Earnings and inflation take the spotlight.

Monthly snapshot

- Global equity markets saw mixed performance in April, as investors reacted to an uneven start to the first-quarter corporate earnings season and signs that inflation in the U.S. may be moderating. Developed markets garnered positive returns and significantly outperformed emerging markets, which lost ground for the month.
- Global fixed-income assets posted modest gains during the month. U.S. Treasury yields rose for all maturities of more than one year.
- We see opportunities and risks in both the resilient (equities, credit) and the divergent (value, rates) segments of the global financial markets.

Global equity markets saw mixed performance in April, amid an uneven start to the first-quarter corporate earnings season and investors' optimism that inflation in the U.S. may be moderating. Developed markets garnered positive returns and outperformed emerging markets, which ended the month in negative territory. Europe was the top-performing region among developed markets in April due primarily to strength in Switzerland and Austria. The Far East region was the worst performer within the emerging markets in April due mainly to weakness in Taiwan and China. Eastern Europe recorded a double-digit gain and was the strongest-performing region, with notable contributions from Poland and Hungary.[1]

During the month, investors were focused on the quarterly results for U.S.-based multinational and regional banks to gauge the impact of the turbulence in the sector in March. While several multinational banks reported better-than-expected revenue and earnings, numerous regional banks' results were hampered by outflows of funds from depositors amid uncertainty about the stability of smaller financial institutions. U.S. automotive stocks also took a hit after a large electric-vehicle (EV) manufacturer reported a substantial year-over-year drop in earnings due mainly to a decline in its operating margin (a measure of profitability) resulting from the company's notable price reductions. Toward the end of the month, however, markets were buoyed by better-than-expected corporate results from several large U.S.-based technology companies.

Global fixed-income assets posted modest gains in April. In the U.S. market, high-yield bonds were the top performers for the period, followed by corporate bonds and U.S. Treasurys.[2] Mortgage-backed securities (MBS) were the primary market laggards in the U.S. fixed-income market.[3] U.S. Treasury yields moved modestly lower for all maturities of more than one year (yields and prices have an inverse relationship). The yields on 2-, 3-, 5-, and 10-year Treasury notes dipped 0.02%, 0.06%, 0.09%, and 0.04%, respectively, in April. The spread between ten- and two-year notes moved from -0.58% to -0.60% during the period, further inverting the yield curve.

Global commodities markets saw varied performance over the month. The West Texas Intermediate (WTI) crude-oil spot price rose 1.5% in U.S. dollar terms, while the Brent crude oil price was up 0.6%, benefiting from increased demand and lower production in the U.S. The New York Mercantile Exchange (NYMEX) natural gas price climbed 16.3% in April, spurred by higher demand due to unusually cool spring weather in much of the U.S. The gold spot price posted a modest gain of 0.6% as the U.S. dollar declined modestly during the month. Wheat prices fell 8.5% in April amid an increase in supply coupled with weaker demand.[4]

[1] All equity market performance statements are based on the MSCI ACWI.

[2] According to the ICE BofA U.S. High Yield Constrained, ICE BofA Corporate, and ICE BofA U.S. Treasury Indexes.

[3] According to the S&P U.S. Mortgage-Backed Securities Index.

[4] According to market data from The Wall Street Journal.

Key measures: April 2023

Equity		
Dow Jones Industrial Average	2.57%	↑
S&P 500 Index	1.56%	↑
NASDAQ Composite Index	0.07%	↑
MSCI ACWI Index (Net)	1.44%	↑
Bond		
Bloomberg Global Aggregate Index	0.44%	↑
Volatility		
Chicago Board Options Exchange Volatility Index **PRIOR MONTHLY: 18.7**	15.78	↓
Oil		
WTI Cushing crude oil prices **PRIOR MONTHLY: $75.67**	$76.78	↑
Currencies		
Sterling vs. U.S. dollar	$1.26	↑
Euro vs. U.S. dollar	$1.10	↑
U.S. dollar vs. yen	¥136.17	↑

