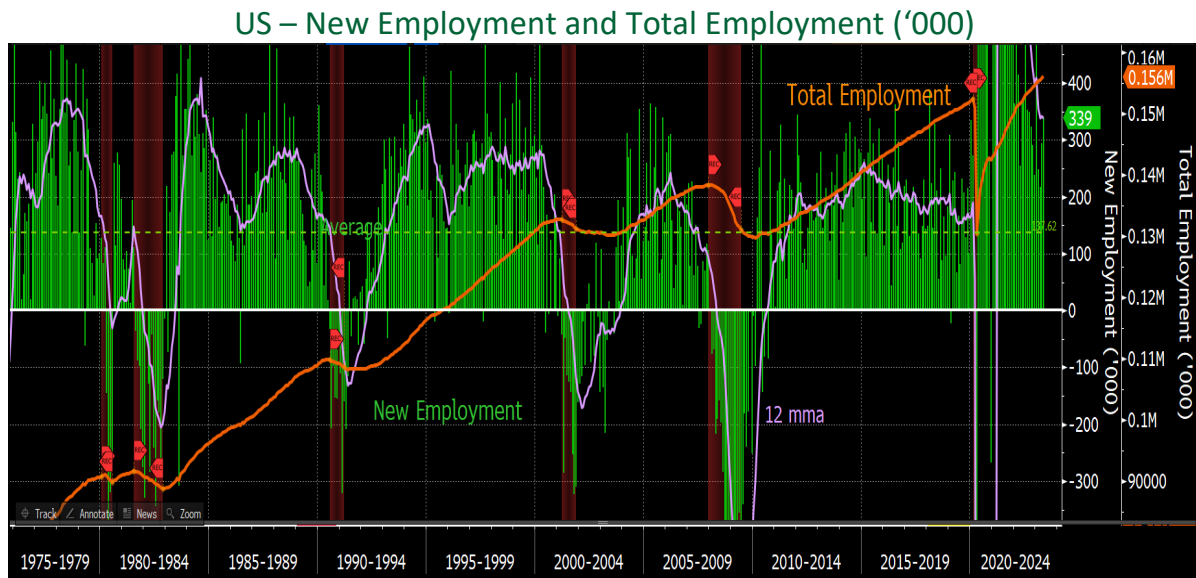


"There can be economy only where there is efficiency."

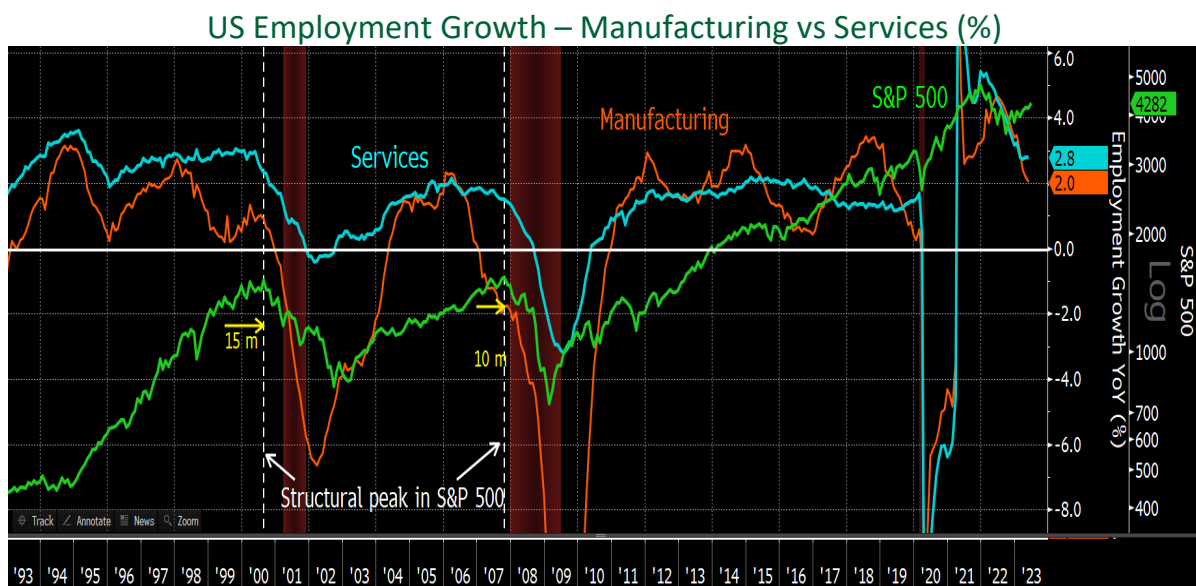
Benjamin Disraeli

1. US EMPLOYMENT

US employment remains strong:



