Monthly market review – March highlights

To 31 March 2023

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March highlights

- Global equities rose, as investors shrugged off unrest in the banking sector
- The Federal Deposit Insurance Corporation (FDIC) rescued Silicon Valley Bank and Signature Bank; UBS acquired Credit Suisse
- Major central banks continued to hike rates, as US and UK inflation remained high

Equities

Global equities rose in March, shrugging off unrest in the banking sector. Stocks ended higher in the US, Europe, Japan and emerging markets, although UK shares fell. The MSCI World Index returned 3.16% in March (total return in US dollars).

Stocks rebounded in the month, with many markets rising despite turmoil in the banking sector. The problems started with Silicon Valley Bank, which announced losses and an emergency asset sale early in the period, sparking a run on its deposits. The FDIC stepped in, placed the bank in receivership and orchestrated sales of its assets and businesses. Signature Bank, which serviced many cryptocurrency businesses, was also taken over by the FDIC. Later in the month, Credit Suisse was acquired by UBS. The rescue was orchestrated by the Swiss central bank, which had changed laws to bypass a shareholder vote.

In the US, the major indices rose, outperforming the global average. In particular, technology performed well as the NASDAQ Composite Index finished the quarter with its best performance since mid-2020. In aggregate, the Pacific region finished the month up, with Japanese shares ending higher. Continental Europe also outperformed, with rises in France, Germany and Switzerland. However, Italy and Spain fell. UK shares also declined, with the mid-cap FTSE 250 Index lagging the blue-chip FTSE 100 Index. Emerging-market shares rose, with good performance from Asia, including India. However, Latin America fell.

The aggregate commodity index continued falling in March. Oil prices dropped as traders feared the impact of stubborn inflation on demand. Gas prices also fell, with data showing fewer active US rigs for the first quarter since 2020. However, the prices of precious metals rose sharply, as investors feared contagion in the banking sector.

Bonds and economics

The Bank of England (BoE), US Federal Reserve (Fed) and European Central Bank (ECB) all raised interest rates, pressing ahead to control inflation in spite of problems in the banking sector. Annual inflation rose in the UK, but declined in the US and eurozone. Sovereign and corporate bonds rose over the period.

Sovereign bonds rose in March, even as major central banks hiked interest rates over the period. The BoE, Fed and ECB met days after the collapse of Silicon Valley Bank, which had reported sizeable losses on its bond holdings as assets were repriced after previous Fed rate hikes. While there was some speculation that the ECB might hold off on further rate rises, policymakers raised them by 0.50%, proceeding as planned. However, the central bank is closely monitoring the unfolding banking crisis. Late in the month, data showed an unexpected moderation in the eurozone's inflation rate (according to a preliminary estimate), with March prices increasing by 6.9% year on year, down from 8.5% in February. Bunds rose in March.

The BoE and Fed pressed ahead with interest-rate hikes of 0.25% apiece. In the US, the rate of annual consumer price inflation declined from 6.4% in January to 6.0% in February. By contrast, in the UK it unexpectedly rose from 10.1% to 10.4% over the same period. In the US, annualised GDP growth was revised downwards to 2.6% for the fourth quarter of 2022. However, in the UK, quarterly GDP growth was revised up to 0.1% for the final three months of 2022, meaning the country avoided a technical recession. The BoE now forecasts some growth in late 2023, whereas it had previously predicted a recession. Gilts and US Treasuries rose. Global investment grade and high yield corporate bonds also advanced, although credit spreads widened.

Real Estate

According to the MSCI Monthly Index, total returns for February (the latest data available) were -0.3%, down from January's -0.2%. The office and industrial sectors were the weakest over the month, returning -0.8% and -0.3%, respectively. In contrast, the hotel and residential sectors were relatively resilient, returning 0.4% and 0.3%, respectively.

London office demand has recently outstripped the 10-year average. According to Savills' research, active central London requirements equated to 9.7 million square feet, which is 10% ahead of the 10-year long-term average. Performance has been boosted significantly by insurance and other financial sector occupiers, with demand from these areas in 2023 signalling the strongest level in nine years, standing at 4.1 million square feet and accounting for 42% of the market. The legal, private equity, investment and asset management sub-sectors have been particularly active, with the latter accounting for the majority of demand at 15%.

Food producers have taken up record volumes of UK warehouse space as the industry looks to prevent shortages such as those of fruit and vegetables that left supermarket shelves bare. According to Savills, demand from food manufacturers for shed space increased 58% to a record 4.3 million square feet in 2022, the largest take-up since its data collection started in 2007. Food businesses have been acquiring warehouses for storage, slaughterhouses and indoor farms. This trend is similar to other nearshoring efforts by businesses as they seek to maintain more stock locally in light of global supply-chain challenges.