gemini
asset management

marketmatters

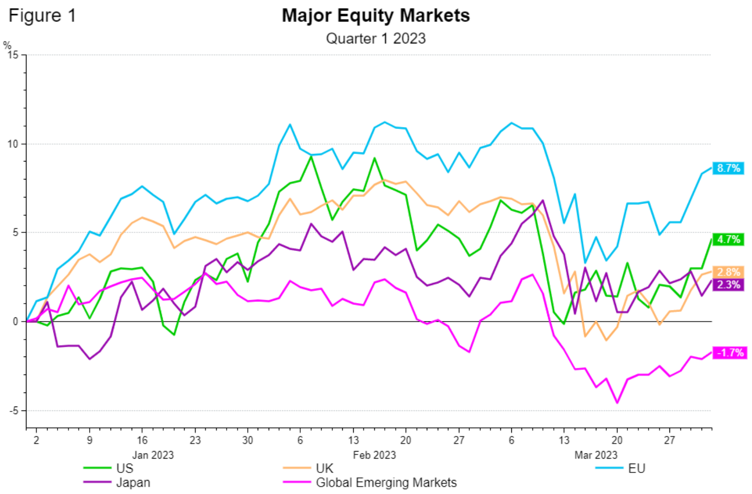
Market Summary

The start of the year brought with it renewed optimism and especially so in emerging markets, given the re-opening of China's economy. However, February and March saw a widespread loss of confidence in US and European banks initially until the regulators and peers stepped in to halt talk of a 'banking crisis'.

Equities typically gained in Q1 2023, despite the collapse of Silicon Valley Bank (SVB) causing significant volatility in bank shares. Growth stocks outperformed value stocks during Q1 2023, thanks to gains in the Technology sector (growth) and turbulence in the Financial sector (value) — reversing the trend seen in Q4 2022.

There was some positive news on the economic front during the first quarter, or at the very least economic news wasn't as bad as had been expected by the consensus. Central banks initiated a slow down in their policies of monetary tightening — policies such as increasing interest rates or quantitative tightening (the opposite of the printing money policies seen since the 2008 Global Financial Crisis). This came as welcome news as the policies of monetary tightening have been one of the main causes of asset price falls since the start of 2022 — as interest rates increased, bond prices fell and equities broadly declined. However, this was amongst the a back drop of inflation coming in higher than expected in both the US and Europe — hinting that the path to rate cuts and economic stability is far from certain.

Figure 1



Source: Refinitiv Datastream
All indices used are the Datastream Total Market equity index for a given region
Past performance is not a reliable indicator of future results
There are no charges associated with the indices shown within this chart

Equity Markets — see Figure 1 above

US equities rose over the quarter, led by Technology stocks (which make up a large portion of the equity index). The Technology sector surged due to expectations that the Federal Reserve's interest rate hiking cycle could come to an end – growth stocks then pushed higher as investors anticipated these interest rate cuts.

UK equities rose over the quarter. Industrials and Consumer Discretionary sectors outperformed as the UK economy surprised on the upside. Financials, however, struggled after the collapse of SVB and the reported troubles of Credit Suisse - stories of consolidation rather than banking crisis contagion prevailed with Financial sectors bouncing back following initial market panic.

Eurozone shares notched up strong gains in Q1 despite volatility that ripped through the Banking and Financial sectors. European Real Estate struggled whilst, as in other regions, the European Technology and Industrial sectors posted stellar returns. Even the Financial sectors produced positive returns over the quarter following swift action by the Swiss Central Bank to bail out Credit Suisse.

Japanese stocks rose in Q1, as did other Asian equities in China, Taiwan, Singapore and South Korea. This positive performance was not enough to offset some performance in other regions, specifically India.

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Fixed Income

Fixed income markets generated positive returns in the first quarter of 2023. Government bonds benefitted from a ‘flight-to-safety’ trade as investors moved assets into Government bonds following concerns of the SVB collapse spilling out into wider financial markets. Corporate bonds and High Yield bonds also finished the quarter with positive returns after they fell from their quarterly peaks following the SVB collapse—bond markets were reassured by the actions of the regulator and rallied towards the end of the quarter.