Another 339,000 individuals were employed in April, more than double the long-term average of 139,000, bringing the total employment to a record 156m. This total is 3% above the pre-Pandemic record level. On this basis, the US economy seems healthy.



Manufacturing new employment numbers grew at +2.0%, with Services +2.8% despite large layoffs in the technology sector. Both indicate a healthy economic environment. The former historically indicated stock market peaks and recessions when it stagnated. Despite these strong numbers, wage growth continues moderating (currently +4.3%). The overall US employment backdrop therefore seems relatively healthy.

2. MARKET RECOVERY

Despite the stock market recovery this year, the S&P 500 is still -11% from its peak level early in 2022.

S&P Stock Market Performance – Indexed to 100 at Beginning 2022



Since the beginning of 2022, the Energy sector has benefitted from the Ukraine war. The S&P Technology Index still has 4% to recover to break even over the period.

S&P Stock Market Performance – Indexed to 100 at Beginning 2023



Technology is making a strong comeback this year off its low base of last year. The AI developments are a strong supporting factor. This is also boosting the S&P 500 Index, which is up +12% this year.

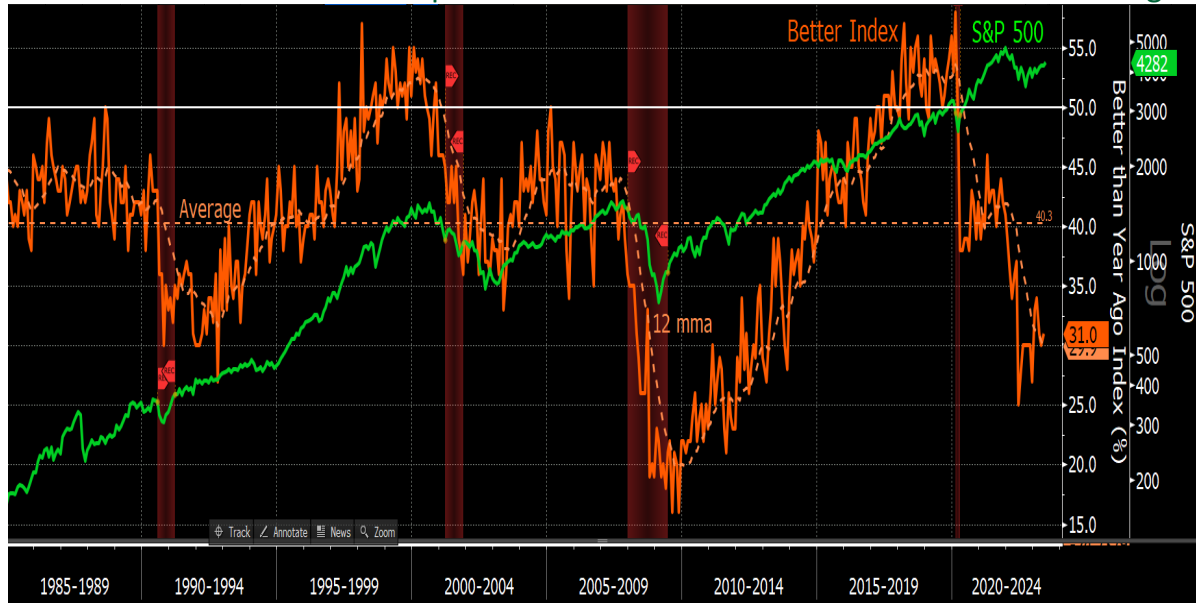
An important point to make in this context is that the S&P Index Excluding Technology is up only marginally (+4%) this year. With stock market sentiment seemingly healthy, it also appears that a large part of the market is not participating in the recovery and deserves screening for potential opportunities.



