despite the troubles in parts of the banking industry, especially in the US, the strength in economies and over-riding priority to rein in inflation gave central banks the conviction to maintain hawkish policies”

Market performance - Global (local returns) as at 31 May 2023

Asset Class / Region	Index	Ccy	1 month	3 months	YTD	12 months
Developed Markets Equities						
United States	S&P 500 NR	USD	0.4%	5.6%	9.4%	2.4%
United Kingdom	MSCI UK NR	GBP	-5.1%	-4.5%	2.0%	1.5%
Continental Europe	MSCI Europe ex UK NR	EUR	-2.3%	0.6%	9.7%	6.8%
Japan	Topix TR	JPY	3.6%	8.2%	14.1%	14.5%
Asia Pacific (ex Japan)	MSCI AC Asia Pacific ex Japan NR	USD	-2.4%	-1.3%	-0.1%	-7.8%
Global	MSCI World NR	USD	-1.0%	3.8%	8.5%	2.1%
Emerging Markets Equities						
Emerging Europe	MSCI EM Europe NR	USD	-1.2%	-0.3%	5.6%	18.2%
Emerging Asia	MSCI EM Asia NR	USD	-1.1%	0.1%	1.3%	-8.2%
Emerging Latin America	MSCI EM Latin America NR	USD	-0.9%	2.7%	5.8%	-3.8%
China	MSCI EM China NR	USD	-4.4%	-3.3%	-5.5%	-9.9%
BRICs	MSCI BRIC NR	USD	-8.4%	-9.2%	-9.1%	-14.7%
Global emerging markets	MSCI Emerging Markets NR	USD	-1.7%	0.2%	1.1%	-8.5%
Bonds						
US Treasuries	JP Morgan United States Government Bond TR	USD	-1.1%	2.2%	2.2%	-2.2%
US Treasuries (inflation protected)	BBgBarc US Government Inflation Linked TR	USD	-1.2%	1.8%	2.3%	-4.3%
US Corporate (investment grade)	BBgBarc US Corporate Investment Grade TR	USD	-1.4%	2.1%	2.8%	-1.7%
US High Yield	BBgBarc US High Yield 2% Issuer Cap TR	USD	-0.9%	1.1%	3.6%	0.0%
UK Gilts	JP Morgan UK Government Bond TR	GBP	-3.6%	-2.5%	-3.2%	-16.3%
UK Corporate (investment grade)	ICE BofAML Sterling Non-Gilt TR	GBP	-2.1%	-1.1%	0.2%	-8.5%
Euro Government Bonds	ICE BofAML Euro Government TR	EUR	0.4%	2.7%	2.4%	-6.3%
Euro Corporate (investment grade)	BBgBarc Euro Aggregate Corporate TR	EUR	0.2%	1.9%	2.6%	-2.9%
Euro High Yield	BBgBarc European High Yield 3% Constrained TR	EUR	0.7%	0.9%	3.9%	1.1%
Japanese Government	JP Morgan Japan Government Bond TR	JPY	-0.1%	1.6%	2.6%	-1.2%
Australian Government	JP Morgan Australia GBI TR	AUD	-1.4%	2.2%	3.6%	1.6%
Global Government Bonds	JP Morgan Global GBI	USD	-2.1%	1.6%	1.0%	-5.6%
Global Bonds	ICE BofAML Global Broad Market	USD	-1.9%	1.7%	1.5%	-4.7%
Global Convertible Bonds	ICE BofAML Global Convertibles	USD	-0.3%	-0.8%	3.4%	-0.5%
Emerging Market Bonds	JP Morgan EMBI+ (Hard currency)	USD	-1.3%	1.0%	1.0%	-3.4%

