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LGPS MARKET UPDATE

Q2 2023

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INFLATION – NOT YET ON THE UDDER SIDE

MATT

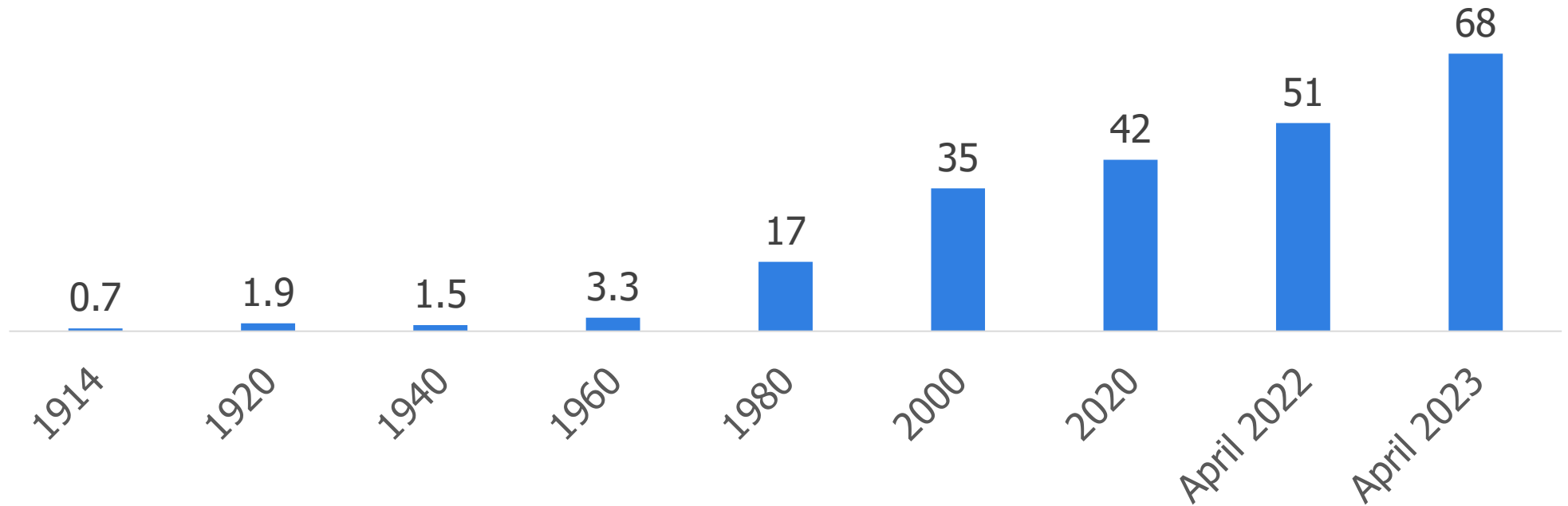
