REEVES
INVESTMENT SERVICES

Market Outlook

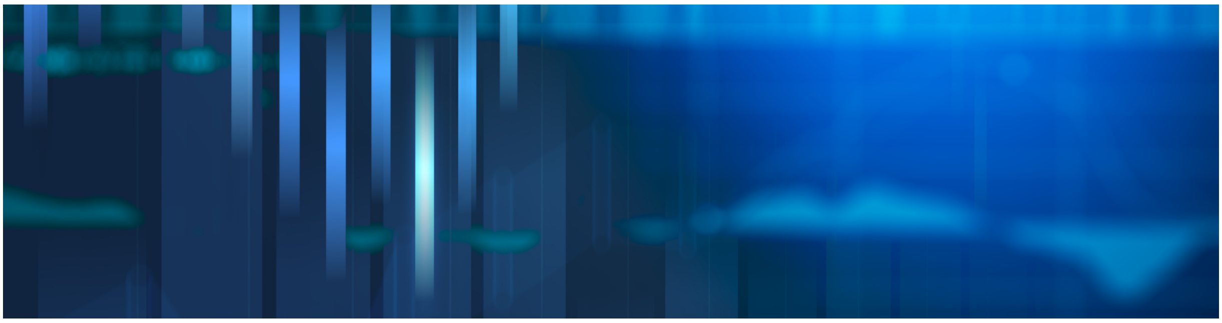
May 2023

The month started with a bang as BP announced record profits for the previous quarter. Whilst on one hand this is potentially good news for millions of pension recipients in dividends, the Chancellor will inevitably be under pressure to impose a wealth tax on the energy giants to claw back some of the subsidy that the Government has paid out over the winter quarter.

Whilst on the subject of oil, it's worth reminding ourselves how far we have travelled in the last twelve months. This time last year, a barrel of North Sea Oil cost $104, on the same month this year the price was $77. That's a whooping $27 per barrel cheaper. Whilst that is still some distance from the low of $20 per barrel in April 2020 when the pandemic started to grip, it pales into perspective from the June 2022 peak of $122 per barrel. Barring any political or economic mishaps in the coming months, the demand for oil tends to moderate over the spring and summer months, which should help keep the Government's ambition of halving inflation on track.

Across the Atlantic, the Federal Reserve (Fed) raised interest rates by 0.25%. This increase brings interest rates to the highest in sixteen years and is the tenth interest rate hike in fourteen months. At 5.25% the Fed indicated that this may be the last rate increase but then immediately ruled that if new data proved otherwise, they would not shy away from taking action. That sounds like we leave open the option for both interest rates rise as well as decreases. In fairness, inflation remains the bane of both the Chairman of the Fed and our own Governor of the Bank of England. Once inflation is in the system it is difficult to reign in given the limited tools available to central bankers.

As if to emphasise this point, food prices in the UK have been rising at their fastest pace in 45 years therefore, it was not surprising that the Bank of England monetary policy committee decide to raise interest rates. The rise, the twelfth consecutive, of 0.25% was the smallest available, but this still leaves interest rates at 4.50%. The immediate impact of this rise was to boost Sterling to levels against the U$ dollar and €uro not seen for some time; however, this euphoria soon fell away and both currencies returned to their more recent normal trading range the following day.



A number of inflationary numbers are expected to drop out of the Retail Price Index and Consumer Price Index calculations in the next few months, both the Chancellor of the Exchequer and the Governor of the Bank of England must be hoping for a sizable reduction. One, because of a general election that must be called before 17th December 2024, and the other to comply with its mandate of just 2% inflation.

Therefore, the announcement that inflation has fallen from 10.1% last month to 8.7% must have come as a relief to both parties. However, analysts were expecting an even greater fall. Whilst energy costs have fallen, staples such as milk, sugar and pasta remain stubbornly high and as such the FTSE 100 Share Index was marked down sharply. All the evidence suggests that we have further to go in the battle: more interest increases cannot be ruled out and this will make the Bond market nervous.

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Outlook by Asset Class/Region

Asset/Region	View
Cash	Positive
Government Bonds	Positive
Credit Fixed Income	Neutral
Property	Neutral
UK Equity	Positive
US	Positive
Emerging	Negative
Asia	Neutral
Commodities	Neutral
Alternatives	Neutral
Technology	Positive

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Important information

Pensions are a long term commitment, you may not be able to access your pension funds until the age of 55 (currently), investments can go down as well as up and you might not get back your initial capital. Pension and tax legislation does and can change in the future which could impact your pension.#

Please note: The Financial Conduct Authority does not regulate tax planning.

As a mortgage is secured against your property it may be repossessed if you do not keep up the mortgage repayments.

The value of your investment and any income from it could fall or rise, and you may not get back the full amount you invest.

Past performance is not a reliable indicator of future results. We always recommend you talk to a qualified financial adviser before making any investment decisions.

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