Asset Class / Region	Index	Ccy	1 month	3 months	YTD	12 months
Property						
US Property Securities	MSCI US REIT NR	USD	-3.1%	-5.0%	0.0%	-13.0%
Australian Property Securities	S&P/ASX 200 A-REIT Index TR	AUD	-1.7%	-3.7%	3.3%	-7.3%
Asia Property Securities	S&P Asia Property 40 Index NR	USD	-7.1%	-5.7%	-8.7%	-14.2%
Global Property Securities	S&P Global Property USD TR	USD	-4.5%	-5.4%	-2.3%	-14.7%
Currencies						
Euro		USD	-3.5%	0.3%	-0.6%	-0.9%
UK Pound Sterling		USD	-1.4%	2.4%	2.5%	-1.8%
Japanese Yen		USD	-2.5%	-2.8%	-6.2%	-8.0%
Australian Dollar		USD	-2.3%	-4.3%	-5.1%	-10.0%
South African Rand		USD	-7.5%	-7.3%	-13.8%	-21.2%
Commodities & Alternatives						
Commodities	RICI TR	USD	-5.9%	-7.4%	-11.1%	-21.6%
Agricultural Commodities	RICI Agriculture TR	USD	-2.2%	-3.7%	-4.9%	-14.9%
Oil	Brent Crude Oil	USD	-8.6%	-13.4%	-15.4%	-40.8%
Gold	Gold Spot	USD	-1.2%	7.4%	7.7%	6.5%
Hedge funds	HFRX Global Hedge Fund	USD	-0.5%	-1.3%	-0.1%	-1.3%
Interest Rates						
						Current Rate
United States						5.25%
United Kingdom						4.50%
Eurozone						3.75%
Japan						-0.10%
Australia						3.85%
South Africa						8.25%

Source: Bloomberg Finance L.P., Momentum Global Investment Management. Past performance is not indicative of future returns.

Market performance - UK (all returns GBP) as at 31 May 2023

Asset Class / Region	Index	Local Ccy	1 month	3 months	YTD	12 months
Equities						
UK - All Cap	MSCI UK NR	GBP	-5.1%	-4.5%	2.0%	1.5%
UK - Large Cap	MSCI UK Large Cap NR	GBP	-5.5%	-5.2%	-0.4%	0.5%
UK - Mid Cap	MSCI UK Mid Cap NR	GBP	-4.5%	-2.1%	9.1%	1.6%
UK - Small Cap	MSCI Small Cap NR	GBP	-3.8%	-5.4%	1.5%	-7.5%
United States	S&P 500 NR	USD	1.9%	3.2%	6.9%	4.3%
Continental Europe	MSCI Europe ex UK NR	EUR	-4.4%	-1.4%	6.4%	7.8%
Japan	Topix TR	JPY	2.4%	2.7%	4.5%	7.3%
Asia Pacific (ex Japan)	MSCI AC Asia Pacific ex Japan NR	USD	-0.9%	-3.6%	-2.4%	-6.1%
Global developed markets	MSCI World NR	USD	0.5%	1.4%	6.0%	4.0%
Global emerging markets	MSCI Emerging Markets NR	USD	-0.2%	-2.2%	-1.3%	-6.8%
Bonds						
Gilts - All	ICE BofAML UK Gilt TR	GBP	-3.8%	-2.6%	-3.4%	-16.7%
Gilts - Under 5 years	ICE BofAML UK Gilt TR 0-5 years	GBP	-0.8%	-0.2%	-0.2%	-3.0%
Gilts - 5 to 15 years	ICE BofAML UK Gilt TR 5-15 years	GBP	-3.1%	-1.8%	-1.7%	-12.0%
Gilts - Over 15 years	ICE BofAML UK Gilt TR 15+ years	GBP	-6.5%	-5.1%	-7.3%	-28.7%
Index Linked Gilts - All	ICE BofAML UK Gilt Inflation-Linked TR	GBP	-5.9%	-4.3%	-5.9%	-24.0%
Index Linked Gilts - 5 to 15 years	ICE BofAML UK Gilt Inflation-Linked TR 5-15 years	GBP	-2.7%	-1.0%	-0.3%	-10.8%
Index Linked Gilts - Over 15 years	ICE BofAML UK Gilt Inflation-Linked TR 15+ years	GBP	-9.6%	-7.5%	-11.0%	-35.2%
UK Corporate (investment grade)	ICE BofAML Sterling Non-Gilt TR	GBP	-2.1%	-1.1%	0.2%	-8.5%
US Treasuries	JP Morgan US Government Bond TR	USD	0.3%	-0.2%	-0.8%	-0.5%
US Corporate (investment grade)	BBgBarc US Corporate Investment Grade TR	USD	-0.1%	-0.3%	-0.2%	0.0%
US High Yield	BBgBarc US High Yield 2% Issuer Cap TR	USD	-0.9%	1.1%	3.6%	0.0%
Euro Government Bonds	ICE BofAML Euro Government TR	EUR	0.4%	2.7%	2.4%	-6.3%
Euro Corporate (investment grade)	BBgBarc Euro Aggregate Corporate TR	EUR	0.2%	1.9%	2.6%	-2.9%
Euro High Yield	BBgBarc European High Yield 3% Constrained TR	EUR	0.7%	0.9%	3.9%	1.1%
Global Government Bonds	JP Morgan Global GBI	GBP	-0.7%	-0.8%	-1.3%	-3.8%
Global Bonds	ICE BofAML Global Broad Market	GBP	-1.9%	1.7%	1.5%	-4.7%
Global Convertible Bonds	ICE BofAML Global Convertibles	GBP	-0.3%	-0.8%	3.4%	-0.5%
Emerging Market Bonds	JP Morgan EMBI+ (Hard currency)	GBP	0.2%	-1.4%	-1.3%	-1.6%