FOOD PRICE INFLATION



Source: Daily Telegraph

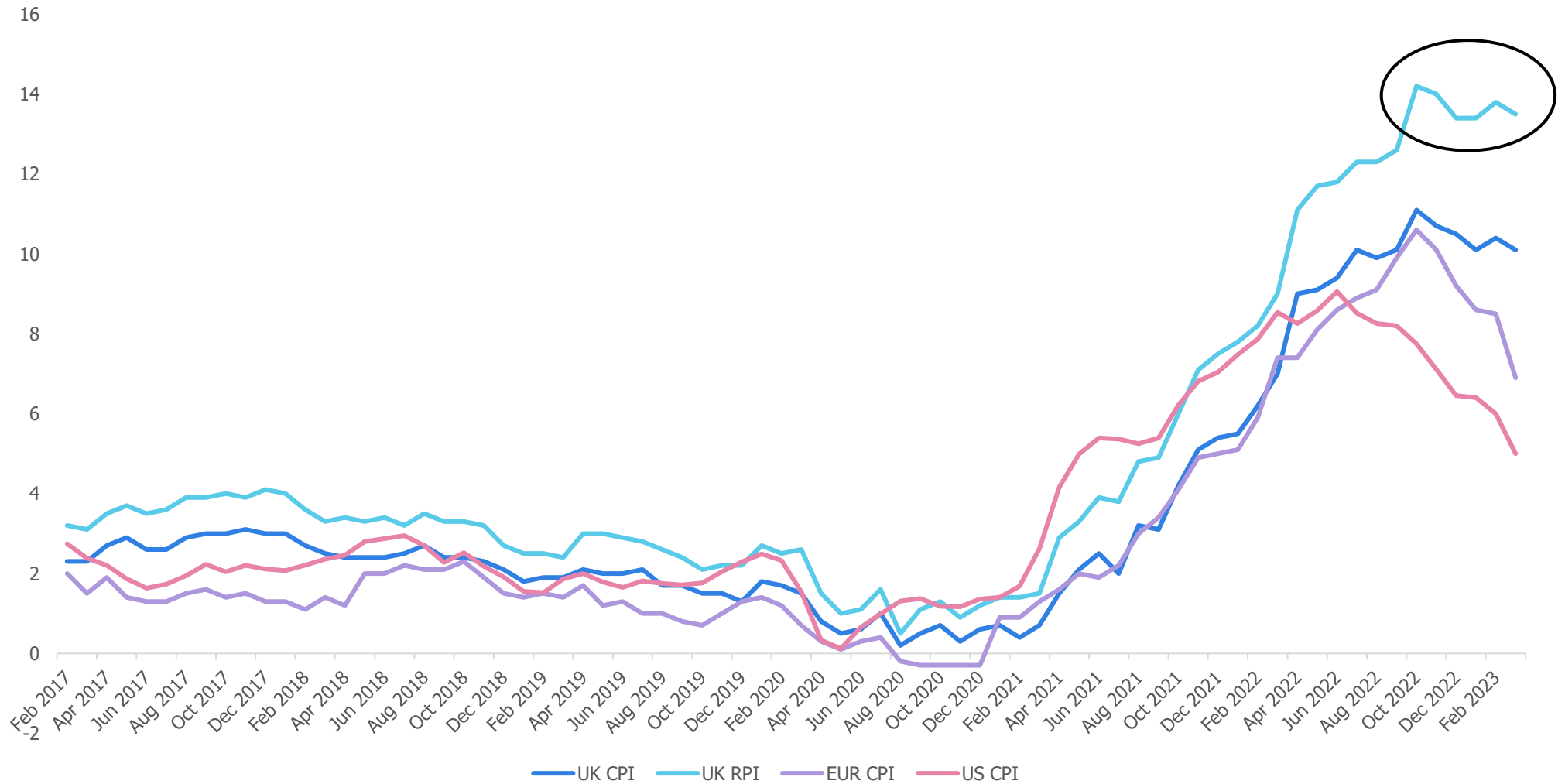
CONSUMERS MILKED FOR EVERY PENNY

Cost of a Pint of Milk



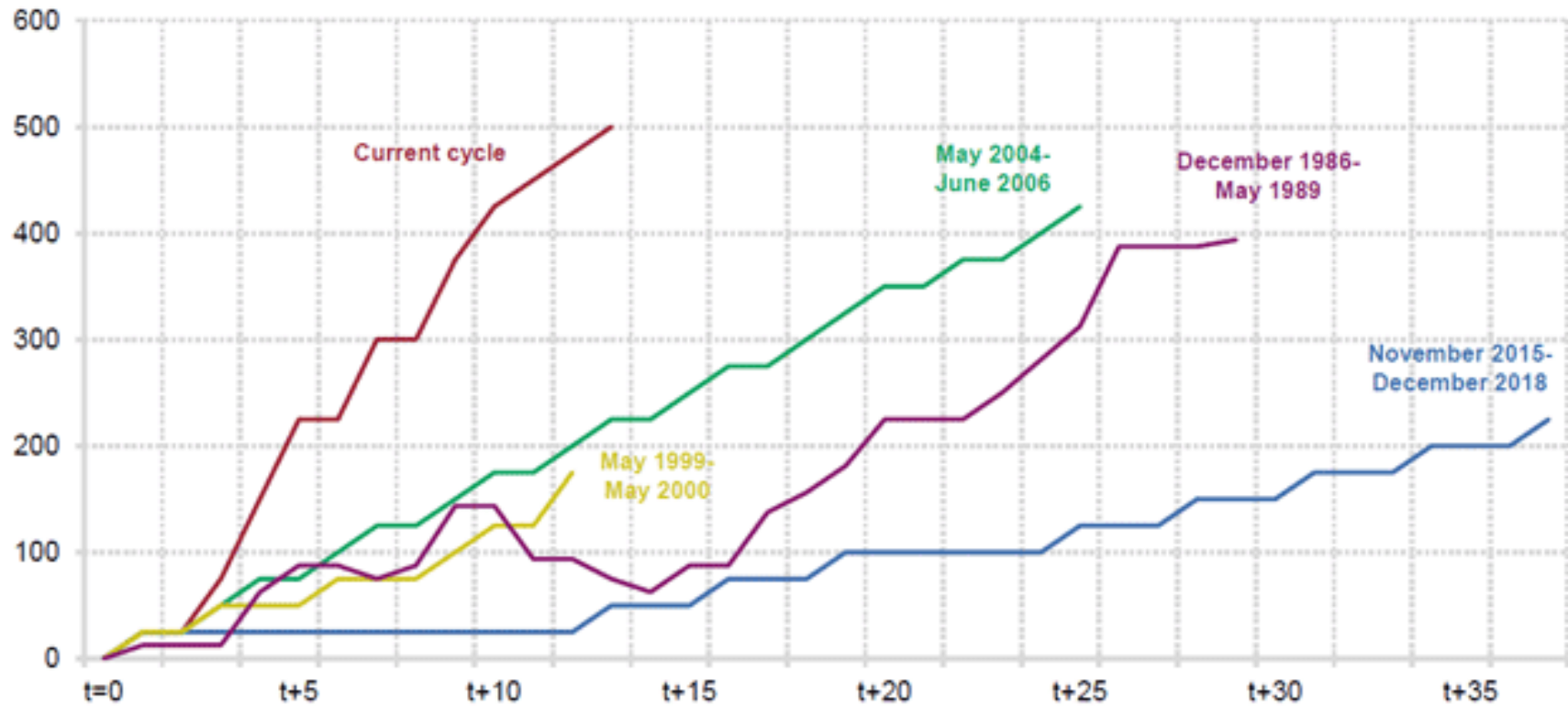
INFLATION FALLING AT AN UNEVEN PACE

