DART CAPITAL

# Market Commentary

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Equity markets made modest gains over the month, aided by hopes that Central Banks – led by the US Federal Reserve - are reaching the end of their rate hiking cycles. Over April, we moved to further increase our bias towards high quality bonds, reflective of our view that global liquidity will continue to tighten over coming months.

## US

Survey data over the month indicated that banks have continued to tighten their lending standards since March's bank failures, as they seek to conserve capital amidst a rising cost of deposits. In the labour market, company layoff intentions have also picked up, as have jobless claims and continuing claims, although much of the weakness has been concentrated in higher paid jobs in sectors which are more sensitive to the rising cost of capital. In lower paid roles – where there has been a dearth of available labour – demand has remained relatively buoyant, particularly in areas such as leisure and hospitality where jobs are still c.500,000 below their pre-COVID level, indicative of potential catch-up hiring over coming months. Although inflation declined again according to data released over the month, with the year-on-year increase in the CPI slowing to 5% in the 12 months to the end of March, from 6% in the prior month, core inflation was more resilient, increasing to 5.6% year-on-year from 5.5% in February.

The Federal Reserve have outlined their expectation that they will carry out a further 25 bps hike in May which would bring the Federal Funds rate to 5.25%, before possibly pausing in June, albeit subject to the data over the intervening period. Corporate earnings season kicked off over the second half of the month, with a number of the mega-cap technology companies overcoming increasing cost pressure to beat lowered analyst expectations. The S&P gained 1.5% over the month in US Dollar terms.

# UK

UK survey data indicated that the services sector expanded at its fastest pace in six months in April, bolstered by the continued moderation in energy prices and mortgage rates. UK inflation fell less than expected, with a CPI figure of 10.1% in the 12 months to the end of March, only down slightly from 10.4% in February, whilst core inflation, which excludes food and energy costs, was unchanged at 6.6%, bolstered still by buoyant wage growth. Rising input costs have clearly lagged in the UK, with energy prices in particular only increasing from April last year, thus the second half of this year will likely see UK inflation decline sharply, notwithstanding another shock to energy prices. In light of the stubborn inflation figures, the Bank of England are expected to raise the base rate by a further 25 basis points in their May meeting. This increase was realised by the time of publication.

The month saw a surge in acquisition activity across the UK stock market, with several reported bids for UK listed companies, reflective of what we still see as significant long-term value in good quality small and mid-cap stocks. One such beneficiary was our favoured UK smaller company fund, which saw a top 10 holding, Medica, receiving one of these bids, at a c.33% premium to its prior share price. Earlier in the month, the bid for Industrials REIT by US behemoth Blackstone at a c.40% premium helped bolster sentiment for listed UK property companies, with the bid demonstrating – in our view - the opportunity in industrials and logistics property assets which are continuing to see strong tenant demand and limited new supply.

The UK equity market, represented by MSCI UK All-Cap gained 3.3% over the month in capital return terms, although this was largely driven by the largest constituents in the index, such as Astra Zeneca, which benefitted from investor inflows into “defensive” sectors and has pushed valuations up to elevated levels, whereas returns from small and mid-cap stocks have been far more muted.

# Eurozone

The European Central Bank are firmly committed to further interest rate hikes, with a 25 bps hike expected in the meeting in early May. This increase was realised by the time of publication. Declining inflation stalled in the data released over the month, with Spain – which is seen by many economists as being a leading indicator for other Eurozone countries - seeing the rate of inflation actually increase to 4.1% in the 12 months to April, compared to 3.3% in March. Inflation for the currency bloc as a whole stood at 6.9% in the 12 months to March, according to figures released over the month. We trimmed European equity exposure across mid and mid-high Risk Strategies during the month, following very strong performance from the region’s equity market over the prior 6 months, which has driven valuations back up to more normal levels. MSCI Europe ex-UK gained 1.5% over the month in local currency terms.

# Asia

China’s economic data continued to strengthen over the month, with the nascent recovery in consumer spending starting to broaden out further, whilst the much-maligned property sector saw a pick-up in transactions. Chinese stocks made modest gains over the month, with MSCI China H ending the month up 4.4% in local currency terms over the month. In spite of domestic inflation reaching multi-year highs, Japan’s Central Bank re-committed to their zero-interest rate policy late in the month, which pushed the Yen down 3% against the US Dollar over the month.