Investments Matter
Quarter 3 – 2023

Welcome to Investments Matter, our quarterly review of the investment markets covering the period from 30 June to 30 September 2023.

All information correct at time of publication. This update refers to the past. Past performance is not a guide to future performance.

The value of an investment can fall as well as rise, you could get back less than invested.

Key themes:

Most stock markets declined in the three months to the end of September 2023.

However, returns from overseas company shares to sterling-based investors (in British pounds) benefited from the weakness of sterling (British pounds) versus the US dollar. For example, the FTSE USA Index declined 3.0% in US dollar terms, but returned 1.0% in sterling terms in the three months to the end of September 2023. Source FE.

The other big theme for investors in the three months to the end of September 2023 was the question of whether - after rises in borrowing costs and therefore interest rates - we would see a significant slowdown in the economy or a 'soft' landing instead. This caused ups and downs in stock markets throughout the period. It was widely agreed by investors that the world economy would avoid a major slowdown this year, but there was nonetheless a lot of nervousness in markets about what happens next, and especially in 2024.

With this in mind, investors were understandably left disappointed by central banks saying that they would keep interest rates higher for longer in order to manage inflation*. This meant that it was very unlikely that interest rates - and therefore borrowing costs for companies and consumers - would be cut before 2024. Investors had been hoping that interest rates would be cut before the end of 2023.

As at the end of September 2023, interest rates in the UK had been increased 14 times in a row since December 2021, taking them from 0.1% to 5.25% in August 2023. The Bank of England did refrain though from increasing interest rates at its September meeting, saying that inflation was falling and would continue to fall. UK bonds responded positively to this development.

In the US, interest rates have been increased 11 times since March 2022 to, and including, in August 2023. The US central bank also kept interest rates on hold at its September meeting.

*Inflation refers to the rise in the cost of goods and services.

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Equities also known as company shares

UK equities

UK equities performed better than other stock markets in the three months to the end of September. The rise in the oil price was a major positive factor for the UK stock market, helping the performance of energy-related stocks in the FTSE All-Share Index. Ongoing concerns about the UK economy, which were accentuated by the contraction in activity in July, were tamed by the Bank of England's September report suggesting that at 5.25% interest rates were close to their peak. A meaningful decline in inflation in the 12 months to the end of August also helped.

Japanese equities

Japanese equities once again achieved positive returns, supported by record low interest rates. However, like other markets the Japanese stock market was negatively impacted by the 'higher for longer' mantra and the rise in US government bond yields, and therefore the decline in US bond prices. The Bank of Japan adjusted its monetary policy again in its attempt to reduce inflation. Growth stocks, and therefore technology companies, declined as a result, while financial stocks performed well.

Asia Pacific ex Japanese equities

The three-month period was another difficult one for Asia. Concerns about the Chinese economy, which is still struggling to recover from the pandemic, and the country's property market, weighed on investor sentiment. The People's Bank of China cut interest rates for the second time in three months in August to help the economy.

European equities

Like other markets, confidence in European stocks was hurt by the US central bank saying it could not rule out further interest rate rises. Gains in the oil price also took their toll on confidence in European equities along with the European Commission revising down its economic forecast. It warned that stubbornly high prices for goods and services were taking a bigger toll on consumers and the economy.

US equities

US equities lagged other markets in the period. The resilience of the US economy, as reflected in much stronger- than-predicted jobs data for August, has become something of a poisoned chalice for the US stock market. Economic strength means that the US Federal Reserve is less likely to cut interest rates - or at the very least - stop increasing interest rates for now. US central bank chief Jerome Powell confirmed this by saying that the bank could not rule out further rises in interest rates.

Emerging market equities

Emerging market equities netted a positive return in sterling terms, however lost value in local currency terms. Worries about the Chinese economy combined with the expectation that interest rates in the US would remain higher for longer created a challenging backdrop for the riskier parts of the investment market, and therefore the shares of companies in parts of Asia, Latin America and eastern Europe.

Fixed Interest (government and corporate bonds)

US government bond yields, which move inversely to bond prices, increased. Overseas government bonds therefore lost value. UK government bonds outperformed their US peers. Losses from UK government bonds were also modest compared to previous quarters and short-dated UK government bonds achieved positive returns. Corporate bonds, including UK corporate bonds, and high yield bonds, which are the riskiest types of bonds, also achieved gains in the period.

This update is for information purposes only.