Inflation – US, UK, Eurozone



FAST AND FURIOUS TIGHTENING CYCLE COMING TO AN END

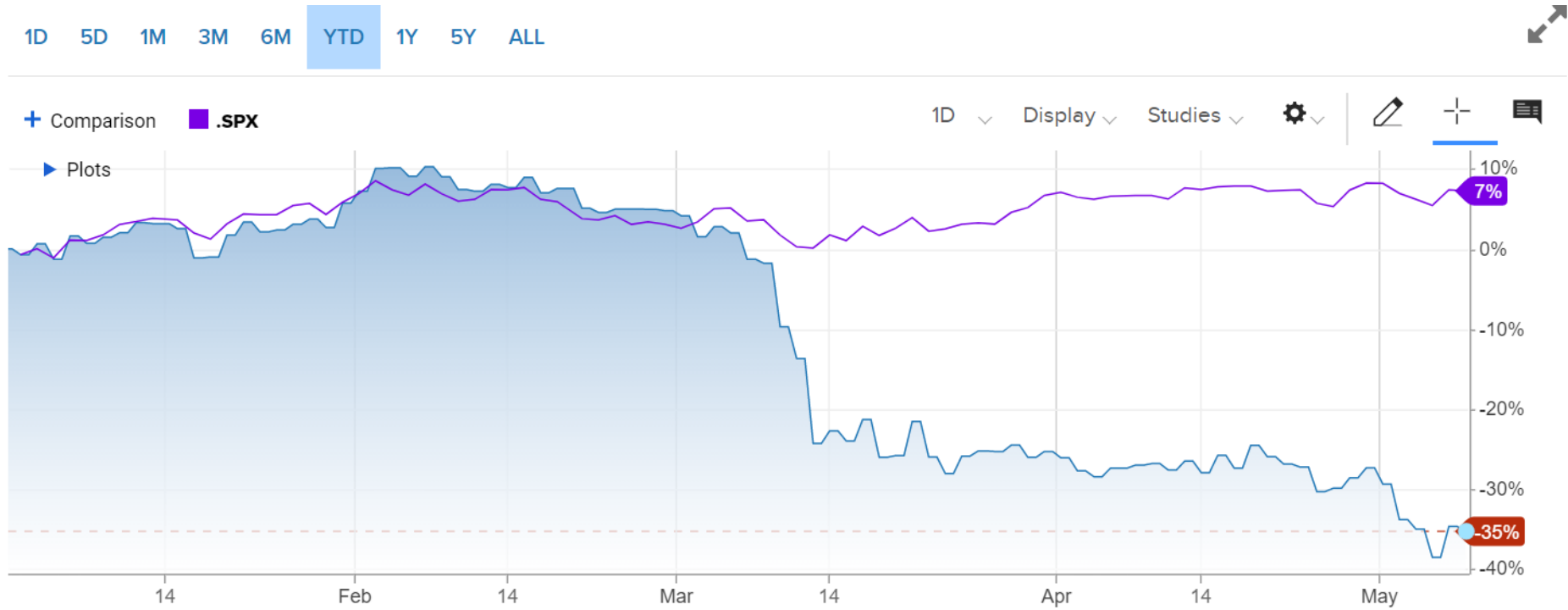
Cumulative Change in Federal Funds Rate Since First Hike
(basis points)



