



# Summer sell-off strikes again

2023 Q3 review by Jake Winterton, Multi Asset Analyst

Equity markets had made a strong start to the year, as a resilient global growth picture had helped equity markets to enter the quarter in bull market territory (up 20% from their lows) amid low volatility. Over last quarter, we saw a familiar rise in summer volatility which led both stocks and bonds to decline over the quarter. Returns on global stocks still remain positive year to date but bond markets have now moved into negative territory (Table 1).

The rise in volatility came about as higher oil prices, further resilience in economic data and hawkish central bank commentary renewed fears that interest rates may stay higher for longer. US 10-year bond yields rose to their highest levels since 2007 (Chart 1). Against this backdrop of rising rates, equity markets sold off over August and September, leaving markets lower over the quarter despite rallying in July. Historically, August and September were typically the worst months for equity markets and this year has followed the seasonal pattern (Chart 2).

From a tactical point of view, we have held a positive view on stocks for most of the year, viewing the underlying resilience of the global economy as supportive for the asset class. However, given the recent move higher in volatility, we have taken a more neutral view on the asset class. Elsewhere, we have been positive on Japanese equities, which have continued their outperformance on a regional relative basis, helped by a weaker yen and continued loose monetary policy stance.

Please see the [Investment Clock blog](#) for our latest views.

Chart 1: Bond yields surged

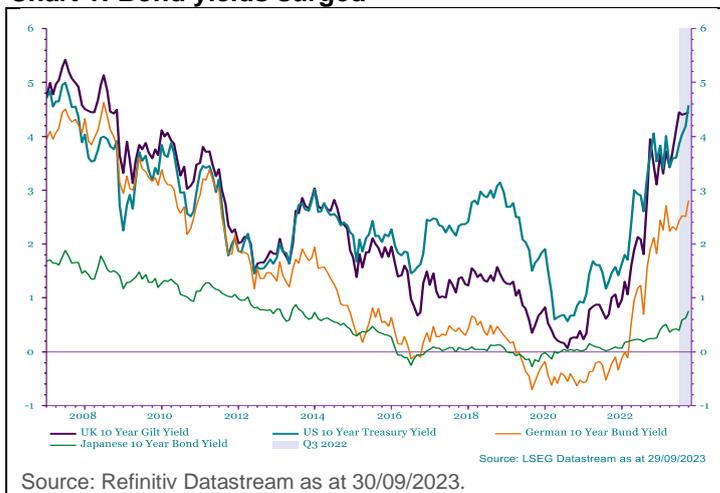


Chart 2: Stock markets fall as volatility rises from lows

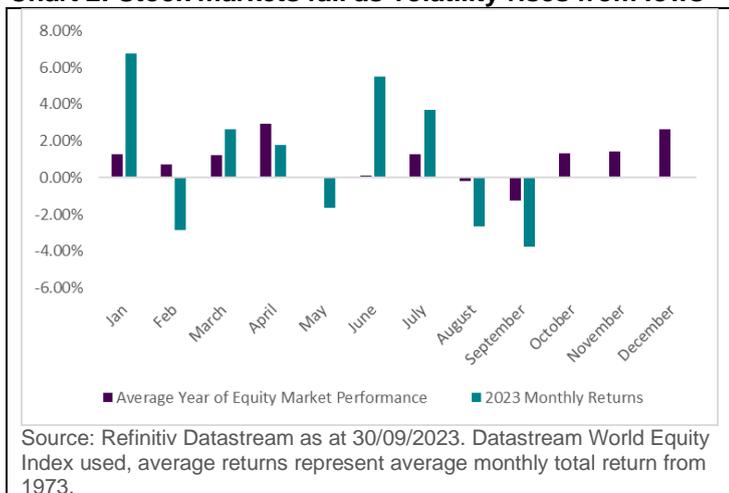


Table 1: Sterling-based annual returns from major asset classes 2016 – Q3 2023

Year	2016	2017	2018	2019	2020	2021	2022	YTD
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 +8.9%
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 +4.5%
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%	Cash +3.1%
4	UK Stocks +16.8%	Property +11.2%	Multi Asset -1.6%	Multi Asset +10.0%	Multi Asset +4.9%	UK Stocks +18.3%	EM Stocks -6.4%	Multi Asset +2.8%
5	Multi Asset +14.1%	Multi Asset +6.3%	Global Stocks -3.1%	Gilts +6.9%	Cash +0.3%	Multi Asset +8.3%	Multi Asset -7.3%	Property +1.3%
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 +0.8%
7	Property +2.6%	Cash +0.3%	EM Stocks -7.6%	Property +2.1%	Commodities -6.1%	Cash +0.0%	Property -10.1%	Gilts -4.1%
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 -4.8%

Past performance is not a reliable indicator of future results. Source: RLAM, Refinitiv Datastream as at 28 September 2023; property as at August 2023. 'Multi Asset' returns are based a mixture of 8.12% UK equities, 21.13% in global equities, 3.25% in EM equities, 7.5% in property, 5% in commodities, 5% in global high yield, 6.25% in UK IG credit, 2.5% in global IG credit, 10% in UK SD IG credit, 2.5% in UK linkers, 1.5% in UK SD linkers, 3.5% in global SD linkers, 6.75% in gilts, 2% in overseas government bonds, 5% in SD gilts and 10% in cash. 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, Bloomberg Barclays Global Aggregate Corporate 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, JPM Global ex-UK Traded Index, FTSE Actuaries UK Conventional Gilts up to 5 Years Index, SONIA. Total returns in sterling terms.

