HSBC Global Research
26 June 2023

Q2 in review

Multi-Asset Bulletin

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Multi-Asset - Global

- We provide a summary of the major events and developments across macro and major asset classes in Q2
- OPEC+ cuts, US debt ceiling negotiations, and higher-than-expected rate hikes all caught our eye
- The full note contains a further look at multi-asset performance and correlation metrics

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Inflation remained heavily in focus during Q2, with markets keen to assess the extent of any let-up. Broadly, headline inflation continued to moderate, but core inflation proved harder to budge, particularly in DM. US inflation edged down further in Q2, but core inflation stayed more elevated due to sticky services inflation – largely driven by rents – while slowing food price inflation and lower energy prices saw headline inflation decelerate more quickly. Eurozone headline inflation nudged up at the start of Q2 as energy inflation returned to positive territory on the back of base effects, while the release for May surprised to the downside. Yet, similarly, core pressures still stood more persistent. The UK saw a couple of shocking prints, with upside surprises in April and May. In May, headline CPI stayed stubbornly steady at 8.7% y-o-y, despite softer petrol and food price growth, and the core CPI rate jumped to 7.1% y-o-y, marking a fresh 31-year high.

Activity data held up relatively well in Q2. The global composite PMI kept rising above 50, to reach 54.4 in May – the best reading for 18 months. Yet, the resilience was driven by a thriving service sector, while aside from a few exceptions, manufacturing activity was bleak. In particular, manufacturing weakness was most pronounced in the eurozone, where both output and new orders stood lacklustre. With that said, the final Q1 GDP print for the eurozone was revised down, to -0.1% q-o-q, officially marking a technical recession. Mainland China's recovery remained in the spotlight, although on a sourer note than in Q1. Following a strong bounce-back in Q1, China's Q2 activity data widely disappointed: industrial output, FAI and retail sales all missed market expectations in May, and the property sector failed to stabilise. More broadly, **labour markets stayed tight and wage pressures continued, but there were some signs of cooling.** In the US, non-farm payrolls beat consensus expectations in April and May, and JOLTS data for April registered a fresh uptick in job vacancies. Wage growth was particularly punchy across Europe: UK regular pay growth unexpectedly jumped back to above 7% 3m/yr in April. But, widely, there were signs of the tightness easing, such as in the US where initial jobless claims climbed in Q2.

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Q2 saw further hikes across major **central banks.** The European Central Bank delivered a 25bp rate rise both in May and June. While the Bank of England followed suit in May, they opted for a more aggressive move in June, raising policy rate by 50bp to 5.00%. The US Federal Reserve also hiked by 25bp in May, but then kept rates steady in June for the first time in over a year. However, despite no policy action, the Federal Open Market Committee (FOMC) nevertheless remained firmly hawkish in its tone – the median FOMC policy rate projection rose 50bp; its forecast for year-end unemployment fell while that for core PCE inflation increased. Other central banks were not done with tightening yet either: Sweden's Riksbank lifted the policy rate by 50bp in April, as did Norway's Norges Bank in June, stepping up from a 25bp hike in May, and the central banks of Canada and Australia both surprised markets with 25bp hikes in June; the Reserve Bank of Australia also hiked by 25bp in May, while the hike from the Bank of Canada came after a more prolonged pause marking its first rate rise since January. In contrast, the People's Bank of China took supportive action amid concerns that the economic recovery is waning and delivered cuts to key lending rates in June, including cuts of 10bp to the one-year and five-year loan prime rates, in an attempt to stimulate activity.

Arguably the main event was the US debt ceiling negotiations that rattled markets upon Fitch placing the US's AAA rating on negative watch. In the end, a deal was reached to suspend the US's USD31.4 trillion debt limit to January 2025, although in exchange for some spending constraints.

FX performance was mixed in Q2 across G10 and EM (charts 1-2).

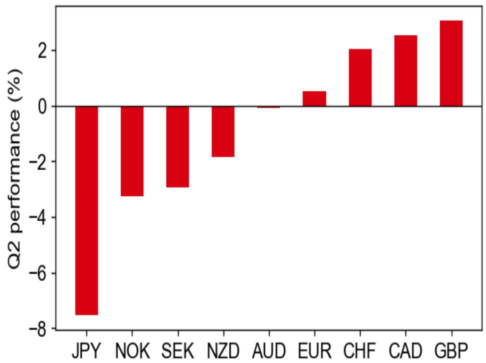
Rates markets saw yield rises over Q2, largely driven by hawkish central bank expectations, **while credit spreads** tightened in Q2, in line with the broader risk-on backdrop (charts 3-4).

