



# Market update

April 2023

## April 2023: quiet after (or before?) the storm

Especially in view of the recent banking crisis, April was a remarkably dull month for financial markets. At least at first glance that is, under the surface there were some notable shifts.

Both global stock markets and European government bonds delivered returns of rounded 0% in April. This avoided a shock effect resulting from the collapse of several banks in the US and Switzerland (including Silicon Valley Bank and Credit Suisse). The problems of another US regional bank, First Republic, also failed to trigger financial markets. This was reflected in volatility indicators, which reflect the mobility of (and hence uncertainty about) financial markets. After a brief rebound in March, the VIX index, which measures volatility in stock markets, dropped to levels below historical averages in April. In bond markets, volatility in the second half of March had risen to its highest level since the 2008-2009 credit crisis, but in April it fell back to pre-March banking crisis levels. That being said, this still leaves bond market volatility well above historical averages, but in fact this has been the case since late 2021 when the multi-year trend towards ever lower interest rates was broken.



While interest rates on European government bonds barely moved on balance in April, European corporate bonds did experience a reasonable month. Investment grade corporate bonds delivered a monthly return of 0.7% and the more risky high yield bonds a return of 0.5%. In equity markets too, the picture was more diverse than the monthly return of -0.1% for the MSCI World Index suggests. European stock markets performed relatively well, returning 2.5% in April, while US stocks produced a negative monthly return of 0.3%. This partly reflected the 1.7% depreciation of the US dollar against the euro in April. Measured in dollars, the US stock market did achieve a positive monthly return. The biggest underperformers in April were stock markets in Asia and emerging markets, which both fell by 2.7%.

Finally, European listed real estate showed a sharp price recovery in April, with a return of over 5%. However, this recovery by no means makes up for the previous months' losses. Over the past 12 months, real estate remains by far the worst-performing asset class.

The returns on the various asset classes were as follows:

Rendementen (total return, in euro's)	april	Q2	2023	12 mnd
Bloomberg Barclays Eurozone Staatsobligaties	-0,1%	-0,1%	2,4%	-8,4%
Bloomberg Barclays Euro Bedrijfsobligaties	0,7%	0,7%	2,5%	-4,3%
Bloomberg Barclays Euro High Yield Bedrijfsobligaties	0,5%	0,5%	3,2%	-0,9%
FTSE/EPRA Europe Onroerend Goed	5,1%	5,1%	-0,6%	-31,6%
MSCI Europe Aandelen	2,5%	2,5%	11,3%	7,1%
MSCI North America Aandelen	-0,3%	-0,3%	5,8%	-3,2%
MSCI Asia Pacific Aandelen	-2,7%	-2,7%	0,7%	-6,7%
MSCI World Developed Markets Aandelen	-0,1%	-0,1%	5,9%	-2,9%
MSCI Emerging Markets Aandelen	-2,7%	-2,7%	-0,2%	-10,5%
EUR/USD	1,7%	1,7%	2,9%	4,5%

Source: Bloomberg

## First quarter of 2023 delivers mixed picture on state of global economy

In recent weeks, growth figures for the first quarter of 2023 have been announced for almost all major economies. These provide a mixed picture regarding the state of the global economy. For instance, the US economy grew less than expected at 0.3% quarter-on-quarter, while the Chinese economy actually posted a better than expected 2.2% quarter-on-quarter growth. In the eurozone, a quarter-on-quarter growth of 0.1% came in marginally lower than expected, but at least it kept the previously feared recession at bay. Within the eurozone, southern European economies performed significantly better than the German economy, which stagnated in the first quarter after also contracting by 0.4% quarter-on-quarter in the final quarter of 2022.

Not only the extent to which economies grow, but also the sources of economic growth differ from region to region. In the US, growth in the past quarter came mainly from consumer spending, fuelled partly by the strong US labour market. Consumers were also the main contributor to growth in China, helped by the recent termination of the zero COVID policy. In Europe, growth was more evenly spread across consumer and government spending and business investment, but the main positive contributor to growth in the past quarter was exports of goods and services.



### **Upcoming quarters to get worse rather than better, compared with the past quarter**

Compared with a year ago, the European economy has now grown by 1.3%, the US by 1.6% and the Chinese by 4.5%. These are reasonable growth rates in themselves, at most slightly below structural growth rates for all regions. Economists assume, however, that growth in the rest of 2023 will be lower rather than higher. For the whole of 2023, growth is now expected to be 0.6% for the eurozone and 1.2% for the US. For 2024, the outlook is not much better, and in the case of the US, more likely worse. For China alone, economists are more positive, forecasting growth of 5.5% for all of 2023 and 5% for 2024.

The subdued consensus expectations are in line with the IMF's latest outlook. After a cautious upward revision of the growth outlook early this year, the IMF recently revised its expectations for the world economy for 2023 and 2024 downwards again. The IMF now reckons the global economy will grow by 2.8% in 2023, instead of the 2.9% previously expected, and by 3.0% in 2024 (was 3.1%).