Sources: Bloomberg, FactSet, Lipper

As of the end of April, the administration of President Joe Biden had not reached an agreement with the Republican Party majority in the U.S. House of Representatives to raise the government's debt ceiling. In a party-line vote in late April, the House passed legislation for lifting the debt ceiling of $31.4 trillion through March 31, 2024, but requiring government spending cuts of $4.8 trillion. Among other provisions, the bill includes more stringent limits on government spending; cancellation of Biden's student loan forgiveness program; reductions in the Internal Revenue Service (IRS) budget; and tightening of work requirements for recipients of government-funded public assistance programs.[5] In a speech to the Sacramento Metropolitan Chamber of Commerce, U.S. Treasury Secretary Janet Yellen warned that, if the U.S. Congress does not agree to raise the debt ceiling, the government will default on its financial obligations, leading to "an economic and financial catastrophe." Yellen also stated that over the longer term, a default would increase the cost of borrowing "into perpetuity...Congress must vote to raise or suspend the debt limit. It should do so without conditions. And it should not wait until the last minute. I believe it is a basic responsibility of our nation's leaders to get this done."

There was mixed news regarding the ongoing labor troubles in the U.K. in April. The GMB union, which represents National Health Service (NHS) workers, announced that its members voted to accept the U.K. government's offer to resolve a labor dispute following five months of contentious negotiations and strikes. The agreement includes two one-time payments for 2022-23, with a combined value of up to £3,789 (US$4,759), and a 5% wage increase for 2023-24. However, members of Unite, another large union representing NHS workers, rejected the same offer.[6] Additionally, four teachers' unions announced plans to ask their members to authorize job actions sometime in the autumn of this year. The Office for National Statistics (ONS) reported that the U.K. government borrowed £139.2 billion (US$175 billion) in the 2022-23 financial year—£17.2 billion (US$21.6 billion) below than the Office for Budget Responsibility's previous estimate. The lower-than-anticipated debt level led to speculation that the government might implement tax cuts later this year.[7]

Regarding the ongoing Russia-Ukraine conflict, China's President Xi Jinping called President Volodymyr Zelenskyy of Ukraine soon after China's ambassador to France, Lu Shaye, had questioned the legal status of former U.S.S.R. countries and Ukraine's sovereignty over Crimea. Though China's government denied that the call was related to Lu's comments, a European Union official said that "[China needs] to do some damage control after the Paris ambassador's comments."[8] According to China's foreign ministry, Xi urged Zelenskyy to negotiate with Russia to reach a "political settlement" of the conflict. While Zelenskyy's administration issued a statement that did not address Xi's push for negotiations with Russia, it "expressed hope for China's active participation in efforts to restore peace."[9]

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[5] "What's in the US House Republicans' debt-ceiling spending-cut bill?" Reuters. April 27, 2023.

[6] "Hopes of resolution in NHS dispute in England as GMB accepts pay offer." Financial Times. April 28, 2023.

[7] "UK government borrows less than expected, raising prospect of tax cuts." Financial Times. April 28, 2023.

[8] "China seeks 'damage control' on Ukraine with call to Volodymyr Zelenskyy." Financial Times. April 26, 2023.

