Allianz
Global Investors

07/2023

Market Snapshot

Equity Snapshot

United States

US equities advanced over July, with the S&P 500 Index touching its highest level since January 2022 in the closing days of the month. Shares were boosted by hopes of a soft landing given a further fall in the US headline inflation rate as well as data underlining the continued resilience of the US economy. The start of the earnings season was generally positive, although news at the company level was mixed.

The US economy remained remarkably resilient in the face of higher rates. Second-quarter GDP growth beat forecasts with a 2.4% annualised expansion, accelerating from 2.0% in the first quarter. Early indications for July suggested the S&P Global US composite purchasing managers' index dropped to 52.0, down from 53.2 in June and the softest pace of expansion since February. But other data was mixed. Non-farm payrolls rose by a weaker-than-expected 209,000 in June, the lowest monthly increase since the end of 2020, while data for April and May was revised downward. However, consumer sentiment surged in June, with the University of Michigan's indicator reaching 72.6, the highest level in almost two years.

Europe

Eurozone equities closed July modestly higher. The region was hit by extreme weather, with southern Europe experiencing record-high temperatures (leading to devastating wildfires), while northern Europe saw torrential rain and gales. Political risk also returned to the region. The Dutch coalition government collapsed after failing to reach an agreement over immigration. In Spain, the general election failed to deliver the expected swing to far-right parties, resulting in a period of uncertainty where the largest parties will try to establish a working coalition. Real estate was the standout sector, while consumer staples, health care and utilities all closed the month lower.

The eurozone economy grew by a stronger-than-expected 0.3% in the second quarter, compared with stagnant activity in the first three months of 2023. The flash estimate of the HCOB eurozone composite purchasing managers' index (PMI) declined to an eight-month low of 48.9 in July. Services activity continued to expand, but at the slowest rate in six months, while manufacturing activity fell to a 38-month low.

Asia

Asian equity markets advanced in July. Despite further evidence of a slowdown in China's economy, sentiment was lifted by hopes of further stimulus measures from the Chinese authorities. Speculation that US interest rates may have peaked, and the US economy may experience a soft landing, also helped. The tech-heavy markets of Taiwan and South Korea also gained, although semiconductor stocks were held back by news that TSMC had lowered its outlook for 2023. ASEAN markets moved higher, buoyed by signs of easing inflationary pressures and the prospect of further stimulus from Chinese authorities. Indian equities continued their upward trajectory, hitting new all-time highs before retreating slightly as mixed corporate results pressured key sectors of the stock market.

Bond

In July, global bonds were mixed. Corporate bond returns were positive, but government bonds struggled with yields in many markets, moving modestly higher as a resilient US economy underpinned expectations that rates would stay higher for longer. Japanese bonds made the headlines after 10-year bond yields rose to the highest level in nine years in anticipation of further monetary policy normalisation from the Bank of Japan. Meanwhile, UK gilts were among the strongest performers as the UK inflation rate fell by more than expected in June.

Outlook

After the 0.5% interest rate rise by the Bank of England and a pause from the Federal Reserve in June, US and UK policymakers joined the ECB in raising rates by 0.25% in July. The underlying data showed that the headline inflation rate continued to ease in the US and the Eurozone, with rates at their lowest levels since March 2021 and January 2022, respectively. Second-quarter GDP growth was also stronger than anticipated, with the US numbers especially resilient in the face of higher rates. The latest UK inflation figures showed a notable downward shift in both the headline and underlying inflation rates, with the readings coming in below expectations after several months where UK inflation had surprised to the upside.

As the macro data from the US remains resilient, with unemployment near multi-decade lows, inflation easing and consumer spending holding up, economists are increasingly optimistic that the Federal Reserve can engineer a "soft landing" scenario for the US economy.

China's economy, which rebounded in Q1 2023 thanks to its post-Covid reopening, is now weakening again on the back of lower global demand for its exports because of slowing economies elsewhere. There is also the impact of some reorganisation of global supply chains—e.g., the "China-plus-one" trend, where companies additionally expand their operations outside China with the aim of building more resilient supply chains. With this month's data confirming the recent slowdown trend, the Chinese authorities pledged to step up economic support, with a focus on expanding demand domestically and boosting confidence. Foreign investors and multinational companies in particular await the specifics of what form any stimulus may take.

So far in this earnings season, underlying earnings have been reasonably strong across sectors (excluding energy), with many companies exceeding expectations, primarily driven by recovering margins. Guidance has been more positive than in the previous quarters, and there are early signs, especially in the US, that EPS growth may be returning after 12 months of declines.

As always, our focus will remain on opportunities that best compound client wealth over the long-term. Valuation multiples are near long-term averages, but there is a wide divergence between different sectors and types of stocks, so opportunities to add positions in quality companies with high earnings visibility and robust growth remain.