Asset Class / Region	Index	Local Ccy	1 month	3 months	YTD	12 months
Property						
Global Property Securities	S&P Global Property TR	GBP	-3.0%	-7.6%	-4.6%	-13.1%
Currencies						
Euro		GBP	-2.0%	-2.0%	-3.0%	1.0%
US Dollar		GBP	1.5%	-2.3%	-2.5%	1.9%
Japanese Yen		GBP	-1.1%	-5.1%	-8.4%	-6.3%
Commodities & Alternatives						
Commodities	Rogers International Commodity (RICI) TR	GBP	-4.5%	-9.6%	-13.1%	-20.2%
Agricultural Commodities	Rogers International Commodity (RICI) Agriculture TR	GBP	-0.7%	-6.0%	-7.1%	-13.3%
Oil	Brent Crude Oil	GBP	-7.3%	-15.4%	-17.4%	-39.7%
Gold	Gold Spot	GBP	0.3%	4.9%	5.2%	8.5%
Interest Rates						
						Current Rate
United Kingdom						4.50%

Source: Bloomberg Finance L.P. , Momentum Global Investment Management. Past performance is not indicative of future returns.

Asset allocation views

Score	Change	1	2	3	4	5	6	7
MAIN ASSET CLASSES								
Equities	▼							
Fixed Income	—							
Alternatives	—							
Cash	—							

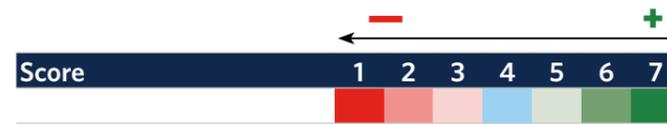
Score	Change	1	2	3	4	5	6	7
EQUITIES								
Developed Equities	▼							
UK Equities	—							
European Equities	—							
US Equities	—							
Japanese Equities	—							
Emerging Market Equities	—							

Score	Change	1	2	3	4	5	6	7
FIXED INCOME								
Government	—							
Index-Linked	—							
Investment Grade Corporate	—							
High Yield Corporate	—							
Emerging Market Debt	—							
Convertible Bonds	—							

Score	Change	1	2	3	4	5	6	7
SPECIALIST ASSETS/ALTERNATIVES								
Commodities	—							
Property	—							
Infrastructure	▲							
Liquid Alternatives	—							
Private Equity	—							
Specialist Financial	▲							

Score	Change	1	2	3	4	5	6	7
CURRENCIES vs. USD								
GBP	—							
EUR	—							
JPY	—							
Gold	—							

The asset allocation views are updated quarterly unless otherwise stated.