## Markets: Global Stocks Stumble on Fears of Higher for Longer

- Global equities entered the quarter at bull market levels, however suffered their first quarterly loss this year amidst a growing sense that monetary policy will remain tighter for longer than previously anticipated.
- Japanese equities proved to be more defensive in this environment, outperforming alongside UK shares on a regional equity basis. US stocks underperformed, with growth stocks struggling over the quarter.
- Bond markets suffered with sovereign bonds experiencing their worst quarterly loss in a year. US government bonds in particular underperformed as US 10-year yields rose to their highest level since 2007.
- Commodities rebounded over the quarter, despite the risk-off tone. Energy commodities in particular soared, as Brent Crude rose to over \$95/bbl.
- In currency markets, the rapid appreciation of the US dollar was the main talking point of the quarter. Meanwhile sterling depreciated, alongside the yen which moved to an 11-month low against the dollar.

	1 GBP buys	%chg Q3 (vs GBP)	%chg 2023
<b>FX</b>			
USD	1.22	4.1	-1.0
EUR	1.15	0.9	-2.1
CHF	1.12	1.8	0.2
JPY	182.2	0.5	-13.0
AUD	1.90	0.4	-6.5
CAD	1.66	1.6	-1.0

	Rate (%)	chg in Q3 (%)	chg 2023 (%)
<b>CB rates</b>			
Fed	5.50	0.25	1.00
BoE	5.25	0.25	1.75
ECB	4.00	0.50	2.00
BoJ	-0.06	0.02	-0.04

	Yield (%)	chg in Q3 (bps)	chg 2023 (bps)
<b>Bond Yield</b>			
US 10 Year	4.57	73	70
UK 10 Year	4.44	5	77
EU 10 Year	2.84	45	27
JP 10 Year	0.75	35	34

### Multi Asset

	Local Currency		GBP	
	Q3	2023	Q3	2023
UK Stocks	1.9	4.5	1.9	4.5
Global ex UK Stocks	-2.4	11.9	0.8	8.9
Gilts	-0.6	-4.1	-0.6	-4.1
UK Cash	1.2	3.1	1.2	3.1
UK Property	0.1	1.3	0.1	1.3
Commodities	4.7	-3.4	9.1	-4.8

### Equity Regions

	Local Currency		GBP	
	Q3	2023	Q3	2023
UK	1.9	4.5	1.9	4.5
North America	-3.0	13.1	1.0	11.5
Europe ex UK	-2.6	10.0	-1.6	7.6
Japan	2.2	25.8	3.1	9.6
Pacific ex Japan	-2.6	6.1	-1.1	-0.1
Emerging Markets	-0.1	3.8	2.6	0.8

### Global

#### Equity Sectors

	Local Currency		GBP	
	Q3	2023	Q3	2023
Consumer Discretionary	-3.9	19.6	-0.8	16.2
Industrials	-3.9	10.2	-1.1	6.5
Financials	0.4	4.4	3.4	1.8
Consumer Staples	-5.0	-1.7	-2.2	-3.7
Utilities	-7.3	-8.2	-4.6	-10.0
Healthcare	-1.8	-1.2	1.5	-3.3
Energy	12.3	9.2	15.6	7.3
Materials	-2.0	2.5	0.4	-0.6
Communication Services	-3.5	-0.1	-1.1	-3.8
Technology	-5.6	29.9	-2.2	26.9

### Bonds

	Local Currency		GBP	
	Q3	2023	Q3	2023
Conventional Gilts	-0.6	-4.1	-0.6	-4.1
Index Linked Gilts	-4.7	-7.2	-4.7	-7.2
GBP Credit	2.3	1.2	2.3	1.2
Global High Yield	0.5	4.8	0.5	4.5

### Commodities

	Local Currency		GBP	
	Q3	2023	Q3	2023
Energy	19.6	-4.3	24.6	-5.7
Agriculture	-3.2	-4.2	0.8	-5.5
Industrial Metals	3.5	-9.3	7.8	-10.6
Precious Metals	-3.6	-0.7	0.4	-2.2

Note: Standard indices sourced from DataStream and Bloomberg as at 30 September 2023; Property data as at 31 August 2023.

Jake Winterton is a Multi Asset Analyst within Royal London Asset Management's Multi Asset team. The team manages portfolios including the Governed Range pension portfolios, the Global Multi Asset Portfolios (GMAs), Multi Asset Strategies Fund (MAST) which is available on third party platforms, and the euro based multi asset funds that form the core of the Royal London Irish pensions offering.

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## 2023 Q3 review

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