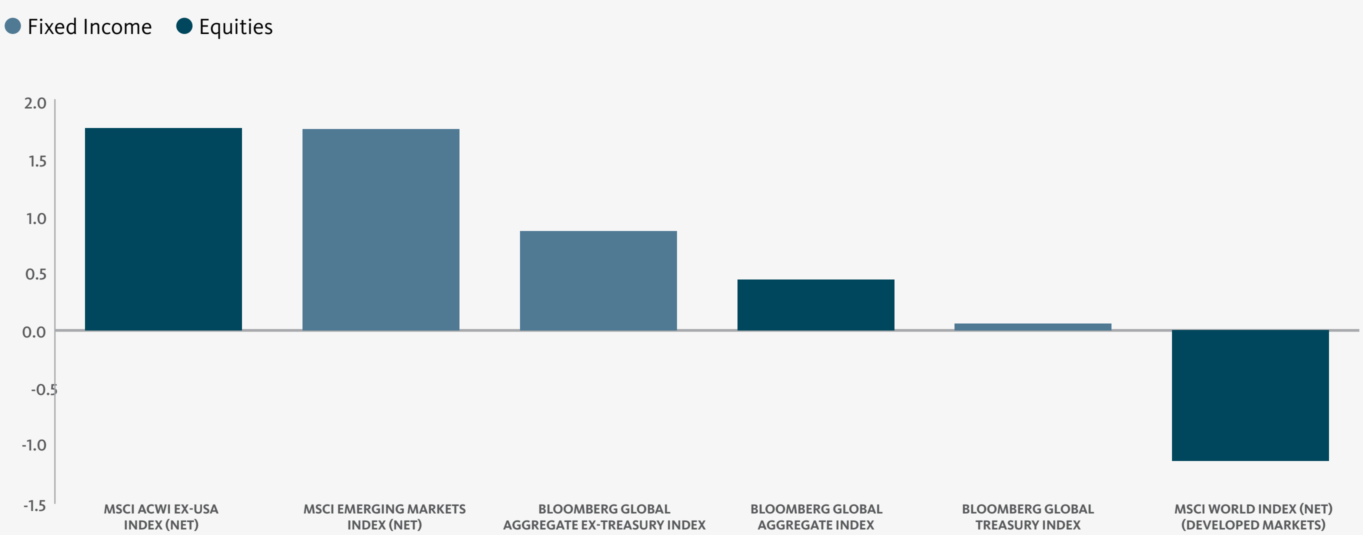
[9] "Xi Jinping urges Volodymyr Zelenskyy to negotiate with Moscow." Financial Times. April 26, 2023.

Economic data

U.S.

- According to the Department of Commerce, the personal-consumption-expenditures (PCE) price index rose 0.1% in March and 4.2% over the previous 12-month period—down from the 0.3% and 5.1% monthly and annual increases, respectively, in February. Food prices dipped 0.2% during the month and were up 8.0% year-over-year—sharply lower than the 0.2% and 9.7% increases for the corresponding time periods in February. Energy goods and services costs fell 3.7% in March and tumbled 9.8% over the previous 12 months. The PCE price index is the Federal Reserve's (Fed) preferred gauge of inflation, as it tracks the change in prices paid by or on behalf of consumers for a more comprehensive set of goods and services than that of the consumer-price index (CPI).
- The U.S. Department of Labor also reported that payrolls increased by 236,000 in March, down sharply from 311,000 the previous month. The unemployment rate dipped 0.1% to 3.5%. The leisure and hospitality, government, and professional and business services sectors saw the largest employment gains for the month. Average hourly earnings were up 0.3% in March and 4.2% year-over-year. The 12-month increase was lower than the 4.6% rise in February, suggesting that employers may be having less difficulty finding and retaining workers.

Major Index Performance in April 2023 (Percent Return)

