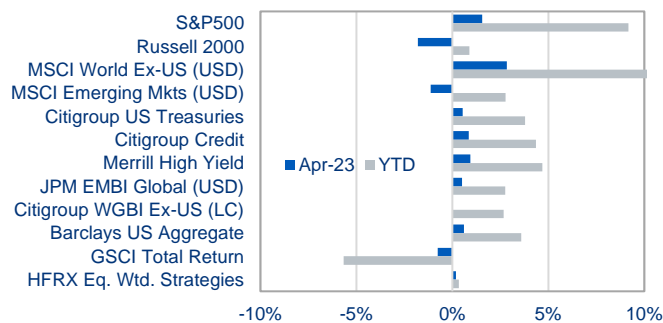


# Global Market Review

Advanced economy equity markets extended their gains in April. European equities performed especially well. In the U.S., the rally was narrowly focused and largely driven by strong earnings from mega-cap tech companies. The collapse of First Republic Bank, the second largest U.S. bank failure, raised fears of further turmoil despite its orderly closure. Emerging equity markets fell in April, weighed down by a sharp decline in Chinese equities. The economic news was mixed. Growth in the U.S. and Europe slowed but remained positive. Price pressures eased in the U.S. but remained above target, and persisted in Europe, clouding the monetary policy outlook. The 10-year U.S. Treasury yield was little changed in April, and the yield curve remained deeply inverted. In the credit sector, U.S. high yield bonds outperformed. The U.S. dollar fell against other major currencies. Commodities also declined, despite an increase in oil prices.

## Performance of Major Market Indices

Sources: S&P, MSCI, FTSE Russell, Barclays, Citigroup, Bank of America Merrill Lynch, J.P. Morgan, HFR, Bloomberg.



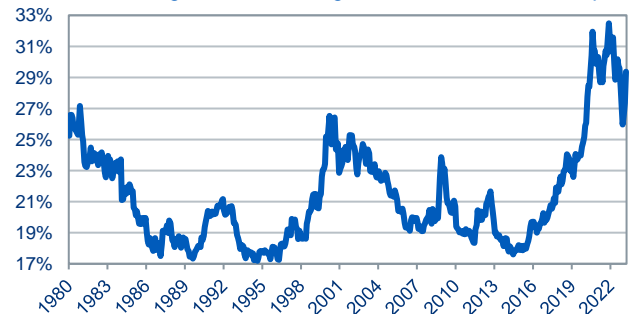
Advanced economy equities extend rally.

## Narrowly Focused U.S. Equity Rally

The U.S. equity market has enjoyed strong returns and low volatility so far this year despite high inflation, significant recession risk, an uncertain path of monetary policy, and turmoil in the banking sector. The S&P 500 rose 1.6% in April, extending its gain so far this year to 9.2%. The U.S. equity market rally has been narrowly focused on mega-cap growth stocks in the tech sector, many of which reported stronger than expected quarterly earnings. This year's U.S. equity rally has been led by an unusually small share of the market, pushing market breadth to historic lows, and increasing market concentration. Exuberance for the possibilities of AI has been an important driver of market gains. Six firms involved in the development of AI – Amazon, Google, Meta, Microsoft, NVIDIA, and Salesforce – account for more than half of this year's market gains. The market cap of the 10 largest firms relative to the total is at high levels, while the share in the index of the two largest companies – Apple and Microsoft – is at an all-time high of 14% (Exhibit 1).

## Exhibit 1. Narrow Market Breadth Increases Concentration

Source: Bloomberg. Share of 10 largest firms in total market cap.



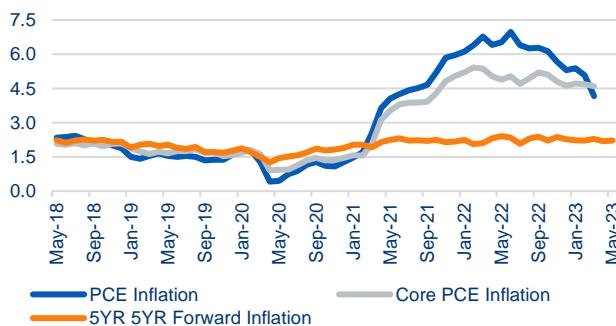
Over the past two months, the U.S. has experienced three of its four largest bank failures. The immediate market reaction to the winding up of FRB through an acquisition by JP Morgan that protected depositors while wiping out shareholders was relief. However, at the time of this writing, the sharp decline in regional bank share prices resumed, raising concerns of spreading contagion. The intra-day decline of the KBW index of bank stocks exceeded 5%, while the shares of PacWest, the hardest hit regional bank, plunged by more than one quarter on May 2. It appears that the extraordinary measures by the Fed, the Treasury, and the FDIC have not been sufficient to calm fears of the risk of further accidents in the financial sector.

## Mixed Economic Signals

Adding to the market uncertainty is the mixed economic outlook. In the U.S., first quarter GDP slowed to an annualized rate of 1.1%, from 2.6% in the fourth quarter of 2022. The U.S. yield curve is deeply inverted, a clear sign that the market expects a recession in the near term. Falling manufacturing output also points to contraction, as does an increase in the household savings rate. On the positive front, real personal income net of transfers is up, and strong spending on services is helping to buoy demand. In the EU, first quarter growth was barely positive: 0.1%. The high costs of food and energy, waning confidence, and rising interest rates have dampened consumer spending and output by firms. The news is also mixed on the inflation front. In the U.S., the core PCE deflator (the Fed's preferred indicator) has declined only gradually and remains well above target. Headline PCE including food and energy has fallen much more rapidly, however. Inflation expectations using the Fed's preferred indicator have remained stable (Exhibit 2). Inflation in the EU is hovering around 7%, while inflation in the U.K. stands at nearly 9%.