3. CONSUMER COMFORT

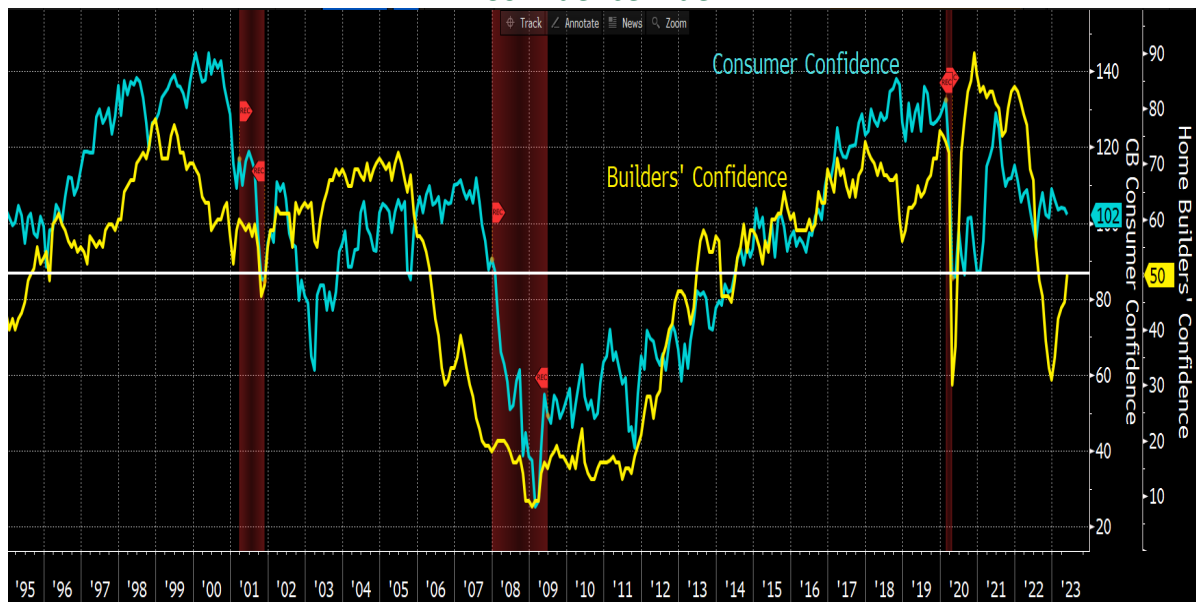
The following chart reflects the US consumer's financial comfort:

US – Index of Consumer's Impression of Their Financial Position Versus a Year Ago



The above Better Index dropped last year to levels lower than during the Pandemic. It has since made some recovery, but at 31% remains at depressed levels. Historically, though, these levels coincided with early phases of a stock market recovery.

US – Conference Board Consumer vs National Association Homebuilders' Confidence Index