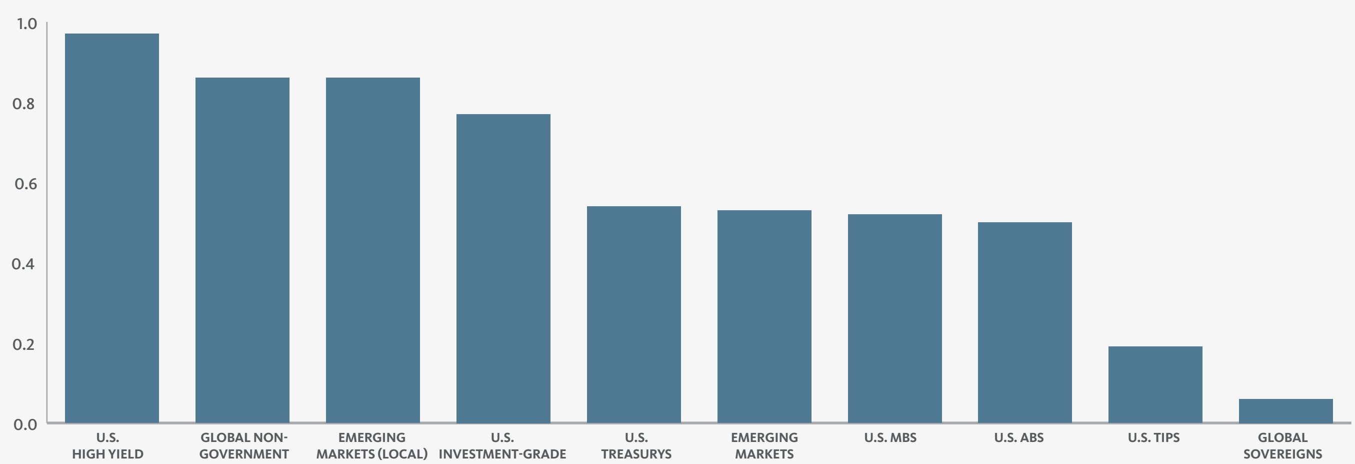


Sources: FactSet, Lipper

- U.S. home prices saw modest improvement in February (the most recent reporting period). The S&P CoreLogic Case-Shiller U.S. National Home Price NSA Index, which measures the value of residential real estate in 20 major U.S. metropolitan areas, was up 0.2% for the month, breaking a string of seven consecutive monthly declines. The index posted an annual gain of 2.0%, down from the 3.7% increase in January, and 4.9% below its peak in June 2022. So, is the housing market primed for a rally? It depends on the old real estate adage of location, location, location. Two cities in Florida–Miami and Tampa–were the strongest-performing markets over the 12-month period, posting gains 10.1% and 7.7%, respectively. Conversely, average home prices in two metropolitan areas on the West Coast, San Francisco and Seattle, fell by corresponding margins of 10.0% and 9.3% year-over-year in February.[10]
- The Department of Commerce reported that U.S. gross domestic product (GDP) moderated in the first quarter of 2023 to an annualized rate of 1.1% from 2.6% in the fourth quarter of 2022. The largest increases for the quarter were in consumer spending, exports, and federal government spending. These gains offset reductions in private inventory investment (a measure of the changes in values of inventories from one time period to the next) and residential fixed investment (purchases of private residential structures and residential equipment that property owners use for rentals). The government attributed the slower GDP growth rate relative to the fourth quarter of 2022 to a downturn in private inventory investment and a decline in nonresidential fixed investment (purchases of both nonresidential structures and equipment and software).

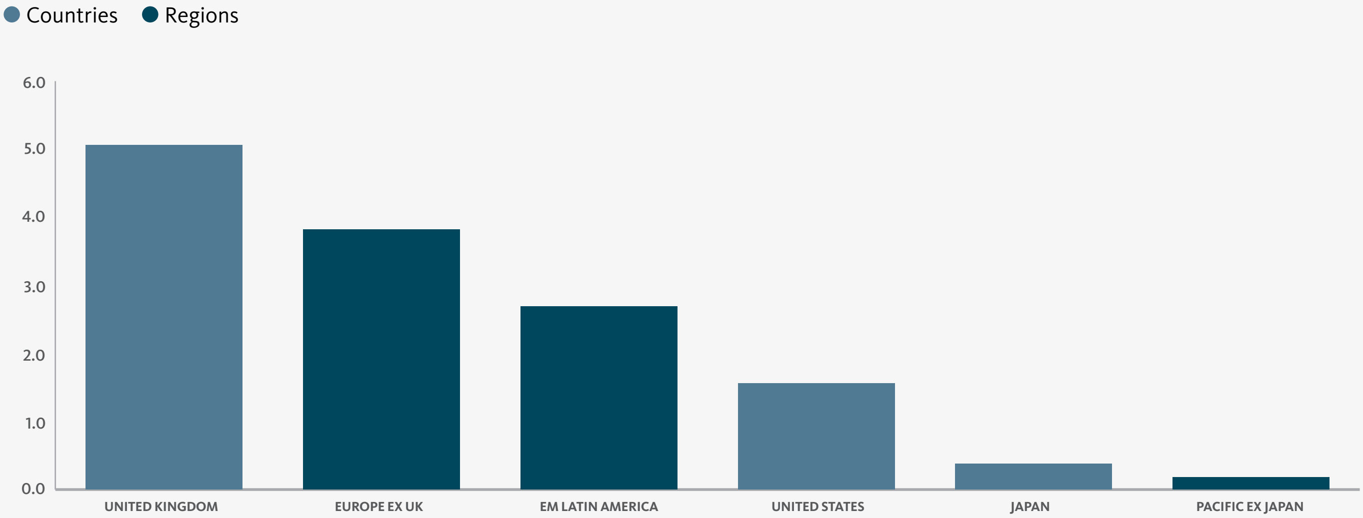
[10] Source: S&P Dow Jones Indexes. April 2023.

