



# Market and Model Update

## Waypoint Asset Management | July 2023

### Introduction

As the curtains begin to fall on 2023, the year in review has, thus far, delivered for those who remained invested. In this edition of our Model and Market update, we unpack and analyse investment cases for global investment regions.

Global equity markets rose in July. Interestingly, emerging markets outperformed developed markets, a departure from the trend that characterised much of the year so far. Interestingly, smaller, and mid-caps have also demonstrated strong performances. These gains were underpinned by decreased inflation in multiple developed markets, notably the United States.

### USA

US stocks experienced a rally, with economic indicators signalling resilient growth and a decline in inflation. The Federal Reserve (Fed) implemented a 0.25% rate increase during the same month. However, the central bank remained noncommittal about further rate hikes in September, although prevailing expectations suggest this might be the last hike in this cycle.

There's a growing sense of optimism that the central bank might have successfully orchestrated a "soft landing," wherein it curbs growth and manages inflation without triggering a recession. In June, inflation, as measured by the consumer price index (CPI), rose by 0.2% compared to the previous month, following a 0.1% increase in May. This growth was below market predictions and brought the annual rate down to 3.0%. During Q2, the US economy expanded at an annualized rate of 2.4% quarter-on-quarter, surpassing economists' projections of 1.8% growth.

Expectations of reduced supply drove advances in energy stocks. Notably, select media and technology giants, as well as several banking stocks, saw notable gains. On the other hand, healthcare and consumer staples sectors lagged, though overall, no sector reported negative returns.

### Euro Zone

Eurozone equities enjoyed tailwinds, propelled by a decrease in inflation and positive economic expansion data. Notable growth sectors included real estate, energy, and materials. Muted sectors included consumer staples, information technology, and utilities.

The European Central Bank implemented a 25-basis point interest rate hike in July. Nonetheless, investor sentiment tilted positively towards the notion that the central bank is nearing the conclusion of this hiking series. The estimated annual inflation rate for the Euro area in July was 5.3%, a decline from June's 5.5%.

Growth figures revealed a 0.3% quarter-on-quarter expansion of Eurozone GDP in Q2. Forward-looking data disclosed in July indicated a cooling economy. Specifically, the flash Eurozone Purchasing Managers' Index (PMI) for July fell to an eight-month low of 48.9, showcasing weaker manufacturing activity. (In PMI surveys, a reading below 50 signifies contraction, while a reading above 50 signifies expansion.)



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Second-quarter earnings season, which began in July, started on a resilient note highlighting the market's ability to adapt and thrive in difficult conditions. Despite broad resilience, some companies in the food and beverage sector experienced reduced volumes as consumption eroded due to elevated prices. On the other hand, bank earnings blossomed from increased earnings derived from higher interest rates.

### Japan

The Japanese equity market experienced a gradual increase, with the TOPIX Total Return index rising by 1.5% in local terms. This growth was primarily driven by mid and small-cap stocks, which previously lagged during the June surge. Consequently, the Nikkei 225 saw a minor decline of -0.1%.

The month started with the Nikkei reaching a 33-year high, yet it subsequently retreated due to profit-taking sentiment. The market then tracked sideways, awaiting quarterly earnings reports and the scheduled Bank of Japan (BOJ) policy meeting later in the month.

Quarterly earnings results in Japan were robust; however, concerns arose regarding potential policy shifts by the BOJ. Worries persisted that if the BOJ were to implement tighter policies, it could adversely impact the stock market. Ultimately, BOJ Governor Ueda opted for moderate adjustments and the impact on the equity market was consequently limited.

Japan's macroeconomic indicators, including the BOJ tankan survey, wage growth, consumption trends, and resilient consumer price index (CPI) data, showed continued positive developments. These collectively reinforced the optimistic perspective on Japan's macroeconomy. The positive macro backdrop was further affirmed by solid quarterly earnings results.

### Asia (ex-Japan)

Asia ex-Japan equities recorded a positive performance in July, with all index markets closing in positive territory. The Chinese government announced its determination to shore up China's flagging economy with new initiatives to boost consumption. Share prices in China were boosted after Beijing promised measures to boost sluggish economic growth by supporting real estate sales and other struggling sectors.

The stock markets in Malaysia, Singapore, Taiwan, and South Korea saw impressive growth. Singapore's stock market was boosted by strong tourism data and the positive performance of banks, which had resilient margins. Meanwhile, foreign investors in Taiwan overlooked concerns over geopolitical tensions and invested in rapidly growing AI and chipmaking stocks. Similarly, South Korea experienced solid gains due to the ongoing enthusiasm for AI-related stocks.

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## Emerging Markets

Emerging market (EM) equities experienced a surge in performance, surpassing developed market equities. This was due to the Chinese government displaying economic support for the real estate and consumption sectors and promising to reduce local government debt burdens. The rise in commodity prices also provided some EM countries with a boost.

Turkey was the best-performing index market, reversing June's significant underperformance. Colombia benefited from stronger energy prices while broader commodity price strength was supportive for the South African market, as was growing optimism that the worst-case scenario of winter blackouts would be avoided.

India underperformed as persistent food price rises kept headline inflation elevated. Taiwan lagged as continued strength in AI-theme stocks was offset by weakness elsewhere. Egypt was the worst-performing index and the only EM to post a negative return.

## Digital Assets

In July, Bitcoin experienced a decline of -4.1%, reducing its year-to-date performance to +76.7%. During the same period, Ethereum also dropped by -4.0%. Conversely, altcoins demonstrated stronger performance, particularly within the decentralized finance sector. Notable contributors to this were MakerDAO with a remarkable +47.7% increase, Uniswap with a notable +24.0%, and Compound with a solid +18.8% growth.

Following a two-year legal battle, Ripple, a token issuer, achieved a significant triumph against the SEC. Judge Torres declared that Ripple's sale of tokens on public exchanges did not violate securities law. This ruling brought clarity, indicating that listing a token on an exchange does not constitute an unregistered security offering. However, it was acknowledged that a direct sale before listing might be considered a security offering. This verdict triggered a relief rally among altcoins, as it contradicted certain aspects of recent SEC filings against Coinbase.

## Conclusion

The first two quarters of 2023 have been positive as the world economy shakes off the turmoil of 2022. July continued to sing a similar tune, kickstarting the 3<sup>rd</sup> quarter on a positive note.

Our asset allocation has been maintained since May 2023 and will continue to be upheld. We will actively monitor market news and disruptions to ensure that our clients' portfolios remain optimized and secure.



***"The Stock Market is a device for transferring money from the impatient to the patient" - Warren Buffet***