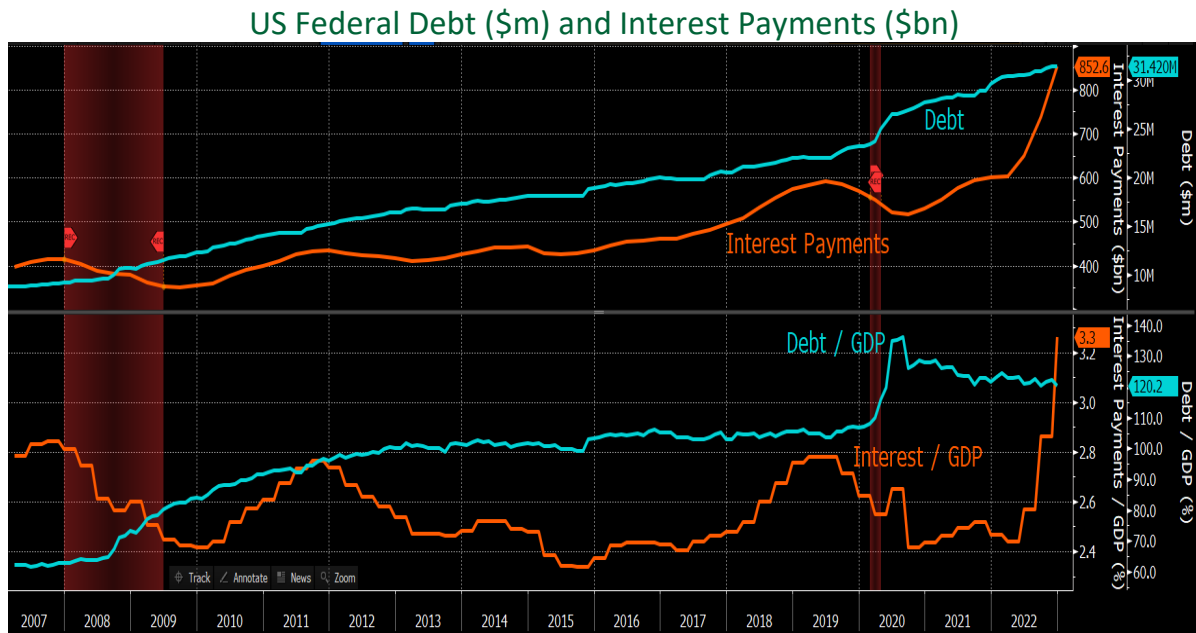


Consumer confidence is drifting, indicating uncertainty despite the strong employment data. Contrary to this, the Homebuilders' Confidence Index is making a strong recovery following the aggressive Federal Reserve tightening process. This index has historically been a strong leading economic barometer for the consumer and stock market.

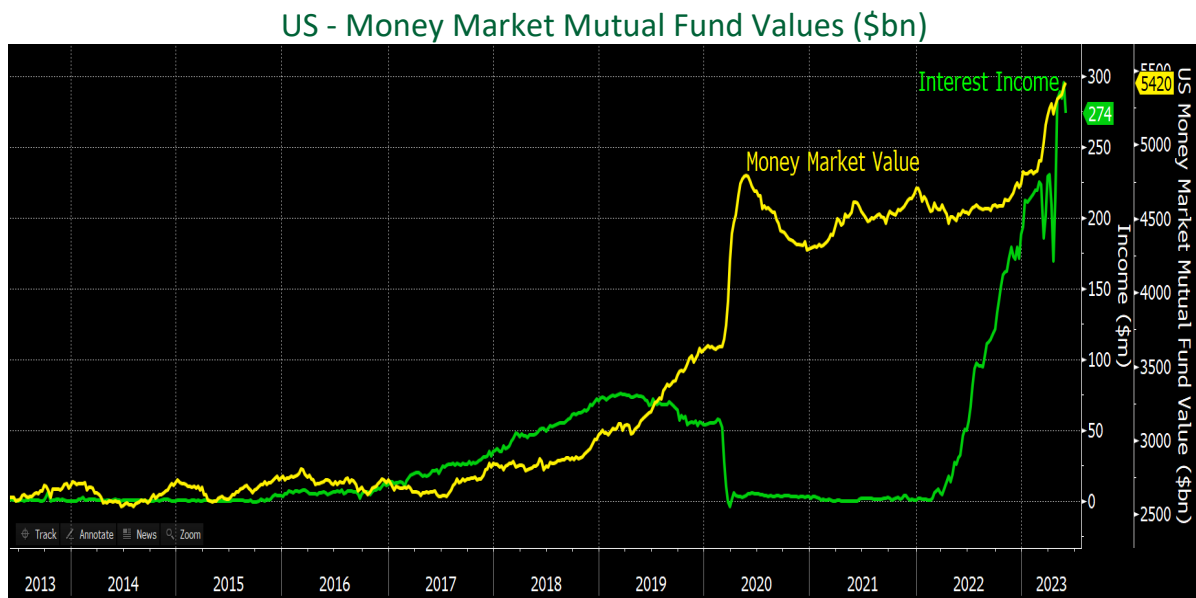


4. INTEREST RATE EFFECTS

The higher interest rates have a profound effect on the US government:



With record debt levels and rising interest rates, interest payments are growing at ~40%. As a percentage of GDP, the debt levels are slowly dropping, but interest payments have risen from 2.4% of GDP last year to the current 3.3%. Whilst the government has a heavy debt service burden, these income levels are useful in the economy.