Fixed-Income Performance in April 2023 (Percent Return)



Sources: FactSet, Lipper. See "Corresponding Indexes for Fixed-Income Performance Exhibit" in the Index descriptions section for more information.

Regional Equity Performance in April 2023 (Percent Return)



Sources: FactSet, Lipper. See "Corresponding Indexes for Regional Equity Performance Exhibit" in the Index descriptions section for more information.

U.K.

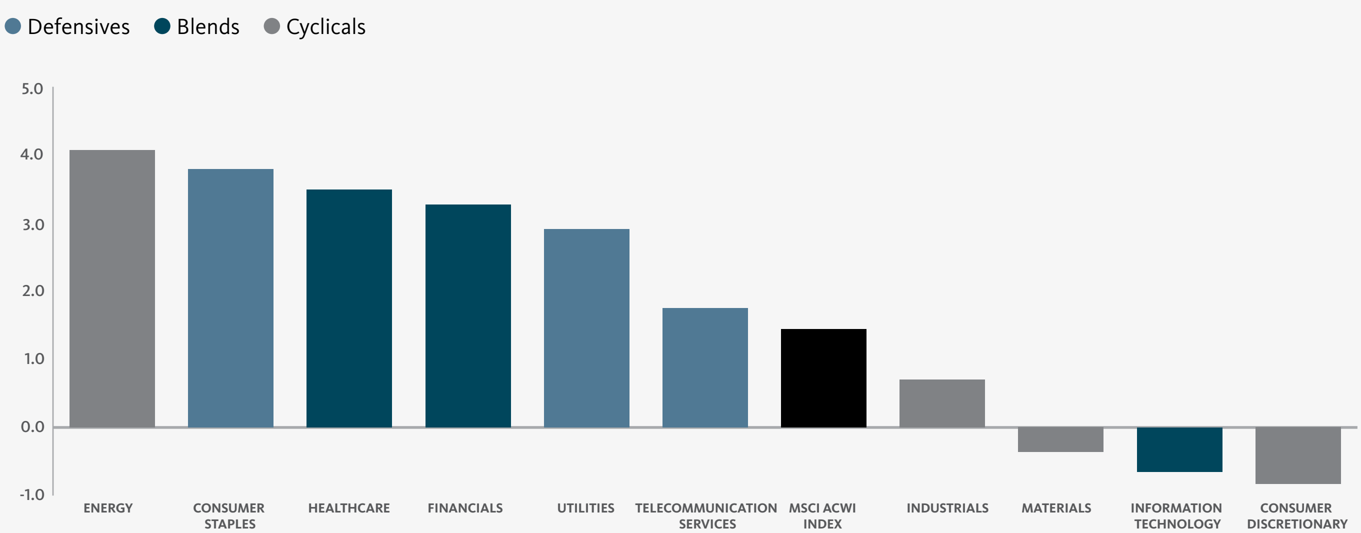
- According to the Office for National Statistics (ONS), consumer prices in the U.K. rose 0.8% month-over-month in March, down from the 1.1% increase in February. The year-over-year inflation rate rose 10.1% over the previous 12-month period, but was somewhat lower than the 10.4% annual rise during the previous month. Housing and household services (electricity, gas, and other fuels), along with food and non-alcoholic beverages, recorded double-digit gains and were the primary contributors to the year-over-year increase in prices. Core inflation, which excludes volatile food and energy prices, rose at an annual rate of 6.2% in March, unchanged from the increase in February.
- The ONS also reported that U.K. GDP was flat in February (the most recent reporting period) following a 0.3% increase in January, and ticked up 0.1% over the three-month period ending in February. The services sector contracted 0.1% for the month, down sharply from the 0.7% increase in January, due mainly to education and public administration and defense. Conversely, the construction sector grew by 2.4% in February, after declining 1.7% during the previous month, attributable primarily to strength in repair and maintenance, and new work.
- The S&P Global/CIPS Flash UK Manufacturing Output Index declined 0.5 to a three-month low of 48.5 in April due to customer destocking (a planned reduction in stock or inventory), high energy costs, and lower demand for big=ticket consumer goods. A reading below 50 indicates contraction in the manufacturing sector.
- The S&P Global/CIPS Flash UK Services PMI Business Activity Index was up 2.0 to 54.9 in April, indicating expansion for the second consecutive month. There was particular strength in the services sector, which benefited as growth in new orders reached a 13-month high amid increased spending on travel, leisure, and entertainment.