Source: Haver Analytics, Rosenberg Research

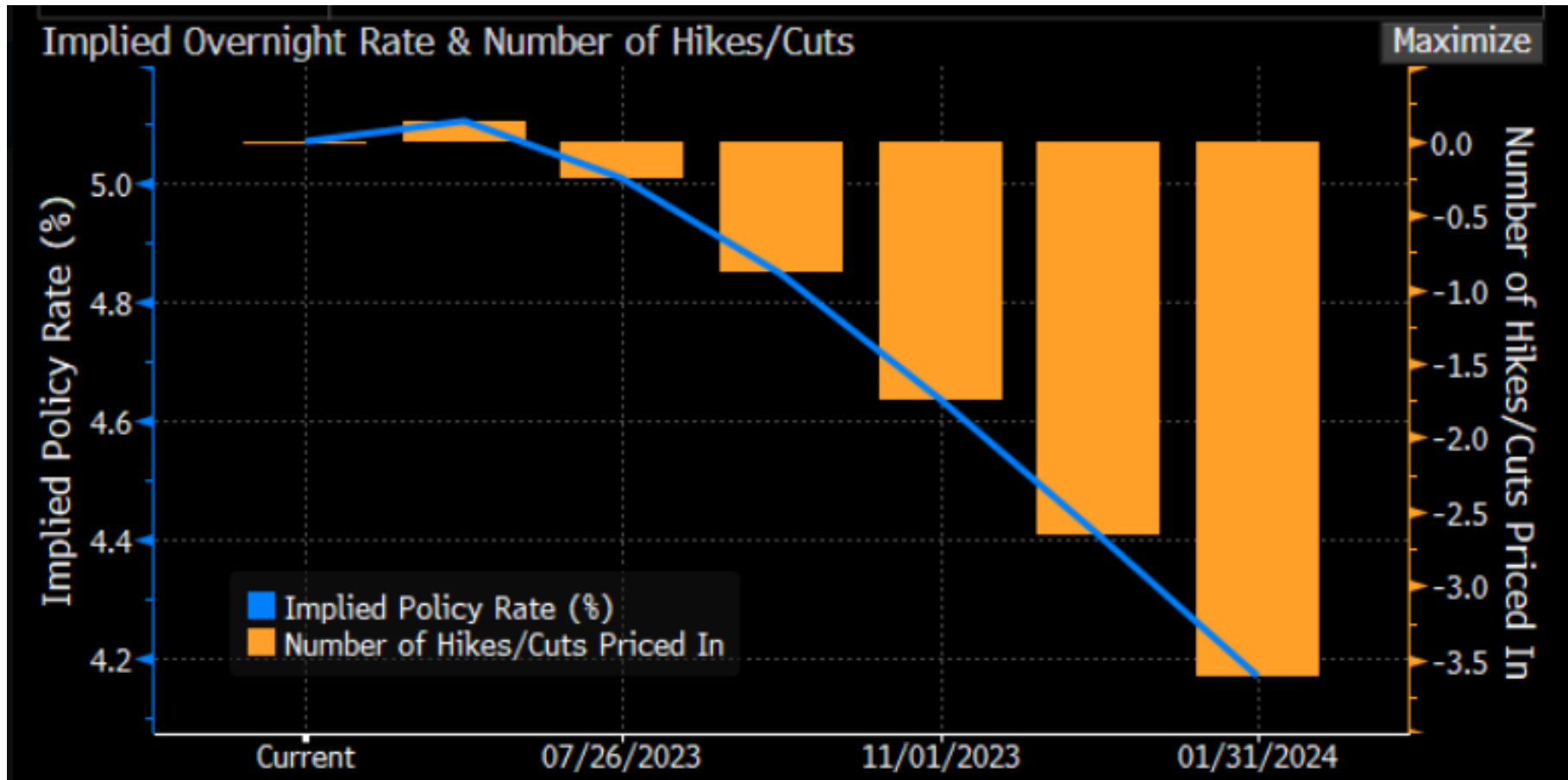
WORRIES OVER US REGIONAL BANKS

US Regional Bank ETF vs S&P 500



Source: CNBC

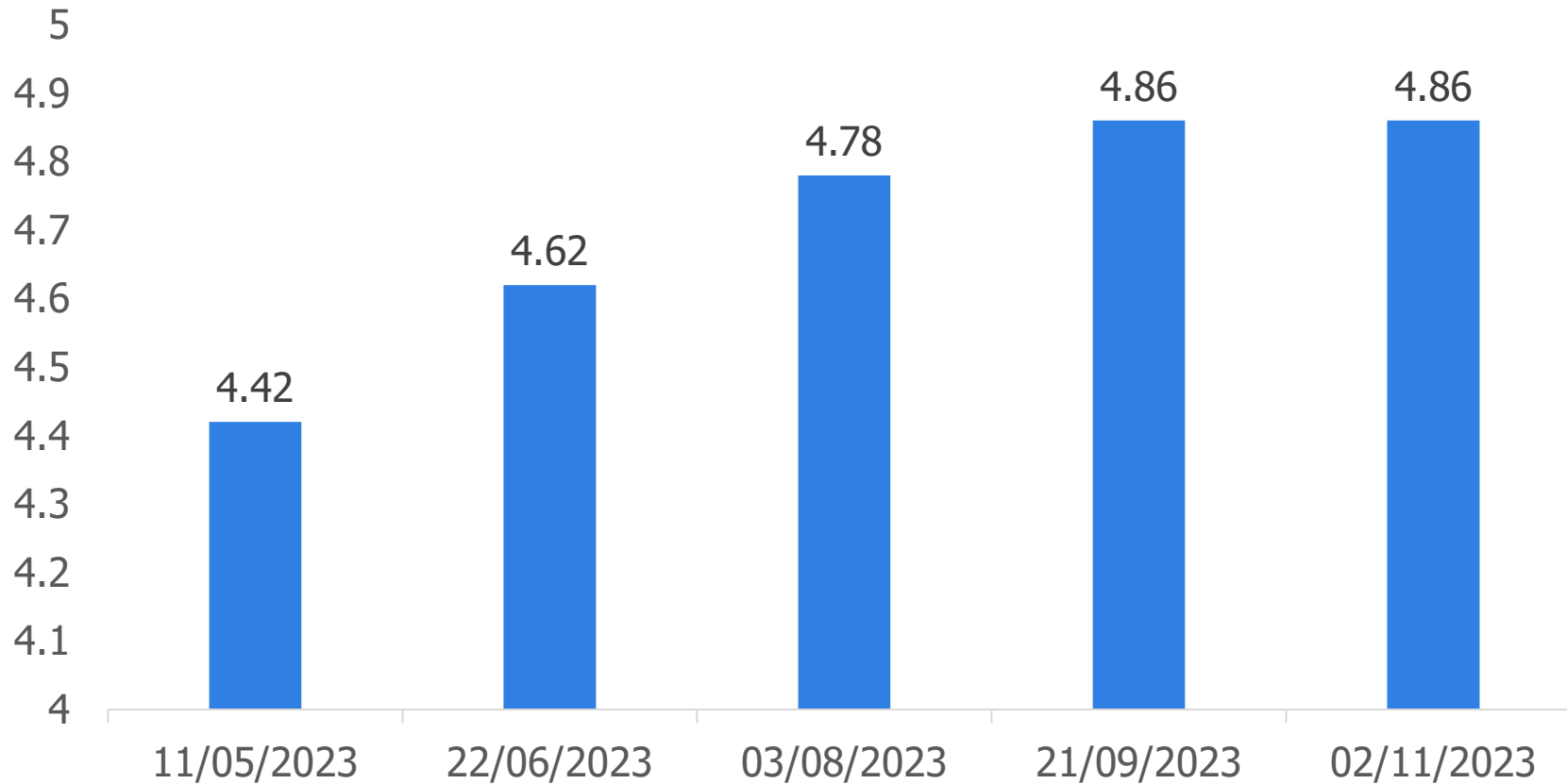
MARKETS EXPECTING A SHIFT TO US RATE CUTS



Source: Bloomberg

A MORE HAWKISH PICTURE IN THE UK

BoE Interest Rate Expectations (Market Implied)