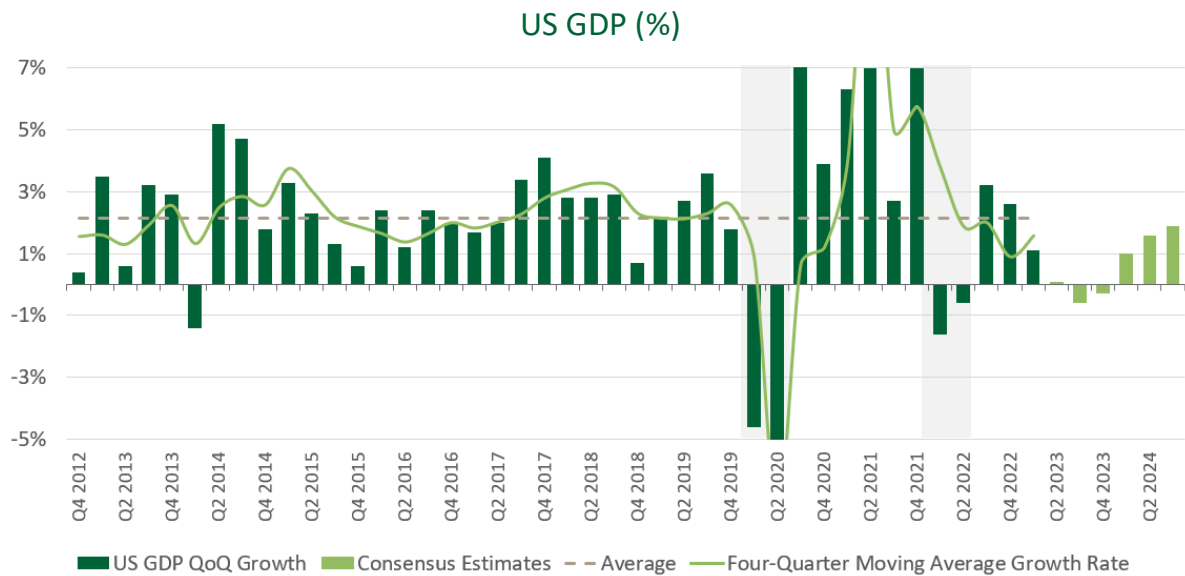
Private investments in Money Market Mutual Funds are at a record level of \$5.4tn. With the sharp increase in short rates, we calculate annual potential interest income on that to have risen from zero to \$274bn currently. This amount covers more than half of the nation's oil consumption and amounts to over 1% of the GDP.

Along with this, US bank deposits currently amount to \$15.8tn - three times the above amount in US Money Market Mutual funds. Income on these deposits can make a meaningful difference to supporting consumer confidence.



5. US RECESSION

The following chart depicts the consensus projections by independent economists for the US economy.



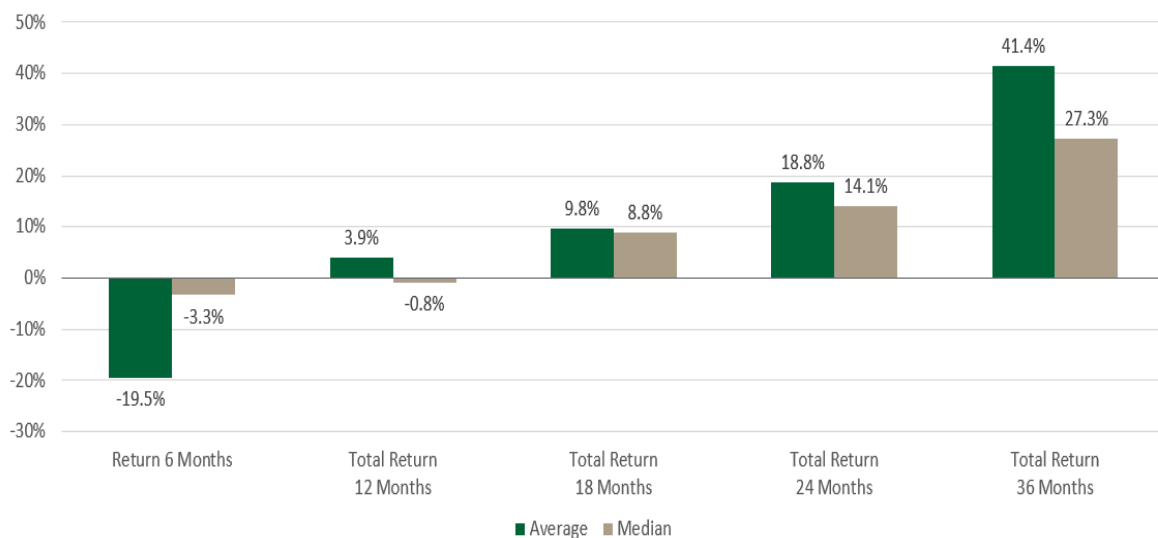
On this basis, we are facing a US recession until the end of this year of -0.5% and -0.4% for the two quarters respectively. This implies a short and mild recession.