Our Overall View

We have downgraded our outlook on equities in terms of our overall asset class weightings. The lack of depth in this year's market rally is a cause for concern with fears of a recession still high. Our fixed income view remains neutral due to higher rates and although the threat of a recession requires an element of caution with certain fixed income assets, good opportunities are still prevalent. Alternative assets remain a good diversifier of returns, especially favourable should market volatility increase.

Our downgraded view on equities is driven largely by a more challenging outlook for developed market corporates. Last year's aggressive rate hikes continue to show signs of pushing developed economies towards recession and there are concerns regarding complacency in risk markets. US equities in particular have shown a worrying lack of breadth in this year's rally. Valuations look positive in European equities, but the most compelling opportunities remain in the UK and Japan where valuations are still attractive.

Rates remaining elevated so far in 2023 mean that bonds continue to provide attractive selective opportunities. Although rates remain high there are still concerns that the spreads offered today on investment grade and riskier high yield corporate bonds do not offer a suitable risk premium over safer sovereign bonds. The possibility of a recession and rising default rates suggest that an element of caution is necessary. We continue to prefer shorter duration bonds in both developed and emerging markets. Improving real yields and weak growth expectations have also improved the appeal of inflation linked bonds.

Commodity prices are likely to be challenged against a slowdown in global growth. With expectations of a more turbulent period ahead in markets, alternatives continue to offer diversification benefits at attractive valuations after a period of poor investor sentiment. Discounts in NAVs in private equity continue to appear overly pessimistic while secular trends in infrastructure and specialist financials have boosted our outlook for both asset classes. Our liquid alternatives continue to offer attractive diversification benefits especially during periods of market uncertainty.

Against long term valuation metrics, Sterling and Yen continue to remain cheap relative to the Dollar. The Bank of Japan's ongoing policy of yield curve control policy holds the Yen back, for now. Recession expectations in the US and inflation in Europe could mean divergent rate expectations in support of the Euro. Gold's status as a haven asset has been beneficial in the face of recent market uncertainty and remains a good diversifier.

"With the recent rise in global rates, bonds now provide a more attractive opportunity"



For more information, please contact:

Distribution Services

E: distributionservices@momentum.co.uk

T: +44 (0)207 618 1803

Important Notes

Investment Manager - Momentum Global Investment Management Limited (MGIM).

This document is not intended for use or distribution by any person in any jurisdiction in which it is not authorised or permitted, or to anyone who would be an unlawful recipient. The original recipient is solely responsible for any actions in further distributing this document, and in doing so should be satisfied that there is no breach of local legislation or regulation. This document should not be reproduced or distributed except via original recipients acting as professional intermediaries. This document is not for distribution in the United States. Any opinions expressed herein are those at the date this document is issued. Data, models and other statistics are sourced from our own records, unless otherwise stated. We believe that the information contained is from reliable sources, but we do not guarantee the relevance, accuracy or completeness thereof. Unless otherwise provided under UK law, MGIM does not accept liability for irrelevant, inaccurate or incomplete information contained, or for the correctness of opinions expressed. The value of investments may fluctuate, and it is possible that an investor may incur losses, including a loss of the principal invested. Past performance is not indicative of future performance. Investors whose reference currency differs from that in which the underlying assets are invested may be subject to exchange rate movements that alter the value of their investments.

MGIM (Company Registration No. 3733094) has its registered office at The Rex Building, 62 Queen Street, London EC4R 1EB. Momentum Global Investment Management Limited (MGIM) is authorised and regulated by the Financial Conduct Authority in the United Kingdom, and is exempt from the requirements of section 7(1) of the Financial Advisory and Intermediary Services Act 37 of 2002 (FAIS) in South Africa, in terms of the FSCA FAIS Notice 141 of 2021 (published 15 December 2021). For complaints relating to MGIM's financial services, please contact distributionservices@momentum.co.uk ©MGIM 2023.

