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ROYAL LONDON
ASSET MANAGEMENT

Markets end higher amid volatile quarter

2023 Q1 review

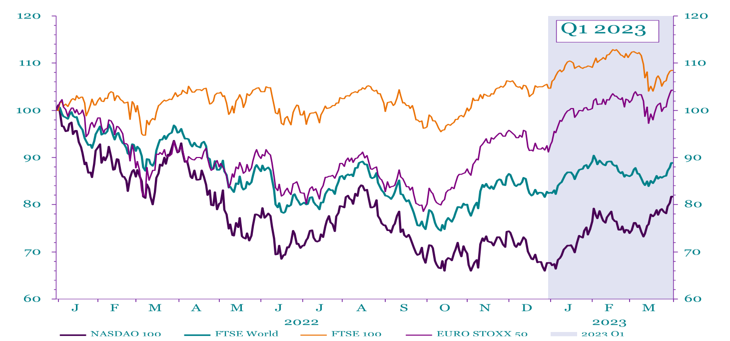
Following on from a very difficult year for investors, 2023 got off to a more positive start with a volatile end in March. Last year both equities and bond markets experienced substantial losses globally; the two asset classes recorded positive performance during the first quarter of the new year (Table 1).

Equities surged over the month of January as optimism around a China reopening, signs of peaking inflation and less pessimistic sets of economic growth data helped fuel investor hopes of a soft landing. However, the failure of Silicon Valley Bank (SVB) shocked markets in March, and caused equities to sell off. Government bonds rallied sharply as investors questioned the soundness of smaller banks and factored in a possible pause in Federal Reserve tightening. Fear around the health of the banking sector also spread over to Credit Suisse which had to be acquired by UBS with the backing of the Swiss government. These worries lessened towards the end of quarter with equity markets rallying (Chart 1), but government bonds remained volatile (Chart 2).

The key question is whether this bank stress marks the start of a problem that will take months or years to work through like the Great Financial Crisis, or a short-term event like UK's Liability Driven Investment (LDI) crisis. In the short run, we see similarities with the LDI crisis which were dealt with primarily by central bank liquidity injections. We are overweight equities but ready to become more defensive if we start to see evidence of tighter financial conditions impacting the economy – or if inflation remains elevated, forcing central banks to tighten monetary policy again.

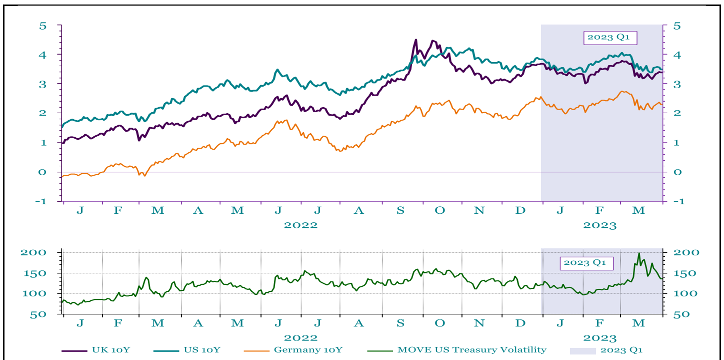
Please see the Investment Clock blog for our latest views.

Chart 1: Equity markets recover from SVB sell off



Source: Refinitiv DataStream as at 31/03/2023. Indices in local currency.

Chart 2: Yields fell sharply, volatility spiked amid SVB



Source: Refinitiv DataStream as at 31/03/2023. Indices in local currency.