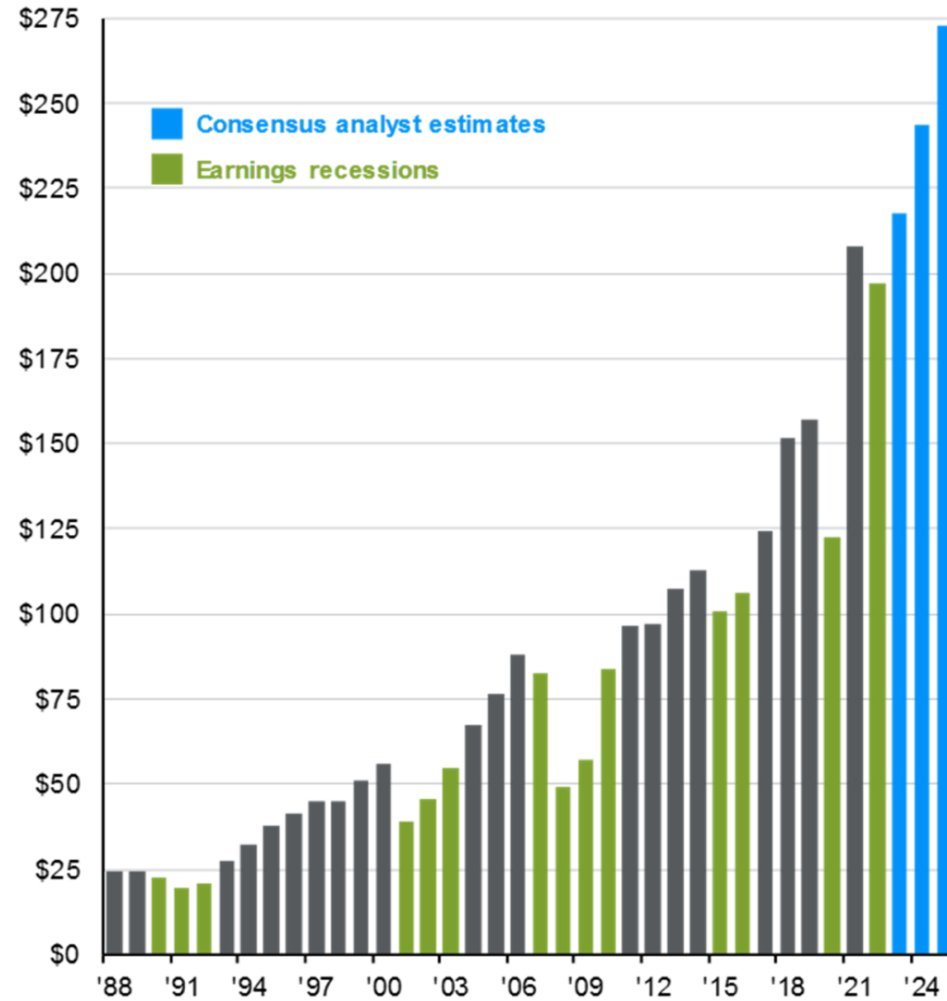


Source: Citi

EQUITY MARKETS

ANALYSTS THINK THE EARNINGS RECESSION IS OVER

S&P 500 earnings per share
Index annual operating earnings, USD

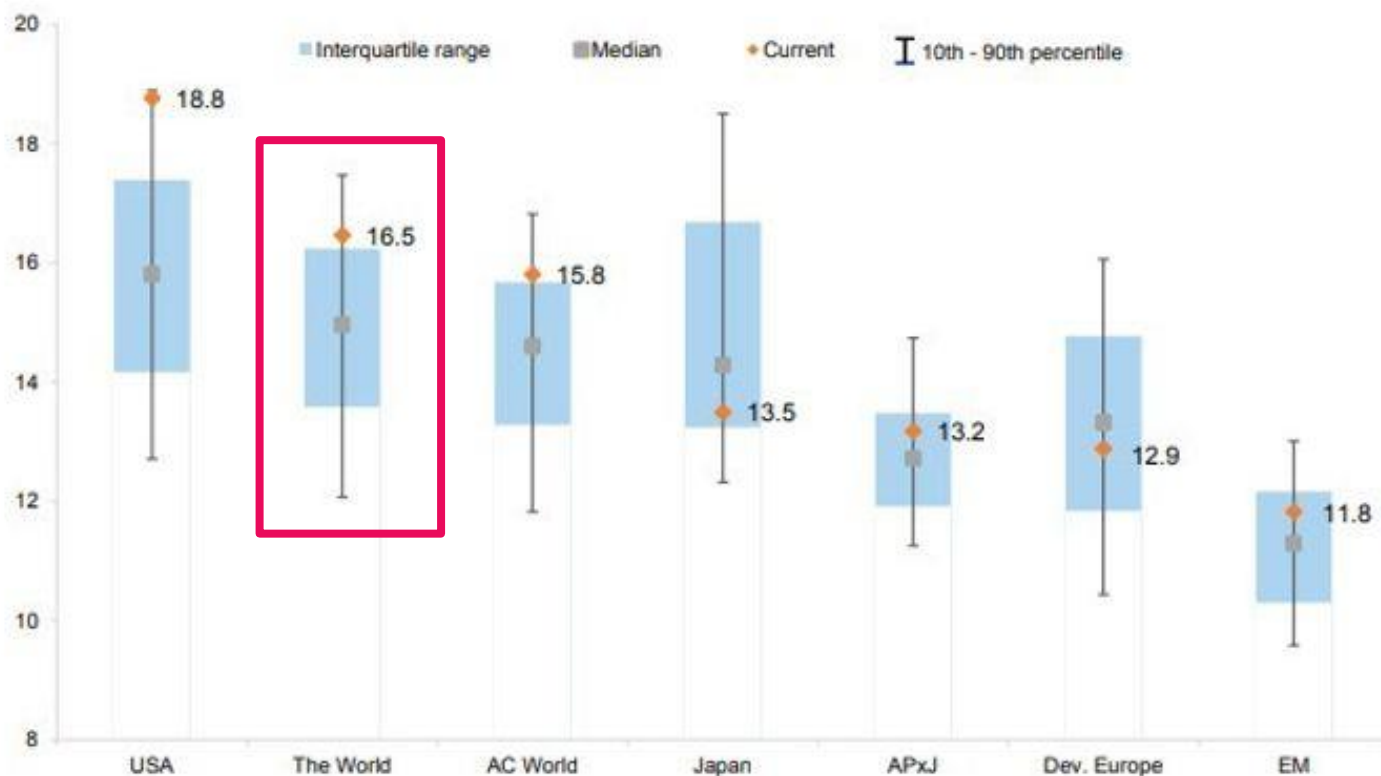


Source: JP Morgan

EQUITIES NOT CHEAP BY HISTORICAL STANDARDS