Eurozone

- Inflation in the eurozone slowed by 1.6% to 6.9% in the 12-month period ending in March. Energy prices decreased 0.9% year-over-year, while food, alcohol and tobacco costs climbed 15.5% for the same period.[11]
- Eurozone manufacturing increased in March, with the S&P Global Eurozone Manufacturing Output Index rising 0.3 points to a 10-month high of 50.4.
- Services activity in the eurozone also reached a 10-month high in March, with the S&P Global Eurozone Services PMI Activity Index climbing 2.3 to 55.0.
- According to Eurostat, eurozone GDP eked out a 0.1% gain in the first quarter of 2023, following flat growth in the fourth quarter of 2022, and increased 1.3% over the previous 12 months. Portugal's economy was the strongest performer, expanding by 1.6% in the first quarter, while Ireland's GDP decreased 2.7% during the period.

[11] According to Eurostat. April 2023.

Global Equity Sector Performance in April 2023 (Percent Return)



Sources: FactSet, Lipper. MSCI ACWI Index Components (as defined by SEI).

Central banks

- The minutes of the Federal Open Market Committee's (FOMC) meeting of March 21-22 revealed that the members considered keeping the federal-funds rate on hold due to the crisis in the banking sector. However, the FOMC subsequently raised its benchmark interest rate by 0.25% to a range of 4.75%-5.00% after determining that "the actions taken so far by the Federal Reserve in coordination with other government agencies, as well as actions taken by foreign authorities to address banking and financial stresses outside the U.S., had helped calm conditions in the banking sector." In a speech to the Salt Lake Chamber in Utah in April, Federal Reserve Bank of San Francisco President Mary Daly said that the Fed's rate hikes "have been warranted and consistent with our commitment to restore price stability. While the full impact of this policy tightening is still making its way through the system, the strength of the economy and the elevated readings on inflation suggest that there is more work to do."[12]
- The Bank of England's (BOE) next monetary policy meeting is scheduled for May 11. The central bank raised its benchmark rate by 0.25% to 4.25% on March 23. According to the Financial Times, the BOE is considering significant changes to its deposit guarantee program following the failure of Silicon Valley Bank in the U.S. in March. The Financial Times' sources noted that the central bank is concerned that the Financial Services Compensation Scheme's current limit of £85,000 (US$106,000) insures only about two-thirds of all deposits and, consequently, there would be delays of at least a week for depositors to be able to access their funds.[13]
- The European Central Bank (ECB) increased its benchmark interest rate by 0.50% to 3.50% on March 16. According to a poll of economists conducted by Reuters, consensus expectations are for two more 0.25% increases in the policy rate in May and June, as inflation in the eurozone, though slowing, remains well above the central bank's 2% target rate.[14]
- As expected, the Bank of Japan (BOJ) left its benchmark interest rate unchanged at -0.1% following its meeting on April 27-28—the first monetary policy meeting under new BOJ Governor Kazuo Ueda. In a statement issued after the meeting, the BOJ noted that "Since the late 1990s, when Japan's economy fell into deflation, achieving price stability has been a challenge for a long period of 25 years. During this period, the Bank has implemented various monetary easing measures...[which] have interacted with and influenced wide areas of Japan's economic activity, prices, and financial sector. In light of this, the Bank has decided to conduct a broad-perspective review of monetary policy, with a planned time frame of around one to one and a half years."[15]

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[12] Source: Federal Reserve Bank of San Francisco. April 12, 2023.

[13] "Bank of England considers major reform of deposit guarantee scheme." Financial Times. April 16, 2023.