With the historic trend that the stock market usually bottoms out just over halfway through a recession, the duration of the recession is clearly an important factor in determining one's investment strategy. Strikingly, should we indeed experience a recession shortly, this time will then be an unusual occurrence in that investors experience a bear stock market immediately before a recession, and the question can be posed whether the bottom has already passed.

The following chart reflects historical stock market returns under these circumstances:

S&P 500 – Total Return Following the Onset of a Recession (%)

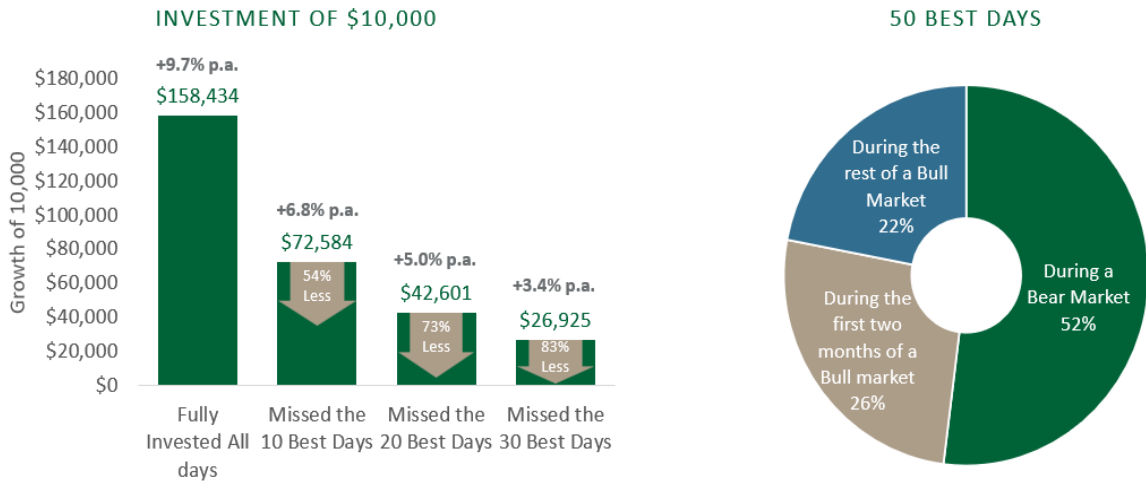
Since 1970



On the above basis, the first year after the onset of a recession usually turns out fairly neutral with returns logically picking up well afterwards. Investors then face the question of whether they should sell their holdings before the recession to prevent the risk of initial negative returns.



S&P 500 Annual Return (1993 – 2022)

