DART CAPITAL

Market Commentary

February 2023

The strong start to the year for equity markets tapered off over the second half of the month, as the strength of US and European economic data pushed up expectations for further interest rate increases.

UK

The start of the month saw the Bank of England's Monetary Policy Committee (MPC) raise the base rate by 50 basis points, bringing it up to 4%, having voted 7-2 in favour of the move (with the two dissenting members voting for no hike). In their next meeting in late March, the MPC are expected to decide between a further 25 bps hike, and no increase, with the inflation figures released in the week prior to the meeting expected to heavily influence the Committee's decision. In contrast to other major regions, the UK economic data was more muted, with the Consumer Price Index declining from 10.5% in the 12 months to December, to 10.1% in January. Gilt yields rose markedly over the month in line with the US, ending the period 49 bps higher at 3.82%.

In a recent meeting with our third-party economist firm, Pantheon, they noted that they expect UK inflation to decline to 2% year-on-year by the end of this year, and average c.6% for the year as a whole. The biggest risks to this forecast are energy prices, which – having declined significantly from their peak last October – are difficult to predict, and wage growth, which in certain sectors of the economy is still catching up to the high headline level of inflation of 2022.

The UK equity market inched higher over the month, with MSCI UK All-Cap gaining 1.4% in capital return terms.

US

February saw a raft of very strong US economic data, with jobs growth, inflation and household spending all coming in above economist expectations. Particularly striking was the January payroll data which showed a creation of over 500,000 jobs, however this was boosted by an upwards seasonal adjustment of c.3 million jobs (from a loss of c.2.5m jobs in actual terms) to reflect the seasonal reduction in payrolls from December to January, an adjustment which likely distorted the market's perception regarding the strength of the labour market. Inflation, as measured by the Consumer Price Index (CPI) declined less than the market expected, falling from 6.5% in the 12 months to December, to 6.4% in January. Whilst the strong data should also be taken in the context of the unusually warm weather across the north-east of the US over January, which likely served to boost household spending and business activity, it has increased the markets expectations for tighter Federal Reserve monetary policy.

Investment Managers

Richard Whitehead
richard.whitehead@dartcapital.com

Chris Bellchambers
chris.bellchambers@dartcapital.com

Andrew Savage
andrew.savage@dartcapital.com

Anna Whittle
anna.whittle@dartcapital.com

Research Team

Alexander George
alexander.george@dartcapital.com

Joe Healey
joe.healey@dartcapital.com

Daniel Patterson
daniel.patterson@dartcapital.com

Dart Capital
61 Queen Street, London EC4R 1EB
Tel: 020 7283 1117
Fax: 020 7283 0891

Dart Capital Limited is registered in England and Wales.
Company number: 2146006
Dart Capital Limited is authorised and regulated by the Financial Conduct Authority. FCA registered number: 137569

In their early February meeting, the Federal Reserve's monetary policy committee (known as the FOMC) raised the Federal Funds rate by 25 basis points to 4.75%, with further increases of this magnitude expected in their next two upcoming meetings. The resilience of the economy to the marked tightening of monetary policy over the last year – with 450 bps of rate hikes since last March – has been notable. This has caused the lag with which monetary policy effects the real economy to become much debated, with some members of the FOMC even arguing that there may not be much of a lag at all owing to structural changes in the economy. Supported by third party research we receive, our view is that the lag is very real, and may well have be more extended in this cycle. This is in large part because of the significant excess savings households accumulated throughout the Covid period, whilst strong US asset prices throughout 2020-21 also helped contribute to a healthy cushion for many wealthier US households which many had underestimated. US Treasury yields pushed higher over the month, with the yield on the 10-year Treasury ending the period up 38 bps at 3.91%.

US large-cap stocks, represented by the S&P 500, declined 2.6% in US Dollar terms over the month.

Eurozone

European economic data also surprised to the upside over the month, with survey data from the services sector coming in ahead of economist expectations. The inflation rate declined to 8.6% year-on-year in the 12 months to January from 9.2% in December, although this was ahead of the 8.5% expected by economists, whilst figures for February from Spain – which is the first to report of the major Eurozone economies - also came in significantly above market expectations at the very close of the month. European equities outperformed most regional markets over the month, with MSCI Europe ex-UK gaining 1.2% in local currency terms.

Asia

To the disappointment of equity markets, China's emergence from its zero-COVID policy only had a modest impact on its economic data over the month, with its manufacturing sector still in contraction based on survey data, although the services sector significantly beat expectations, returning to growth over January. MSCI China H ended the month down 7.2%. Despite the appointment of a new Governor and downward pressure on the Yen, Japan's Central Bank (BoJ) have indicated publicly that, for now at least, that they are committed to supressing bond yields through their bond buying programme, in large part because they believe any significant tightening of monetary policy would reinforce the deflationary mindset which has dominated in Japan for much of the last 30 years. Despite these statements, we expect the BoJ to eventually alter their policy, and as a result we believe the Yen is undervalued at these levels. Japanese stocks, represented by MSCI Japan, ended the month up 0.7% in Yen terms.

Commodities

The weakness in the price of both gold and silver over the month reflected the rebound in the US Dollar, with both tending to fall during sharp rallies for the greenback. Whilst this correlation tends to hold over short time periods, we note that this price weakness does not reflect the supply side challenges of the mining industry, with the cost of extracting both gold and silver having increased significantly over recent years. On the demand side, we see buying of gold by Central Banks as they attempt to diversify away from the US Dollar, and silver's integral role in the energy transition, as providing solid long-term demand growth, in addition to their longstanding role as a store of value. The gold price ended the month down 5.2% in US Dollar terms.

This document does not constitute advice or a personal recommendation or take into account the particular investment objectives, financial situations or needs of individuals. This document is not intended for further distribution. This document has been prepared with all reasonable care and is not knowingly misleading in whole or in part. The information herein is obtained from sources which we consider to be reliable but its accuracy and completeness cannot be guaranteed. No responsibility is taken for any losses, including, without limitation, any consequential loss, which may be incurred by anyone acting on information in this document. The opinions and conclusions given are those of Dart Capital Limited and are subject to change without notice. The value of investments and the income from them are not guaranteed and can fall as well as rise and clients may not get back their original investment. We do not risk rate individual funds when recommending an overall portfolio, therefore, any particular fund in isolation may pose a higher or lower risk when compared against a client's agreed attitude to risk. Unless stated otherwise, investments within the overall portfolio will collectively be aligned to a client's agreed risk profile. The return on investments denominated in foreign currencies may increase or decrease due to the movements in exchange rates between sterling and the foreign currency. Inflation will reduce the value of an investment over time. Investments in cash, bonds and gilts will reduce in value if the return is less than the rate of inflation. Some investments e.g. property funds may be less liquid and investors may not be able to realise their investment immediately or the price may reflect a forced seller discount. It should be remembered that past performance is not necessarily a guide to future performance.