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April 2023
Market Pulse

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EQUITIES RALLY BUT INFLATION AND RECESSION RISKS REMAIN

Lenny McLoughlin

Chief Investment Strategist, Irish Life Investment Managers Limited (ILIM)

Global stock markets rallied in April, supported by expectations of central bank rates peaking later this year. Bond markets were somewhat directionless amid mixed economic data. The global macroeconomic backdrop suggested inflation remains sticky while economic activity showed increasing signs of slowing. A divergence in policy paths opened between the US Federal Reserve (Fed) and the European Central Bank (ECB), with the former expected to stop tightening in May and the latter projected to tighten further in the second half of the year. The US dollar fell against the euro.

Banking crisis

Global macroeconomic data suggested inflation remains sticky while economic activity showed increasing signs of slowing. Global Purchasing Managers' Indexes (PMIs) in April showed continued divergence, with the services sector still performing strongly while the manufacturing sector lagged. Over the month, the gap widened between monetary policy stances in the US and the eurozone; the Fed is projected to stop its tightening cycle in the first half of the year, while the ECB is expected to continue raising rates into the second half.

US

US labour market data has begun to show signs of deterioration. Non-farm payrolls for March rose by 236,000, the lowest rise since December 2020, and average hourly earnings increased by 4.2% year-on-year (YoY), the slowest pace since June 2021. At the same time, jobless claims rose during April. Household consumption also deteriorated. March retail sales fell by 1.0% month-on-month, double the expected decline, following a 0.2% fall in February. Price pressures were somewhat mixed, with headline consumer prices (CPI) rising by 5.0% YoY in March, compared to 6.0% in February. However, core CPI accelerated marginally from 5.5% to 5.6%.

Meanwhile, growth concerns were front and centre for the Fed. The minutes of the central bank's March meeting suggested that some monetary policy committee members were concerned that the banking crises and its fallout could lead to a shallow recession later in 2023. As a result, rate markets expected a 25-basis point (bp) hike in May to 5.00-5.25%, followed by one cut before end-2023.

Europe

In the eurozone, economic data suggested activity was healthy. Industrial production rose by 1.5% month-on-month in February, accelerating from 1.0% in January. Consumer confidence, though still in negative territory, also improved in April. This suggests that there may be a recovery. Overall, economic data has surprised to the upside but less so than in March. The Citigroup Economic Surprise index for the region fell to its lowest level since November.

Headline consumer price inflation decelerated from 8.5% YoY in February to 6.9% in March. However, similar to the US, core prices rose marginally from 5.6% to 5.7%. Indeed, the ECB's March meeting minutes showed a desire by the committee to tighten policy further amid sticky core inflation. This sentiment was also reflected in speeches in April by various Governing Council members. As a result, rate markets now expect three further 25-bp rate hikes this year to 3.75%.

MARKET ROUND-UP

Equities

Global stock markets rallied in April, supported by expectations of a peak in interest rates later this year. The MSCI All Country World index rose by 1.4% (-0.1% in euros) over the month. Volatility in US equities was muted, with the VIX index falling to its lowest level since November 2021. A lack of significant economic surprises may have contributed to this. At the same time, the start of the Q1 earnings season showed companies broadly posting better-than-expected results compared to previously downgraded forecasts, while some of the larger technology companies like Meta also gave favourable guidance. The MSCI USA was up by 1.3% (-0.3% in euros) in April, while European equities rose by 2.3%.

Bonds

Bond markets were somewhat directionless in April, with the ICE BofA 5+ Year Euro Government bond index down by 0.2%. This may have been due to mixed economic data, which was indicative of slowing activity but sticky inflation. Hence, the policy direction taken by central banks may be less certain. While expectations at the end of April were for the Fed to end its hiking cycle in May, there may be a need for further tightening in the second half of the year, should inflation stay elevated and should growth slow only mildly.

Currencies and commodities

The US dollar fell against the euro in April, as markets expected the Fed to stop hiking after its May meeting, whereas the ECB is projected to hike twice more after a rise in May. The euro to the dollar ended April at 1.1019, up from 1.0839 at the end of March, a 1.7% rise. In April, commodities declined by 0.8% (-2.3% in euros), with Brent crude oil down by 0.3%.

