June 2023 quarter end review update

The table details the quarterly data for the FTSE All-Share Index.

Quarter	Open	Close	High	Low	Return year to date
January – March	4075	4157	4377	4007	2.01%
April - June	4157	4096	4298	4046	0.52%

The start of the quarter was encouraging, with China's economic growth expected to rebound after self-imposed lockdowns. In addition, oil prices were falling and there was the expectation that inflation would start to fall back consistently, leading to the current interest rate raising cycle coming to an end.

Over the quarter, the oil price continued to fall, along with both core and headline inflation. However, as always, the devil is in the detail, with headline inflation (which includes the cost of energy and food) remaining stubbornly high. As an example, in the UK food prices rose about 20% over the year. This is a concern because it means headline inflation, while falling, would likely decline at a slower pace, which then means that interest rates are expected to remain higher for longer.

Normally, you would associate higher interest rates with strong economic growth, but as we saw during the quarter Germany went into a technical recession (two consecutive quarters of negative growth) and China's economic growth fell short of market expectations. Contrast this with the USA, where growth remains positive, job creation being consistently above expectations and benefiting from the emergence of AI and how this is expected to revolutionize industry.

Globally, growth is still expected to be positive this year, however consensus now sees this being closer to 2.7% rather than 2.9%, which reflects the challenges still facing the global economy as it adjusts to new supply chains and the impact of the aftermath of Covid. However, concerns over another banking crisis have subsided as the banks affected earlier this year did not indicate a systemic underlying issue. There is the expectation that there will be a consolidation in the sector. Another positive sign is that corporate earnings have held up well and M&A (mergers and acquisitions) activity is beginning to increase once again.

Our view is that the coming quarter will be important because we expect that Central Banks will be better placed to confirm whether interest rates have peaked and what the pace of the expected decline of inflation is likely to be. The table sets out our current asset allocation views.

Underweight	Neutral	Overweight
Government Gilts	Index-linked Gilts: Global High Yield Bonds (for income)	
Investment-Grade Bonds	Equities: US, China, Far East, Emerging Markets, Japan	Equities (large cap): UK, Europe, Asia
	Equities (small cap): UK, US, Europe	Specialist Equities (including global equities and global property shares)
Property (bricks & mortar)	Commodities	
Gold		

**Neutral means that, while we retain the asset class, we do not generally want to add to the position*

3rd July 2023