### Exhibit 2. U.S. Inflation Slows as Energy Prices Fall

Source: FRED. Inflation rates in percent.

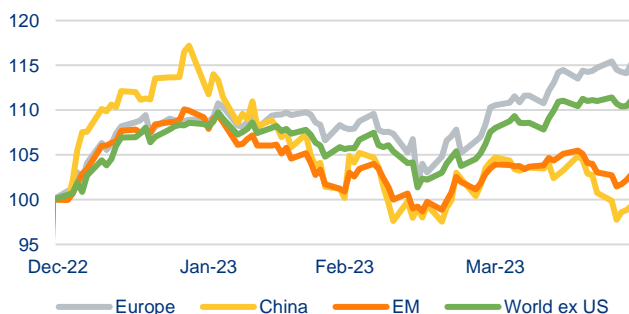


## Europe Leads Markets Higher; China Poses a Drag

The MSCI World ex-U.S. index rose 2.8% in April to bring its gain so far this year to 11.1%. European markets led the advance, rising 4.2% in April propelling the return so far in 2023 to 15.2%. Emerging equity markets lagged their advanced economy counterparts in April, largely reflecting steep declines in the Chinese equity market, which fell 5.2% (Exhibit 3). The Chinese economy also presents a mixed picture, with manufacturing output declining but pent-up demand from consumers remaining resilient.

### Exhibit 3. Advanced Markets Lead Emerging

Source: FRED. Inflation rates in percent.



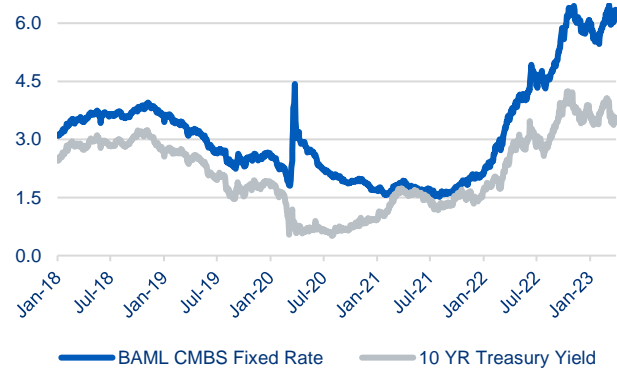
## Bonds Gain as Inflation Expectations Moderate

The 10-year U.S. Treasury yield was little changed in April, and the yield curve remained deeply inverted. Real yields rose somewhat, and inflation expectations moderated. U.S. Treasuries returned about 0.5% in April and are up 3.8% so far in 2023. In the credit markets, the high yield sector outperformed in April, gaining 1.1% versus the 0.6% return on investment grade bonds. So far in 2023, high yield bonds are up 4.8% versus 3.7% for their investment grade counterparts.

The yield spread of commercial mortgage-backed securities over Treasuries has widened significantly and is hovering around double long-time average spread levels. The rising costs of borrowing combined with a retrenchment of bank lending in the wake of the mounting turmoil across regional banks has contributed to property price declines, further aggravating concerns over bank exposure to the commercial real estate sector (Exhibit 4).

### Exhibit 4. Mortgage Spreads over Treasuries Widen

Source: Bloomberg. Yields in percent.



Outside of the U.S., the WGBI ex-U.S. index of advanced sovereign bonds rose 0.3% in April, bringing its return so far this year to 4%. The EMBI index of emerging market sovereign bonds returned 0.5% in April and 2.8% year to date. A large number of heavily indebted and smaller emerging market borrowers have seen their credit spreads widen to distressed levels, reflecting the impact of a less hospitable external financing environment on weaker credits. Spreads on bonds issued by some frontier markets are especially wide.

### Performance of Major Market Indices through 4-30-2023

Sources: MSCI, FTSE, Barclays, Citigroup, Bank of America Merrill Lynch, J.P. Morgan, S&P GSCI, HFR, Bloomberg.

|                           | 1-Month | QTD   | YTD   | 1-Year | 3-Year | 5-Year |
|---------------------------|---------|-------|-------|--------|--------|--------|
| S&P500                    | 1.6%    | 1.6%  | 9.2%  | 2.7%   | 14.5%  | 11.4%  |
| Russell 2000              | -1.8%   | -1.8% | 0.9%  | -3.6%  | 11.9%  | 4.2%   |
| MSCI World Ex-US (USD)    | 2.8%    | 2.8%  | 11.1% | 7.1%   | 12.0%  | 3.9%   |
| MSCI Emerging Mkts (USD)  | -1.1%   | -1.1% | 2.8%  | -6.5%  | 4.3%   | -1.0%  |
| Citigroup US Treasuries   | 0.5%    | 0.5%  | 3.8%  | -1.0%  | -4.2%  | 1.0%   |
| Citigroup Credit          | 0.9%    | 0.9%  | 4.3%  | 0.6%   | -1.8%  | 1.9%   |
| Merrill High Yield        | 0.9%    | 0.9%  | 4.7%  | 1.0%   | 4.9%   | 3.1%   |
| JPM EMBI Global (USD)     | 0.5%    | 0.5%  | 2.8%  | 0.1%   | -0.2%  | 0.2%   |
| Citigroup WGBI Ex-US (LC) | 0.0%    | 0.0%  | 2.7%  | -5.7%  | -4.6%  | -1.3%  |
| Barclays US Aggregate     | 0.6%    | 0.6%  | 3.6%  | -0.4%  | -3.1%  | 1.2%   |
| GSCI Total Return         | -0.8%   | -0.8% | -5.7% | -15.1% | 34.7%  | 3.7%   |
| HFRX Eq. Wtd. Strategies  | 0.2%    | 0.2%  | 0.3%  | -1.7%  | 3.0%   | 1.1%   |