Global equities continued to rise in Q2 2023, with gains accelerating in June. At the regional level, DM equities significantly outperformed EM equities (charts 5-6).

Oil prices rallied in the beginning of April after the OPEC+ announced a surprise production cut of 1.16mbd. However, oil prices were unable to stay above the trading range seen earlier in the year in April as concerns about weakness in the banking sector spread into the oil market. Oil prices were unable to hold their ground in May as well, as wider macroeconomic concerns dominated the market once again. On June 4, OPEC+ made no changes to its planned oil production cuts for this year, however Saudi Arabia announced further voluntary supply cuts.

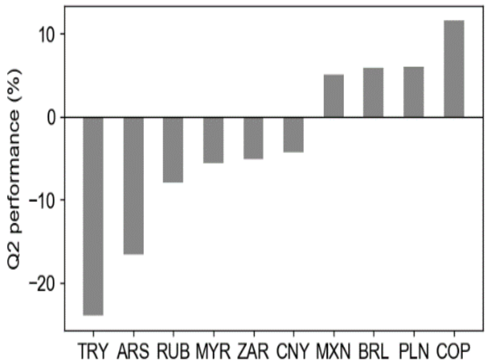
Gold posted losses in Q2 – gains in April, but losses in May and June.

1. G10 FX performance in Q2



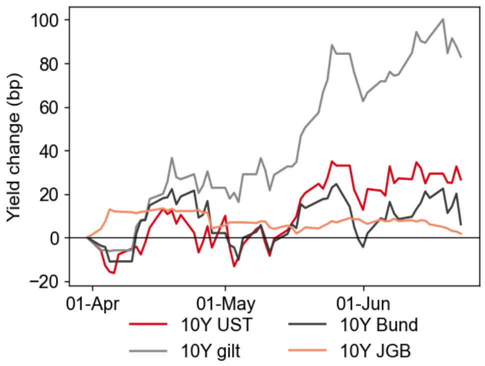
Source: HSBC, Bloomberg

2. Large movers in EM over Q2



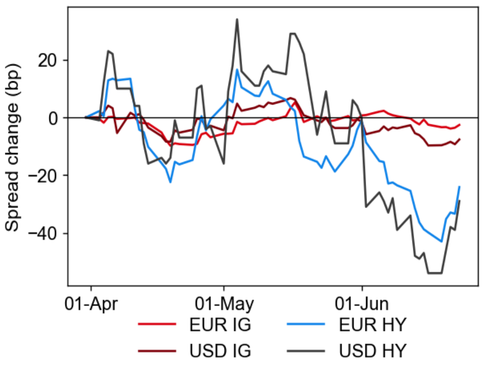
Source: HSBC, Bloomberg

3. Performance of DM rates markets in Q2



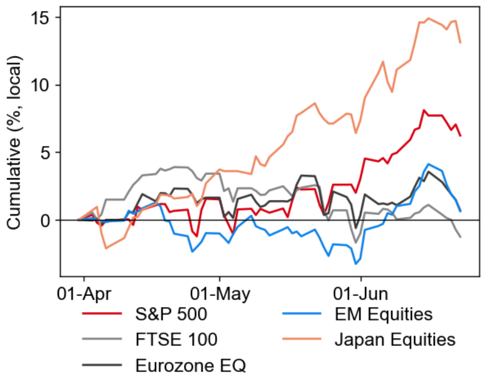
Source: HSBC, Bloomberg

4. Performance of credit markets in Q2



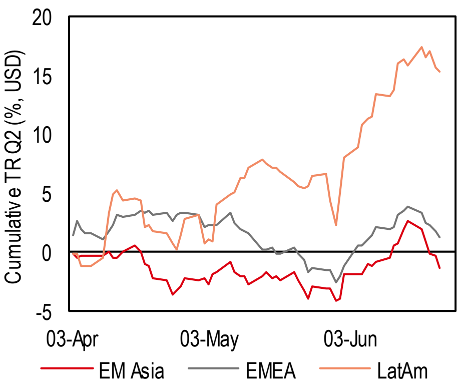
Source: HSBC, Bloomberg, Markit

5. Performance of DM equity markets



Source: HSBC, Bloomberg

6. Performance of EM equity markets



Source: FTSE Russell, FactSet, HSBC

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