CHARTS OF THE MONTH

Global Equities

Bonds – German 10-year yield

MARKET SNAPSHOT

Market returns (EUR)

Equity Markets (EUR)	QTD Return (%)	YTD Return (%)	2022 Return (%)
MSCI Ireland	1.3	21.1	-21.1
MSCI United Kingdom	3.6	8.0	1.4
MSCI Europe ex UK	2.4	12.8	-11.9
MSCI North America	-0.3	5.4	-13.8
MSCI Japan	-1.2	3.2	-10.8
MSCI EM (Emerging Markets)	-2.7	-0.6	-14.5
MSCI AC World	-0.1	5.4	-12.6
10-Year Yields	**Yield Last Month (%)**	**2022 Yield (%)**	**2021 Yield (%)**
US	3.42	3.87	1.51
Germany	2.31	2.57	-0.18
UK	3.72	3.67	0.97
Japan	0.39	0.42	0.07
Ireland	2.70	3.13	0.24
Italy	4.17	4.70	1.17
Greece	4.18	4.62	1.34
Portugal	3.13	3.59	0.47
Spain	3.36	3.66	0.57
FX Rates	**End last month**	**2022 Rates**	**2021 Rates**
US dollar per euro	1.10	1.07	1.14
British pound per euro	0.88	0.89	0.84
US dollar per British pound	1.26	1.21	1.35
Commodities (USD)	**QTD Return (%)**	**YTD Return (%)**	**2022 Return (%)**
Oil (Brent)	-0.3	-7.4	10.5
Gold (Oz)	1.1	9.1	-0.3
S&P Goldman Sachs Commodity Index	-0.8	-5.7	26.0

Source: ILIM, Bloomberg. Data is accurate as at 30 April 2023.

THE ILIM VIEW – LOOKING AHEAD

Global equities have proved resilient in the face of mounting headwinds, from lacklustre earnings to continued monetary tightening and banking crises. However, in our view, the asset class has yet to price in an adverse economic scenario like a recession, so volatility is set to stay elevated. This relates especially to the fallout from the banking crises and the resultant impact on sentiment and credit creation. Moreover, while inflation has decelerated from six months ago, price pressures remain elevated and tighter credit conditions would likely crimp demand, resulting in pressure on corporate earnings and margins. Even if central banks were to ease into the slowdown, equity markets have typically fallen during previous periods of monetary easing.

This has been due to the reason usually behind monetary easing in the first place: namely, recessionary conditions. In the event of such a scenario, valuations do not look attractive: the 12-month forward price-to-earnings (P/E) ratio for the MSCI USA is 18.7x against a long-term average of 17.1x. Equities outside the US offer better value; Europe ex-UK equities trade at a multiple of 12.8x against a long-term average of 13.2x, while emerging market equities trade at 11.7x versus a long-term average of 11.6x. On balance, we believe there could be a better entry point for equities later this year.

THE MONTH AHEAD

MAY

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
		10 US Inflation Rate YoY (April)	11 GB BoE Interest Rate Decision US PPI MoM (April)	12 GB GDP Growth Rate YoY Prel (Q1) US Michigan Consumer Sentiment Prel
	16 GB Unemployment Rate US Retail Sales MoM (April)			
		24 GB Inflation Rate YoY (April) US FOMC Minutes	25 DE GfK Consumer Confidence (June)	26 GB Retail Sales MoM (April)
		31 FR Inflation Rate YoY Prel (May) DE Inflation Rate YoY Prel (May) IT Inflation Rate YoY Prel (May)		

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Figures referenced herein have been sourced from ILIM and Bloomberg. Forecast figures have been prepared by ILIM based on reasonable assumptions, internal data and data sourced from Bloomberg.

Contact us

Phone (01) 704 1200
Fax 01 704 1918
Website www.ilim.com
Write to Irish Life Investment Managers, Beresford Court, Beresford Place, Dublin 1