[14] "Reuters poll: ECB set to step down to 25 bps move on May 4, at least one more expected." Reuters. April 24, 2023.

[15] Source: Bank of Japan. April 28, 2023.

We think that the impact of higher rates and tighter monetary policy will expand beyond the highly sensitive sectors (such as housing) into the broader economy.

SEI's view

The tumult in the banking system isn't over yet. Although it appears that the crisis stage has eased, smaller banks are facing ongoing pressure to raise deposit rates to more competitive levels, while borrowing from the Fed and U.S. government agencies to improve their liquidity. A recession becomes likelier due to the important role that community and regional banks play in the U.S. financial system. According to the Fed, smaller banks (below the 25 largest banking institutions ranked by domestic assets), account for roughly two-thirds of commercial bank loans. They also comprise a very large proportion of credit extended to small businesses.

Investors have become "Pavlovian" in regard to central bank stimulus—equity markets fall, central banks cut rates. We question whether this reaction function will remain in place in a regime of stubborn inflation rates. That is, we see headwinds for the equity markets and do not expect central banks to come to the rescue as they have in the past.

We think that the impact of higher rates and tighter monetary policy will expand beyond the highly sensitive sectors (such as housing) into the broader economy.

Labor input costs are one of the most prominent drivers of inflation and, with worker participation levels softening over time (particularly for the working-age male cohort) and the swift aging of populations in many major developed and emerging economies, we may see continued upward pressure on wages that help keep inflation higher for longer. The most recent reported unemployment rates are at or below long-term equilibrium levels for many countries. This implies that labor markets globally are extremely tight and wage growth is likely to remain higher-than-desired, putting continued upward pressure on inflation.

SEI has consistently predicted that inflation would be higher for longer since the spring of 2021. Our out-of-consensus call was based in part on the tight labor-market conditions that prevailed in the U.S., Canada, the U.K., and Europe.

"Labor pains" may persist until an economic recession fully takes root. Nonetheless, even the bitter pill of a recession won't alleviate all pressure from the labor market, as population aging can't be reversed by economic distress. While we believe that a recession is likely, we expect it will be relatively shallow and brief. Unfortunately, at least some labor pains may outlive a recession.

We remain cautious on equity markets from a top-down perspective. Within the equity asset class, we continue to focus on our core approach: favoring high-quality companies with positive earnings momentum at reasonable valuations.

Looking forward, we see opportunities and risks in both the resilient (equities, credit) and the divergent (value, rates) segments of the global financial markets. Specifically, we are fading the resilient and leaning into the divergent.

Glossary of financial terms

Yield is the income returned on an investment, such as the interest received from holding a security. The yield is usually expressed as an annual percentage rate based on the investment's cost, current market value, or face value.

A **recession** is a significant and prolonged downturn in economic activity.

Monetary policy refers to decisions by central banks to influence the amount of money and credit in the economy by managing the level of benchmark interest rates and the purchase or sale of securities. Central banks typically make policy decisions based on their mandates to target specific levels or ranges for inflation and employment.

Mortgage-backed securities (MBS) are pools of mortgage loans packaged together and sold to the public. They are usually structured in tranches (a slice or portion of a structured security) that vary by risk and expected return.

Yield curve represents differences in yields across a range of maturities of bonds of the same issuer or credit rating (are (which is used to assess the risk of default of companies or countries). A steeper yield curve represents a greater difference between the yields. A flatter curve indicates the short- and long-term yields are closer together.

An **inverted yield curve** occurs when short-term yields exceed long-term yields. While an inverted yield curve historically has predicted economic recessions, it is an indicator—not a forecast.

The **federal-funds rate** is the interest rate charged to lending institutions on unsecured overnight loans. It is set by the U.S. Federal Reserve's Federal Open Market Committee. The rate is increased when the Federal Reserve wants to discourage borrowing and slow the economy and decreased when the Federal Reserve wants to spur economic growth.

Treasury Inflation-Protected Securities (TIPS) are U.S. Treasury bonds that are indexed to an inflationary gauge to protect investors from a decline in the purchasing power of their money.

Asset-backed securities (ABS) are created from pools of income-generating assets such as credit cards, and auto, mortgage and student loans.