Exhibit 7: Equity markets, particularly in the US, remain expensive versus history

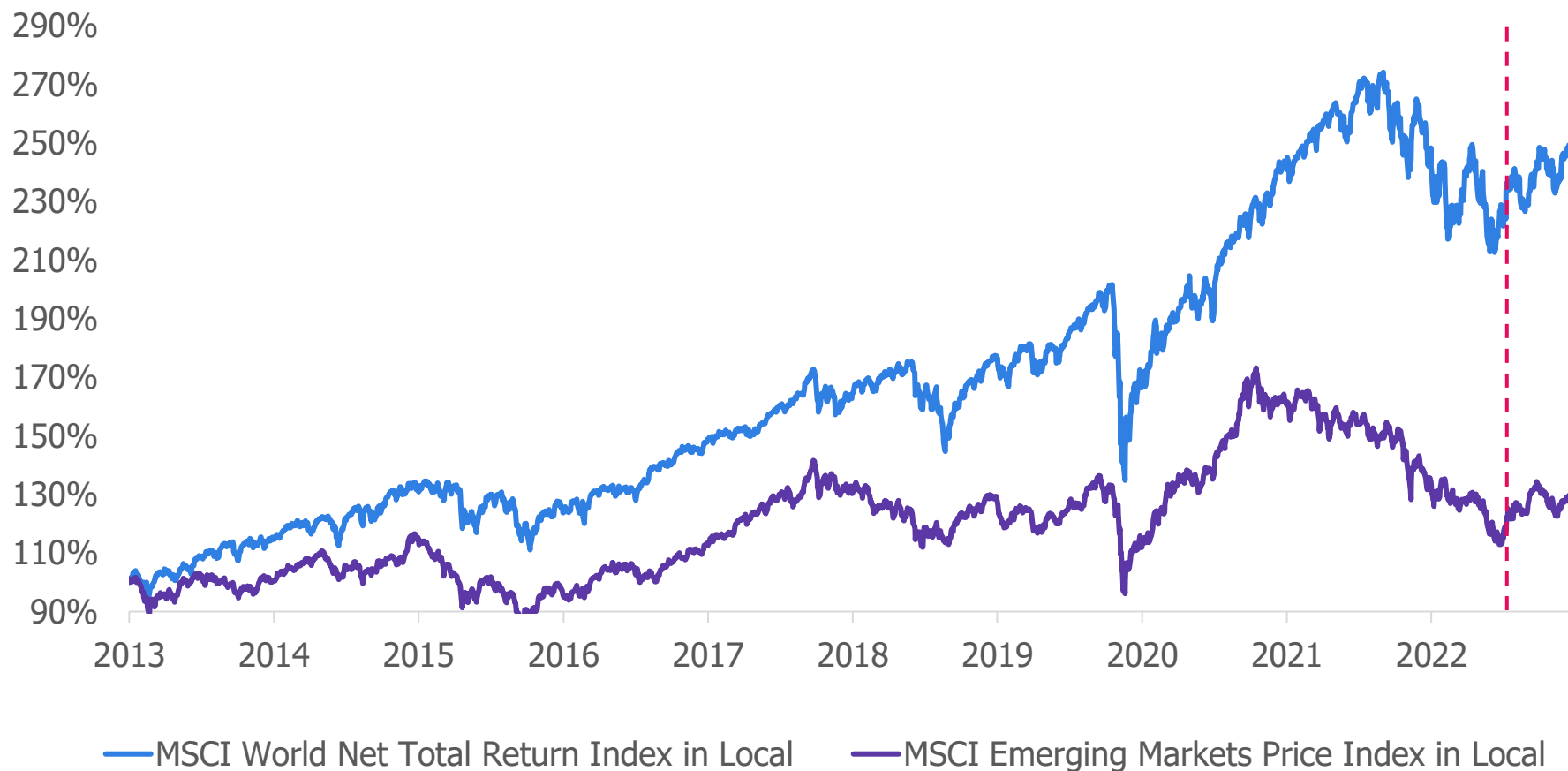
12-month forward P/E, valuation ranges (MSCI Regions) over a 20-year timeline



Source: FactSet, Goldman Sachs Global Investment Research

EQUITY MARKETS HANGING ON TO 2023 GAINS...

