

market matters

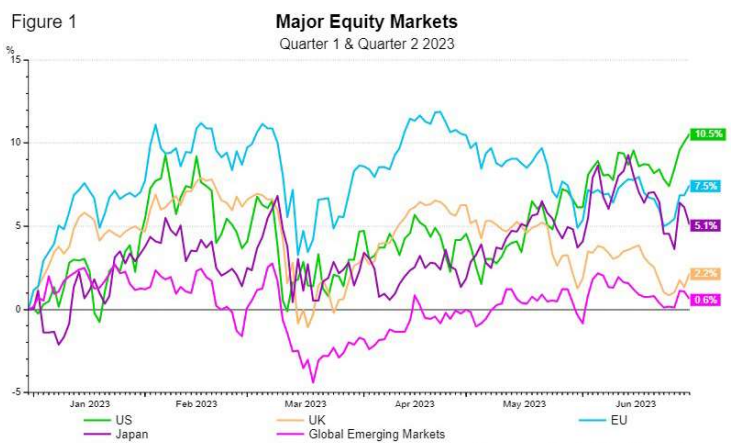
Market Summary

The optimism felt in the first quarter of 2023 continued into the second quarter, with most major economies continuing to avoid recessions and due to hopes increasing throughout the quarter that central banks may come to an end of their interest rate hiking cycles without sending the world economy into a recession. These trends led to a pronounced 'risk-on' attitude continuing to take hold which helped propel major equity markets further into positive territory, and even pushed up valuations in high yield bond sectors, although other bond sectors weren't so fortunate.

Figure 1 shows how US, European and Japanese equities are leading the way going into the second half of 2023, with the US standing out in particular after large growth stocks have bounced back strongly from their 2022 lows—another nod to that 'risk-on' and hopeful attitude for a potential change in tack to central bank policy.

The rollercoaster-like trends of high relative performance in 2022 and poor performance in 2023 has been seen in both UK equities and commodity markets in particular — some of the star players of 2022 but they have produced disappointing performance in the last 6 months. This illustrates the capricious nature of the markets in high uncertainty environments, and highlights the critical role of diversification in a portfolio.

Despite the promising start to 2023, the sharp rise in risk asset valuations over the past nine months raises the question: Is the current market pricing "Too good to be true?" This question prompts cautious optimism as we venture into the second half of the year and especially so as central bank policy, inflation and economic output are so unpredictable.



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 on the back of the Federal Reserve pausing the rate hiking cycle. Prominent 'mega-cap' tech stocks — which represent a large proportion of the US index — led the way and pushed US equity valuations higher. Positive sentiment took hold with some sectors proving to be more resilient at generating growth than the consensus had expected earlier in the year, and also due to the continued strong labour market and a substantial decrease in inflation.



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 in Q1 but gave some of this up in Q2. Much of the driver for this had previously been better than expected economic resilience and inflation coming down quickly. In Q2 however a few data points released pointed to a slowing down of the Eurozone economy and this weighed on market sentiment.



Japanese stocks continued to rise in Q2, albeit with a retraction towards the end of the quarter. Emerging Market equity trended upwards slowly with concerns regarding China's recovery process out of recession still acting as a

Fixed Income

Bond markets continued to struggle with the current landscape of high inflation, and increasing interest rates leading to continued sell offs in the high credit quality corporate bond and government bond spaces. There was a bright note in the high yield bond sector though as the 'risk-on' zeitgeist was a stronger tailwind to prices than the tailwind higher interest rates had to bond prices. As ever, it's all centred around the central bank rate policy, but in the second quarter of 2023 we finally saw some change in this—the Federal Reserve in the US paused their rate hiking cycle for the first time in more than a year! Expectations are still reflecting that there are more rate hikes to go, but the 'Fed pause' was certainly significant when considering the outlook for fixed income.

Economic Update



US inflation dropped sharply from 9% to 4%, driven by declining oil prices. However, persistent 6% wage growth and a strong labour market could lead to lingering inflationary pressures. The consensus for the US is now that 'the most heralded recession in history' is more likely to hit a little further down the line but it is still expected to be relatively mild.



The UK witnessed high wage growth in the second quarter as wage growth increased by 7% compared to the same time last year. This has acted as further fuel for the inflation story and prompted the Bank of England to hike interest rates to 5%, with the expectation that they are not yet done even at these levels.



In response to a core inflation rate above 5%, the European Central Bank increased rates to 3.5%. However, the widespread use of long-term fixed mortgages in Europe has cushioned consumers from the immediate impact of these hikes—a luxury that the European and US housing markets may claim but one which cannot be echoed for the UK housing market.



In the rest of the world, China continues to try to stimulate the economy out of recession but initial optimism at the effectiveness of the policies has started to wane. Japan also suffered a swift change in sentiment from economic positivity for finally inducing some inflation (a big deal in Japan as it had struggled to do so for years) to new worries of inflation becoming ingrained.

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 portfolio 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.

Source: Morningstar Direct data 16/03/2017 – 30/06/2023. Past performance is not a reliable indicator of future results. All figures given do not include any initial, on-going or product provider fees.

Discrete Performance (%) to 30/06/2023												
Name	3 months	Sector	YTD	Sector	1 Year	Sector	3 Years	Sector	5 Years	Sector	Inception (16/03/2017)	Sector
GAM 3	-0.19	-1.00	1.85	0.60	1.82	-0.85	1.42	-3.12	7.37	1.25	11.65	3.41
GAM 4	-0.15	-0.41	1.96	1.21	2.61	1.18	4.77	5.98	10.74	8.37	15.42	12.19
GAM 5	0.57	0.16	2.70	2.37	4.22	3.25	9.24	12.44	15.75	16.38	22.91	23.27
GAM 6	0.62	0.16	2.71	2.37	4.20	3.25	11.24	12.44	17.91	16.38	27.14	23.27
GAM 7	0.43	0.16	2.79	2.37	4.86	3.25	11.52	12.44	17.98	16.38	29.54	23.27
FTSE All Share	-0.46		2.61		7.89		33.19		16.54		27.62	

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 2 2023.