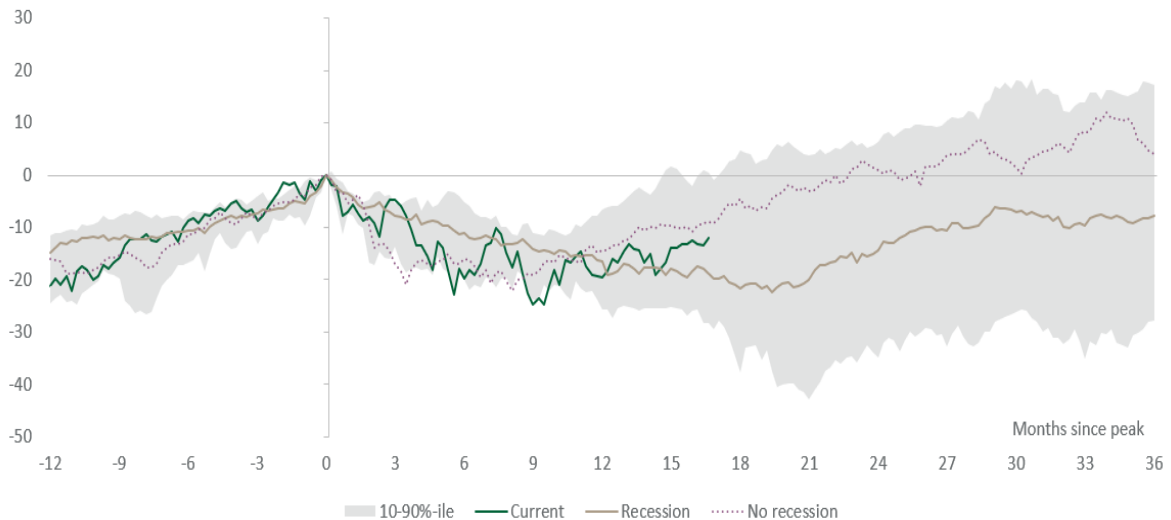


Past performance should not be used as a guide to future performance. Indices are unmanaged and not available for direct investments. For illustrative purposes only.

Source: Ned Davis Research, Morningstar and Hartford Funds, February 2023.

The above chart depicts the material risk of being disinvested during strong days in the stock market (bars on the left). The pie chart depicts the 50 best days to invest. Over half of those were during a bear market (as investors have just experienced). A quarter of the next best 50 days follows in the two months after the bear market, with only a fifth of the best 50 days remaining during the bull market. All this clearly reflects the risk of being disinvested.

Average S&P 500 Returns Before and During Recessions



Past performance should not be used as a guide to future performance. The value of investments and the income from them can fall as well as rise.

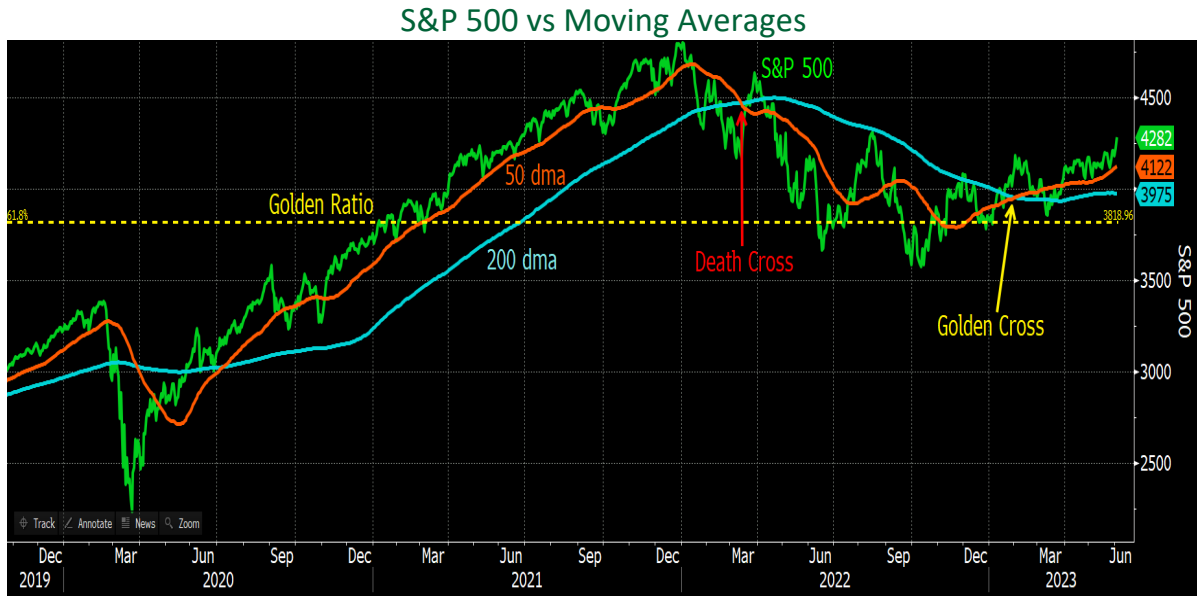
Source: TS Lombard, May 2023

The above chart reflects historic stock market performances, indexed to their respective peaks before and during recessionary periods. Its current trend (the green line) follows historic trends well.

