RICHMOND HOUSE
INVESTMENT MANAGEMENT

Investment commentary

August 2023

Market overview

It continues to be a volatile period for markets and, after a strong July, global equities fell nearly 2% in local currency terms in August. Markets remain preoccupied with the inflation and interest rate outlook, and stronger than expected economic data, particularly in the US, was the main catalyst. Retail sales in the US came in well above expectations, unemployment fell and figures showed that wage growth, both in the US and globally, is moderating less quickly than central banks would like. Not for the first time in the last year then, markets have fallen on the back of generally positive economic news.

As was expected, the Bank of England ('BoE') raised rates by 25 bps to 5.25%. The Q2 growth figure in the UK came in slightly positive (versus a flat expectation) while inflation eased marginally to 6.8%. Despite this, record levels of wage growth and comments from the BoE that it may hold rates at heightened levels for a prolonged period hit sentiment, leading to the UK market falling 2.5%. It was a somewhat similar story in the eurozone, which also grew marginally in Q2 but also faces some headwinds in terms of wage growth and persistent, if falling, inflation pressures.

Emerging markets were considerably weaker than their developed counterparts over August, falling just over 6%. Much of this underperformance was driven by disappointing newsflow from China where the deflationary environment continues to put pressure on retail sales and business investment, particularly in the property sector. The People's Bank of China eased rates twice over the month and is looking at wider measures to stimulate growth and support markets, the impact of which will be a key focus for investors in the region.

In contrast, newsflow regarding the Japanese economy continues to offer some encouragement – the economy grew significantly in Q2 and productivity is on the rise. Modest increases in inflation and wage growth are being welcomed by investors given the very different economic backdrop versus the US and much of Europe, and Japan was the only major market to rise over the month.

Given the slightly more hawkish tone across developed markets bond yields rose over the month (meaning values fell). Market expectations are for rates in the US to start to come down in 2024 with potentially one more rate hike this year. All evidence still points to the 'higher for longer' interest thesis in the eurozone and the UK.

Sterling weakened against the US dollar by over 1% in August, which provided a currency gain on our dollar-denominated assets and served to hedge some of the losses across equity and fixed income markets. The UK continues to face growth and inflation headwinds and we see value and potential return upside in diversifying currency exposure across our strategies.

Strategy positioning

Uncertainties remain regarding the economic outlook and the path of inflation and interest rates however we are maintaining a full exposure to equities. So far this year company earnings in most key regions have proved more resilient than expected, while economic data has also, on balance, surprised on the upside.

Equity market valuations look undemanding relative to both long term and shorter-term averages and our expectation is for an economic and earnings recovery into 2024. Markets are forward looking and we anticipate that their focus will move away from the anaemic economic conditions this year and onto a more positive outlook next year.

We have added investments to Europe and Japan where we see excellent opportunities and it is positive that the opportunity set for investing is widening beyond the US and Asia. We also see opportunities in fixed income at current yields, and in investment grade corporate bonds in particular.

While we do see attractive opportunities across asset classes our alternative investments still have an important role to play in providing low risk and uncorrelated returns. This is particularly true in periods where volatility is heightened.

Risk warnings