Index descriptions

All indexes are quoted in gross performance unless otherwise indicated.

The **MSCI ACWI** is a market capitalization-weighted index that tracks the performance of over 2,000 companies, and is representative of the market structure of 48 developed and emerging-market countries in North and South America, Europe, Africa, and the Pacific Rim. The index is calculated with net dividends reinvested in U.S. dollars.

The **ICE BofA U.S. High Yield Constrained Index** is a market capitalization-weighted index which tracks the performance of U.S. dollar-denominated below-investment-grade (rated BB+ or lower by S&P Global Ratings and Fitch Ratings or Ba1 or lower by Moody's Investors Service) corporate debt publicly issued in the U.S. domestic market.

The **ICE BofA U.S. Corporate Index** includes publicly issued, fixed-rate, nonconvertible investment-grade (rated BBB- or higher by S&P Global Ratings and Fitch Ratings or Baa3 or higher by Moody's Investors Service) dollar-denominated, U.S. Securities and Exchange (SEC)-registered corporate debt having at least one year to maturity.

The **ICE BofA U.S. Treasury Index** tracks the performance of fixed-rate, nominal debt issued by the U.S. Treasury.

The **S&P U.S. Mortgage-Backed Securities Index** tracks the performance of U.S. dollar-denominated, fixed-rate and adjustable-rate/hybrid mortgage pass-through securities issued by Ginnie Mae (GNMA), Fannie Mae (FNMA) and Freddie Mac (FHLMC).

Consumer-price indexes measure changes in the price level of a weighted-average market basket of consumer goods and services purchased by households. A consumer price index is a statistical estimate constructed using the prices of a sample of representative items whose prices are collected periodically.

A **purchasing managers' index (PMI)** tracks the prevailing direction of economic trends in the manufacturing and service sectors.

The **S&P Global/CIPS Flash UK Manufacturing Output Index** measures the activity level of purchasing managers in the manufacturing sector of the U.K. A reading above 50 indicates expansion in the sector; below 50 indicates contraction.

The **S&P Global/CIPS Flash UK Services PMI Business Activity Index** measures the activity level of purchasing managers in the services sector. A reading above 50 indicates expansion in the sector; a reading below 50 indicates contraction.

The **S&P Global Eurozone Manufacturing Output Inde**x measures the activity level of purchasing managers in the manufacturing sector of the eurozone. A reading above 50 indicates expansion in the sector; below 50 indicates contraction.

The **S&P Global Eurozone Services PMI Activity Index** measures the activity level of purchasing managers in the services sector of the eurozone. A reading above 50 indicates expansion in the sector; below 50 indicates contraction.

Corresponding Indexes for Fixed-Income Performance Exhibit	
U.S. High Yield	ICE BofA U.S. High Yield Constrained Index
Global Sovereigns	Bloomberg Global Treasury Index
Global Non-Government	Bloomberg Global Aggregate ex-Treasury Index
Emerging Markets (Local)	JPMorgan GBI-EM Global Diversified Index
Emerging Markets (External)	JPMorgan EMBI Global Diversified Index
U.S. Mortgage-Backed Securities (MBS)	Bloomberg US Mortgage Backed Securities Index
U.S. Asset-Backed Securities (ABS)	Bloomberg US Asset Backed Securities Index
U.S. Treasurys	Bloomberg US Treasury Index
U.S. Treasury Inflation-Protected Securities (TIPS)	Bloomberg 1-10 Year US TIPS Index
U.S. Investment-Grade Corporates	Bloomberg US Corporate Bond Index

Corresponding Indexes for Regional Equity Performance Exhibit	
United States	S&P 500 Index
United Kingdom	FTSE All-Share Index
Pacific ex Japan	MSCI Pacific ex Japan Index (Net)
Japan	TOPIX, also known as the Tokyo Stock Price Index
Europe ex U.K.	MSCI Europe ex UK Index (Net)
EM Latin America	MSCI Emerging Markets Latin America Index (Net)

Disclosures

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Diversification may not protect against market risk. Past performance does not guarantee future results. Index returns are for illustrative purposes only and do not represent actual portfolio performance. Index returns do not reflect any management fees, transaction costs or expenses. One cannot invest directly in an index.

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