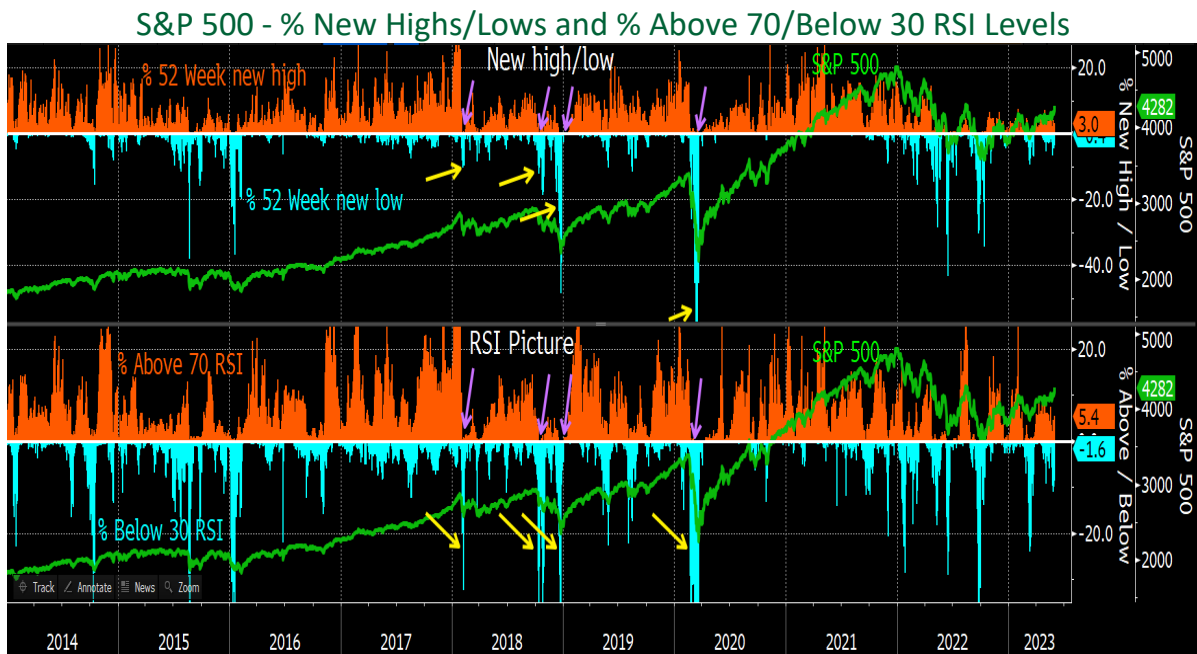
According to this chart, the current trend is closer to historic periods without recessions (the dotted line) than those with recessions (brown line). In the context of these two charts, this is not the time to disinvest from the stock market.



6. TECHNICAL PICTURE



The S&P 500 reflects a strong technical picture – it has experienced a golden cross, it is in a rising trend, it is above its 50- and 200-day moving averages, they are both in rising trends, and it is above its Fibonacci golden ratio.



The percentages of S&P 500 members at their respective new highs or new lows (top part of the chart), and percentages of members above their respective 70 or below their 30 RSI levels (bottom part of the chart) are much lower than usual. This reflects little risk of an overheated market and ties in with our perception of very narrow market breath outside of the Technology sector – with potentially good opportunities.

Gerrit Smit
Partner - Head of Global Equity Management
Stonehage Fleming Investment Management Limited

6 St James's Square
 London
 SW1Y 4JU

T +44 20 7087 0000
 Email gerrit.smit@stonehagefleming.com
www.stonehagefleming.com/gbi



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Stonehage Fleming Investment Management Limited
6 St James's Square
London
SW1Y 4JU

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