Table 1: Sterling-based annual returns from major asset classes 2016 – Q1 2023

Year	2016	2017	2018	2019	2020	2021	2022	2023 Q1
1	EM Stocks +35.4%	EM Stocks +21.1%	Property +7.5%	Global Stocks +22.6%	Global Stocks +14.3%	Commodities +28.3%	Commodities +30.7%	Global Stocks +3.1%
2	Commodities +33.3%	Global Stocks +14.0%	Cash +0.6%	UK Stocks +19.2%	EM Stocks +11.9%	Global Stocks +20.0%	Cash +1.0%	UK Stocks +2.9%
3	Global Stocks +30.3%	UK Stocks +13.1%	Gilts +0.6%	EM Stocks +15.9%	Gilts +8.3%	Property +19.9%	UK Stocks +0.3%	Gilts +2.2%
4	UK Stocks +16.8%	Property +11.2%	**Multi Asset -1.6%**	**Multi Asset +9.2%**	**Multi Asset +3.4%**	UK Stocks +18.3%	**Multi Asset -4.9%**	**Multi Asset +1.8%**
5	**Multi Asset +12.8%**	**Multi Asset +6.3%**	Global Stocks -3.1%	Gilts +6.9%	Cash +0.3%	**Multi Asset +9.2%**	EM Stocks -6.4%	Cash +0.8%
6	Gilts +10.1%	Gilts +1.8%	Commodities -5.7%	Commodities +3.5%	Property -1.0%	EM Stocks +1.0%	Global Stocks -7.8%	EM Stocks -0.3%
7	Property +2.6%	Cash +0.3%	EM Stocks -7.6%	Property +2.1%	Commodities -6.1%	Cash +0.0%	Property -10.1%	Property -0.5%
8	Cash +0.4%	Commodities -7.1%	UK Stocks -9.5%	Cash +0.7%	UK Stocks -9.8%	Gilts -5.2%	Gilts -23.8%	Commodities -9.0%

Past performance is not a guide to future performance. Source: RLAM, DataStream as at April 2023; property as at February 2023. 'Multi Asset' returns are based on the benchmark weights of Royal London Global Multi Asset Portfolio (GMAP) Balanced Fund / Governed Portfolio 6. Indices used are FTSE All Share, FTSE World, MSCI Emerging Markets ESG Leaders, MSCI/AREF UK All Balanced Quarterly Property Fund, Bloomberg Commodity Index, BoAML BB-B Global Non-Financial High Yield Constrained Index, iBoxx Sterling Non-Gilt Index, FTSE Actuaries UK Index Linked Gilts, Bloomberg Barclays UK Government Inflation Linked Bond 1-10 year Index, Bloomberg Barclays World Government Inflation Linked Bond (ex UK) 1-10 year, FTSE Actuaries UK Conventional Gilts Index, FTSE Actuaries UK Conventional Gilts up to 5 Years Index, SONIA. Total returns in sterling terms.

Markets: Growth rally sees equities finish higher despite banking woes

- Despite suffering losses following the collapse of Silicon Valley Bank and the resulting worries around the health of the banking sector, global equities rebounded and finished higher for the quarter.
- European stocks outperformed as they continued to benefit from falling natural gas prices. Emerging market shares lagged peers as initial hopes of a strong China recovery underwhelmed.
- Growth sectors rallied, helped by earnings and easing policy expectations; defensive sectors underperformed in the recovery.
- Bond markets continued to recover from 2022 lows, while uncertainty around the global banking sector saw fixed income volatility spike to levels last seen during the Great Financial Crisis in 2008.
- Commodities were led lower by the energy complex as natural gas and oil prices continued to ease. Precious metals benefitted from safe-haven demand and falling real yields.
- Sterling gained broadly against G10 peers, while currencies with commodity exposure faced headwinds despite an improvement in the overall risk environment.

FX	1 GBP buys	%chg Q1 (vs GBP)	%chg 2023
USD	1.23	-2.1	-2.1
EUR	1.14	-0.7	-0.7
CHF	1.13	-0.9	-0.9
JPY	163.8	-3.3	-3.3
AUD	1.85	-3.9	-3.9
CAD	1.67	-1.7	-1.7

CB rates	Rate (%)	chg in Q1 (%)	chg 2023 (%)
Fed	5.00	0.50	0.50
BoE	4.25	0.75	0.75
ECB	3.00	1.00	1.00
BoJ	-0.03	-0.01	-0.01

Bond Yield	Yield (%)	chg in Q1 (bps)	chg 2023 (bps)
US 10 Year	3.47	-41	-41
UK 10 Year	3.49	-18	-18
EU 10 Year	2.29	-28	-28
JP 10 Year	0.35	-6	-6