Developed and Emerging Market Equity Performance



Source: Reuters (YTD to 6th May 2023)

...BUT RECENT GAINS HAVE BEEN NARROW

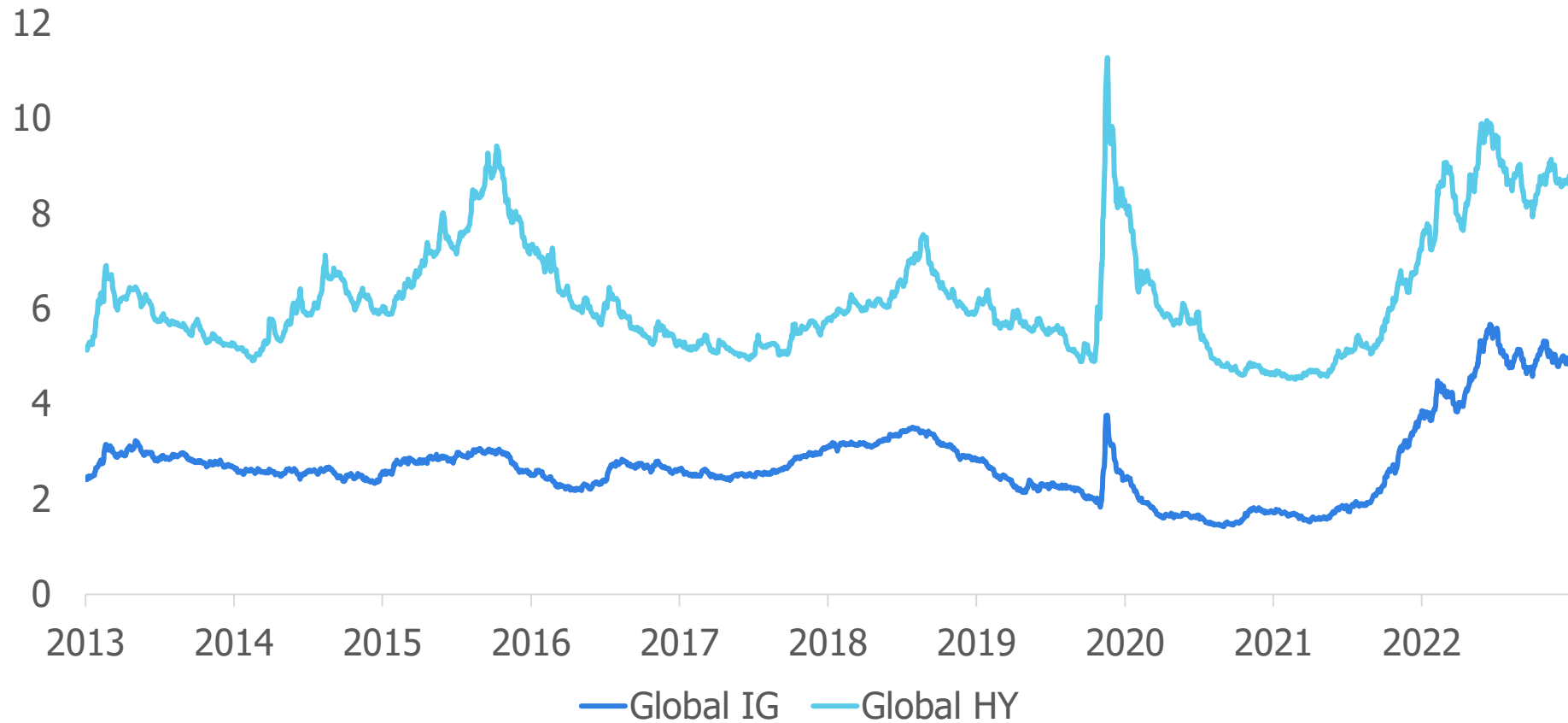


Source: Finviz

CREDIT MARKETS

TOTAL RETURNS ON CREDIT NEAR 10 YEAR HIGH

Investment Grade and High Yield (Yield to Maturity)