### **Increased interest rates are starting to be felt, including in the real economy**

The main explanation for the subdued mood among economists is the sharp rise in interest rates. The fallout has now spread to the banking sector, as the collapse of some regional banks in the US and Credit Suisse in Switzerland has shown. The turmoil appears to be contained, at least for the time being, although the effects of higher interest rates are not expected to be limited to the banking sector, but are likely to spill over to the real economy via the transmission mechanism of less lending in the period ahead.

Central banks are therefore finding themselves in an increasingly difficult position. Inflationary pressures are still far too high, at least in Europe and the US, but with continued unabated interest rate hikes until inflation is under control, the likelihood of a severe economic downturn also increases. For the ECB, this dilemma is not yet very urgent. The ECB is still expected to implement one or more rate hikes in the coming period, although at a less punitive pace than in recent times. In the US, the picture is different. There, the end point seems to be in sight as far as interest rate hikes are concerned. Especially if the debt ceiling negotiations were to lead to a crisis in the summer months, it is unlikely that the Fed would then continue to raise interest rates further.

### **Not everything is doom and gloom, for those who look closely...**

Even though the outlook for the global economy does not seem very bright, there are glimmers of light too. For instance, energy prices have fallen sharply compared with a year ago. The recently announced cut in oil production by OPEC countries has failed to push up oil prices and gas prices have also only fallen further recently, which is certainly a windfall for the European economy. Other commodity prices, such as that of lithium, which is important for batteries and rechargeables, also fell. Lower commodity prices not only have a dampening effect on inflation, they also benefit the real economy.

In addition, the recent reopening of the Chinese economy remains beneficial for the global economy, especially now that previous disruptions to global supply chains seem to be a thing of the past. While relations between the US and Europe on the one hand and China on the other remain strained, which is not favourable for the global economy, recent statements by US Treasury Secretary Janet Yellen and European Commission President Ursula von der Leyen and others, suggest that things are not quite as bad as they might seem.

### **Mixed outlook for all asset classes**

With the mixed outlook for the global economy and ongoing uncertainty about the development of inflation and interest rates, we see little upward potential for all asset classes at the moment. Equities have shown a decent recovery so far this year after the downright bad 2022 stock market year, but are vulnerable to falling profit margins and a possible resurgence of the recent banking crisis. Government bonds have also started 2023 reasonably well, after last year's sharp price falls, but uncertainty about interest rate developments in the months ahead is high. The 10-year euro swap rate has been hovering around 3% for the past six months, but within a fairly wide range of approximately 2.5-3.5%. For the further course of interest rates, the main question now is how central banks will deal with the conflicting signals on inflation and the real economy in the second half of 2023. The current market expectation that the Fed will have finished raising interest rates after May and the ECB will make at most 2-3 more rate hikes does not seem unreasonable, but the expectation that in any case the Fed will cut interest rates sharply again in the second half of the year seems exaggerated. This seems a plausible scenario only if inflationary pressures ease rapidly in the coming period and/or economic growth falls sharply, but we see insufficient evidence for both at the moment.

## Disclaimer

This document has been prepared by ASR Vermogensbeheer N.V.(hereafter: "a.s.r. vermogensbeheer"). a.s.r. vermogensbeheer is a manager of investment funds and is supervised by the Netherlands Authority for the Financial Markets ("AFM") in Amsterdam and holds a licence to manage investment institutions pursuant to Section 2:65 of the Dutch Financial Supervision Act (Wft.) Under its licence, a.s.r. vermogensbeheer is authorised to provide the following investment services: individual portfolio management, provision of investment advice and reception and transmission of orders in relation to financial instruments. a.s.r. vermogensbeheer is entered in the register referred to in Section 1:107 of the Financial Supervision Act.

While the contents of this document are based on sources of information that are deemed reliable, no guarantee or representation is given as to the accuracy, completeness and relevance of such information, either explicitly or implicitly. The information provided is purely indicative and subject to change. Projections are not a reliable indicator of future performance. No rights can be derived from the contents of this document, including any calculated values and presented performance. The value of your investments may fluctuate. Past performance is no guarantee of future performance.

All copyrights and other information in this document are the property of a.s.r. vermogensbeheer. The information is confidential and exclusively intended for particular recipients. This document is not intended as investment advice, as it does not take account of clients' personal situation, nor is it aimed at any individual client. In addition, the information provided in/by means of this document does not constitute an offer or financial service of any kind.

Nor is the information intended to encourage any person or organisation to buy or sell any financial product, including units in an investment fund, or to purchase any service from a.s.r. vermogensbeheer, and nor is it intended to inform any investment decision.

Please refer to the prospectuses, fund terms and conditions and key investor information documents (KIIDs) of the a.s.r. vermogensbeheer investment funds mentioned in this presentation for more information on the applicable terms and conditions and risks of these funds. Copies of these documents and the annual reports, as well as all information about a.s.r. vermogensbeheer, are available at [www.asrvermogensbeheer.nl](http://www.asrvermogensbeheer.nl). a.s.r. vermogensbeheer's products are exclusively intended for professional investors.

---

## **a.s.r.**

Archimedeslaan 10

3584 BA Utrecht

[www.asrvermogensbeheer.nl](http://www.asrvermogensbeheer.nl)

ASR Vermogensbeheer N.V. - KvK 30227237 Utrecht