	Local Currency		GBP	
Multi Asset	Q1	2023	Q1	2023
UK Stocks	3.1	3.1	3.1	3.1
Global ex UK Stocks	7.1	7.1	4.4	4.4
Gilts	2.1	2.1	2.1	2.1
UK Cash	0.8	0.8	0.8	0.8
UK Property	-0.5	-0.5	-0.5	-0.5
Commodities	-5.4	-5.4	-7.9	-7.9

	Local Currency		GBP	
Equity Regions	Q1	2023	Q1	2023
UK	3.1	3.1	3.1	3.1
North America	7.6	7.6	4.7	4.7
Europe ex UK	9.7	9.7	8.6	8.6
Japan	7.1	7.1	3.3	3.3
Pacific ex Japan	6.3	6.3	2.7	2.7
Emerging Markets	2.5	2.5	0.2	0.2

	Local Currency		GBP	
Global Equity Sectors	Q1	2023	Q1	2023
Consumer Discretionary	14.1	14.1	11.2	11.2
Industrials	6.5	6.5	4.0	4.0
Financials	-1.7	-1.7	-4.0	-4.0
Consumer Staples	2.9	2.9	0.7	0.7
Utilities	-1.0	-1.0	-3.2	-3.2
Healthcare	-1.8	-1.8	-4.2	-4.2
Energy	-3.3	-3.3	-5.5	-5.5
Materials	5.0	5.0	2.6	2.6
Communication Services	5.3	5.3	3.0	3.0
Technology	20.4	20.4	17.2	17.2

	Local Currency		GBP	
Bonds	Q1	2023	Q1	2023
Conventional Gilts	2.1	2.1	2.1	2.1
Index Linked Gilts	4.3	4.3	4.3	4.3
GBP Credit	2.4	2.4	2.4	2.4
Global High Yield	3.2	3.2	3.0	3.0

	Local Currency		GBP	
Commodities	Q1	2023	Q1	2023
Energy	-18.7	-18.7	-20.9	-20.9
Agriculture	0.0	0.0	-2.7	-2.7
Industrial Metals	-2.1	-2.1	-4.7	-4.7
Precious Metals	6.3	6.3	3.4	3.4

Note: Standard indices sourced from DataStream and Bloomberg as at 31 March 2023; Property data as at February 2023.

Investment risks – RL GMAP fund range

Investment risk: The value of investments and any income from them may go down as well as up and is not guaranteed. Investors may not get back the amount invested

Credit risk: Should the issuer of a fixed income security become unable to make income or capital payments, or their rating is downgraded, the value of that investment will fall. Fixed income securities that have a lower credit rating can pay a higher level of income and have an increased risk of default.

Derivative risk: Derivatives are highly sensitive to changes in the value of the underlying asset which can increase both fund losses and gains. The impact to the fund can be greater where they are used in an extensive or complex manner, where the fund could lose significantly more than the amount invested in derivatives.

EPM Techniques: The fund may engage in EPM techniques including holdings of derivative instruments. Whilst intended to reduce risk, the use of these instruments may expose the fund to increased price volatility.

Exchange Rate risk: Changes in currency exchange rates may affect the value of your investment.

Interest Rate risk: Fixed interest securities are particularly affected by trends in interest rates and inflation. If interest rates go up, the value of capital may fall, and vice versa. Inflation will also decrease the real value of capital.

Emerging Markets risk: Investing in emerging markets may provide the potential for greater rewards but carries greater risk due to the possibility of high volatility, low liquidity, currency fluctuations, the adverse effect of social, political and economic instability, weak supervisory structures and accounting standards.

Counterparty risk: The insolvency of any institutions providing services such as safekeeping of assets or acting as counterparty to derivatives or other instruments, may expose the fund to financial loss.

Fund investing in Funds risk: The fund is valued using the latest available price for each underlying investment, however it may not fully reflect changing stockmarket conditions and the fund may apply a 'fair value price' to all or part of its portfolio to mitigate this risk. In extreme liquidity conditions, redemptions in the underlying investments, and/or the fund itself, may be deferred or suspended.

Liquidity and Dealing risk: The fund invests indirectly in assets that may at times be difficult to value, harder to sell, or sell at a fair price. This means that there may be occasions when you experience a delay in being able to deal in the fund, or receive less than may otherwise be expected when selling your investment.

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