Source: Bank of America Merrill Lynch, data to 6 May

RELATIVE ATTRACTIVENESS

S&P 500 equity risk premium*



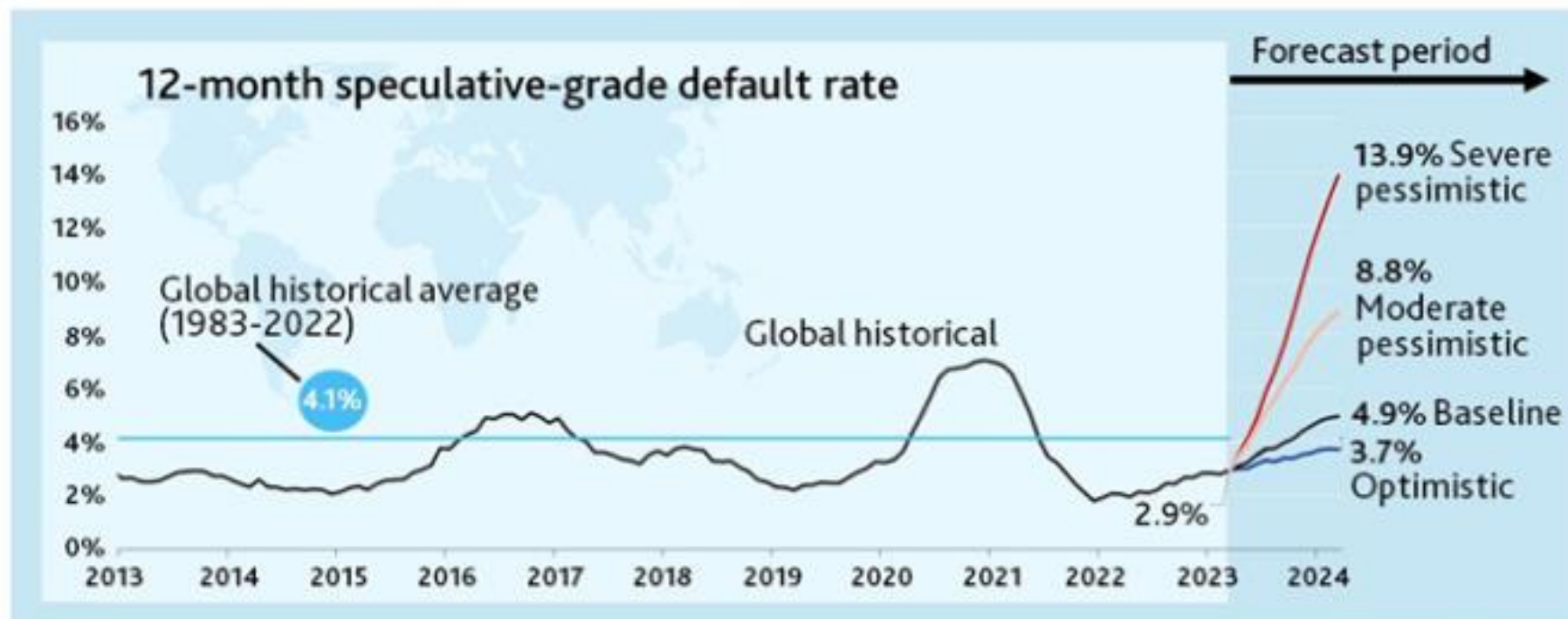
*Difference between earnings yield, using trailing 12-months earnings, and 10-year Treasury yield.

Monthly, as of March 31

Sources: WSJ analysis, FactSet, Tradeweb

DEFAULTS EXPECTED TO RISE MODESTLY

Speculative-grade corporate default rate forecast



Source: Moody's

SUPPORTED BY HEALTHY INTEREST COVERAGE

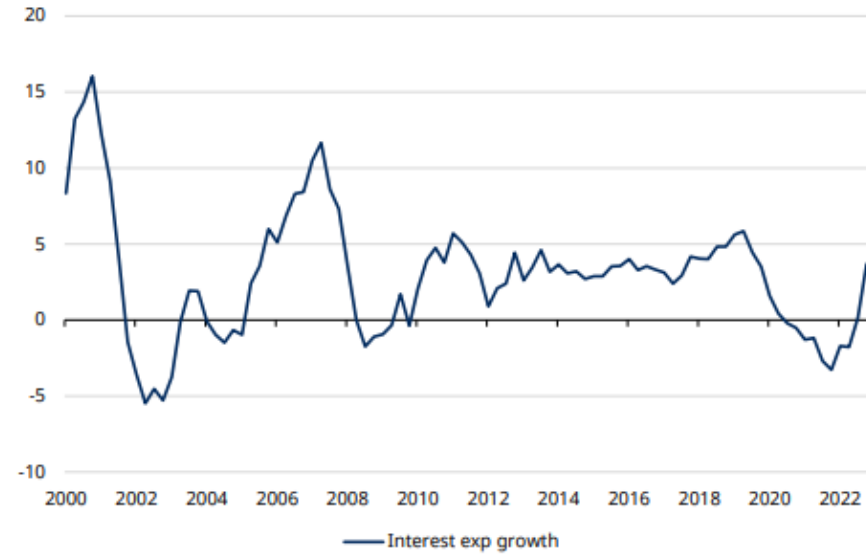
US HY interest coverage ratio

Last 12 months EBITDA to interest expense



US HY annual interest expense growth

%



Source: Moody's

SO WHAT?

SO WHAT?

Key Points	What does that mean for the Fund?
There is a disconnect between central banks statements and market expectations on the path of future interest rates	There is the potential for continued volatility in bond markets, particularly in longer duration asset classes such as index-linked gilts
Equity markets have enjoyed a strong start to the year, but are they priced for perfection (“i.e. a soft landing”)?	There is scope for disappointment (i.e. negative performance) in equity markets if inflation remains higher than expected and/or recession fears increase.
The financial system is continuing to adjust to a world of higher rates, a good example being the difficulties in the US banking sector	As above, there is potential for increased volatility and market dislocations. In this environment the Fund’s more active managers should be able to add value
Higher yields mean equities no longer the “only game in town”	There may be opportunities to consider what would add diversification and lower portfolio risk, whilst maintaining expected return. For example, multi-asset credit

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