Economic Update

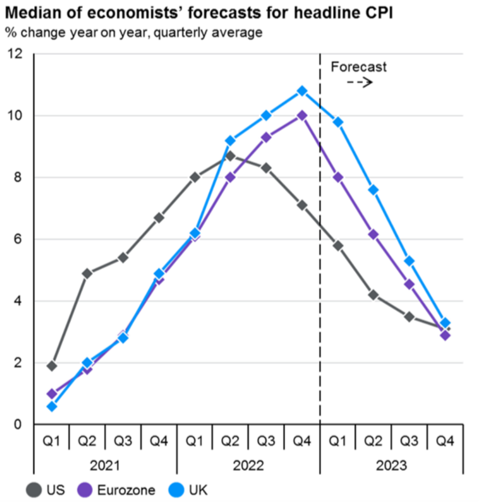
The Federal Reserve raised rates twice, and even though inflation slightly surprised to the upside, the data still points to inflation cooling —see Figure 2 — leading to expectations the interest rate hiking cycle could shortly come to an end. The economy is still expected to post positive economic growth for 2023.

The Bank of England approved two rate hikes of 0.5% & 0.25% in Q1. The UK economy beat expectations and dodged a technical recession by avoiding two consecutive quarters of declines in economic growth. Consumer confidence continued to rise but inflation remains above 10% it is however expected to fall back down to c.3.5% by the end of 2023 – see Figure 2.

The European Central Bank raised interest rates by 0.5% in both February and March. The Eurozone shook off concerns of recession following a troubling winter. Inflation is falling faster in some countries than others, but the overall rate of inflation is expected to drop to c.3.5% at the end of 2023 – see Figure 2

Economic prospects in the rest of the world are typically mixed. China continues to try to stimulate the economy out of recession and has set growth targets of 5.5% for 2023, whilst other growth power houses such as India are expected to also generate positive GDP growth.

Figure 2



Source: (Left) Bloomberg, BLS, Eurostat, ONS, J.P. Morgan Asset Management. CPI is consumer price index.

Portfolio Performance

The table below shows the performance of Gemini Asset Management’s (GAM) discretionary risk-rated portfolios over the course of the last 5 years. The table compares the performance of GAM’s Discretionary Models against the FTSE All Share and the most relevant Investment Association (IA) Mixed Investment sector. The weight of equity in each IA Mixed Investment sector is the main deciding factor when choosing which is the most suitable comparator to each GAM portfolios but the constitution of the GAM portfolios and the relevant IA sectors could still be very different from one another. Whilst a direct comparison of GAM’s portfolios with an equity index such as the FTSE All Share, or the relevant IA Mixed Investment Sector are not like-for-like, it does give an indication of volatility and performance differences on a risk-adjusted basis and can demonstrate the importance of spreading risk through diversification.

Discrete Performance (%) to 31/03/2023												
Name	3 months	Sector	YTD	Sector	1 Year	Sector	3 Years	Sector	5 Years	Sector	Inception (16/03/2017)	Sector
GAM 3	2.05	1.61	2.05	1.61	-3.74	-5.94	8.46	5.22	9.83	3.99	25.52	18.17
GAM 4	2.11	1.63	2.11	1.63	-4.30	-4.80	14.41	17.20	13.37	11.89	28.44	23.71
GAM 5	2.11	2.21	2.11	2.21	-4.77	-4.54	21.17	27.01	19.14	21.88	36.93	31.55
GAM 6	2.08	2.21	2.08	2.21	-4.84	-4.54	25.50	27.01	22.51	21.88	41.26	31.55
GAM 7	2.35	2.21	2.35	2.21	-5.24	-4.54	28.79	27.01	24.45	21.88	47.07	31.55
FTSE All Share	3.08		3.08		2.92		47.41		27.85		32.07	

Source: Morningstar Direct data 31/03/2018 – 31/03/2023. Past performance is not a reliable indicator of future results. All figures given do not include any initial, on-going or product provider fees.

The sectors used as comparators with the portfolios are the respective Investment Association Mixed Investment sectors. Gemini’s GDP 3 is compared to the IA Mixed Investment 0-35% Shares sector; GDP 4 is compared to the IA Mixed Investment 20-60% Shares sector; and GDP 5, GDP 6, and GDP 7 are compared with the IA Mixed Investment 40-85% Shares sector.

The value of an investment and the income from it could go down as well as up. The return at the end of the investment period is not guaranteed and you may get back less than you originally invested.

Asset Allocation and Fund Review

The Gemini Asset Management investment team reviewed the existing asset allocation model in conjunction with the recommendations and capital market assumptions put forward by our independent actuary, Dynamic Planner. As a result of this there were no changes made to the GAM discretionary models during quarter 1 2023.