HYMANS ROBERTSON

Flash stats

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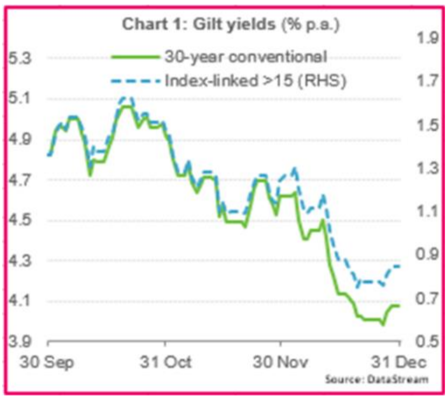
Sovereign bond yields fell sharply as lower-than-expected inflation releases boosted investor optimism for earlier and larger rate cuts in 2024. In response, global equity markets rose and credit spreads tightened.

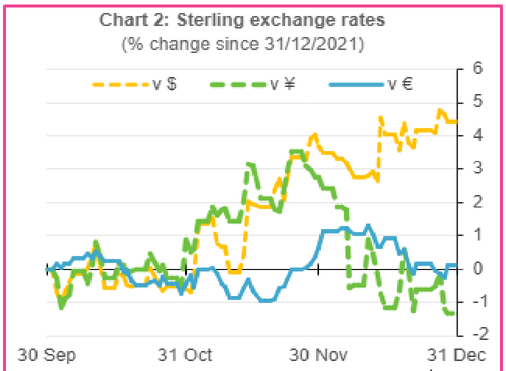
Sterling returns (%) to 29th December 2023		3 mths	12 mths			3 mths	12 mths
EQUITY INDICES				**STERLING BOND INDICES**			
Global	*FTSE All-World*	6.3	15.7	Gilts (All)	*FTSE*	8.1	3.7
UK	*FTSE 100*	2.3	7.9	Index-linked (All)	*FTSE*	8.7	0.9
	FTSE All-Share	3.2	7.9	Corporates (All)	*iBoxx*	8.2	9.7
US	*S&P 500*	6.9	19.2	**MODEL PORTFOLIOS**			
Japan	*TOPIX*	3.4	13.3	70% equity		6.0	10.8
Europe ex UK	*FTSE Dev*	7.9	15.9	50% equity		6.6	9.8
Emerging	*FTSE Emerging*	2.1	2.9	30% equity		7.2	8.8

Source: DataStream/Hymans



- December's final release confirmed that the US economy expanded by 1.2% quarter on quarter in Q3, driven by robust consumer spending. By contrast, UK and eurozone GDP contracted by 0.1% in Q3. This leaves the UK flirting with a mild technical recession in the second half of 2023 as recent monthly data showed the economy contracted 0.3% in October, following a 0.2% expansion in September.
- US GDP forecasts for 2023 and 2024 were revised higher once more in Q4, given the unexpected strong growth. Despite this, global growth in 2024 is expected to ease to its slowest pace since the global financial crisis (excluding 2020) but it is not expected to collapse.
- Year-on-year CPI inflation in the UK, US, and eurozone fell more than expected to 3.9%, 3.1%, and 2.4% respectively, in November. The main drivers were a decline in energy prices and a moderation in food prices. However, core inflation, which excludes both, also fell more than expected. Perhaps highlighting a degree of 'stickiness' in inflation, the respective core measures are 5.1%, 4.0%, and 3.6% in the UK, US, and eurozone.
- As expected, the major central banks left interest rates unchanged in Q4. Larger-than-expected falls in inflation saw markets price in earlier and larger interest-rate cuts in 2024, reinforced by the Fed's mid-December revised policy projections. Despite the ECB and BoE reiterating a more cautious approach, markets expect a similar scale and timing of interest rate cuts in Europe and the UK.

- Investors' enthusiasm around larger and sooner rate cuts in 2024 saw bond prices rally and yields fall sharply. US 10-year treasury yields declined 0.7% pa over the quarter to 3.9% pa, while equivalent UK gilt yields fell 0.9% pa, to 3.5% pa, and German bund yields fell 0.8% pa, to 2.0% pa. Japanese government bond yields fell less given potential divergence in monetary policy between Japan and the other major advanced economies.



Source: DataStream/Hymans

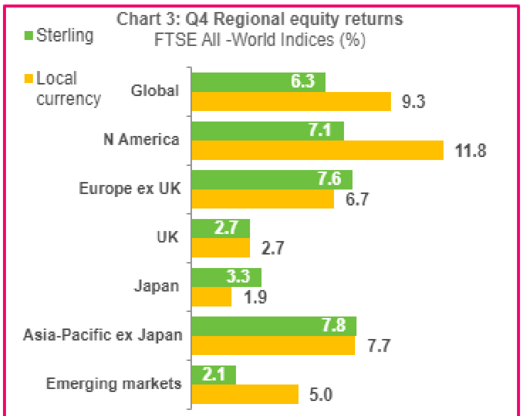
- Global credit spreads tightened with the fall in sovereign bond yields which helped ease debt affordability concerns for corporate borrowers. Global investment-grade credit spreads declined 0.2% pa to 1.2% pa over the quarter, while global speculative credit spreads declined by 0.6% pa to 3.8% pa. Despite a larger decline in speculative-grade credit spreads, the longer duration investment grade market outperformed.

- The FTSE All World Total Return Index returned 9.3% over Q4 in local currency terms. Stocks had their best year since 2019, being up 22% in 2023. Q4's gains were largely driven by a shift in rate expectations as market's anticipated the positive impact on economic activity of a potential reduction in interest rates. Lower sovereign bond yields also lent support to equity valuations, particularly technology stocks, which strongly outperformed. The energy sector notably underperformed on the back of falling oil prices and some of the more defensive sectors were the next largest underperformers.

- North American equity markets outperformed given their high exposure to technology. All other regions underperformed, though did still produce positive returns. Japanese equities underperformed, as yen strength weighed on the exporter-heavy index. The UK market also notably underperformed due to its large exposure to the energy sector and sterling strength, which weighed on the high proportion of overseas earnings in the index.

- Oil prices fell 18.6% amid the subdued economic outlook and as markets questioned the potential efficacy of further OPEC+ supply cuts. Expectations of rate cuts and lower real yields contributed to a 3.1% fall in the trade-weighted US dollar. Equivalent sterling and euro measures rose 1.3% and 1.0% respectively, while the equivalent yen measure strengthened 2.6% as expected interest rate differentials with major economic peers narrowed.

- The MSCI UK Monthly Property Total Return Index declined 0.7% over October and November as income was offset by capital value declines in the retail and office sectors, which are down 7% and 18% respectively on a 12-month basis. Industrial's equivalent measure fell by 4%. The office and retail sectors continue to see the largest month-on-month capital value declines. Capital values fell marginally in the industrial sector over the month, following six consecutive months of growth before stalling in October.



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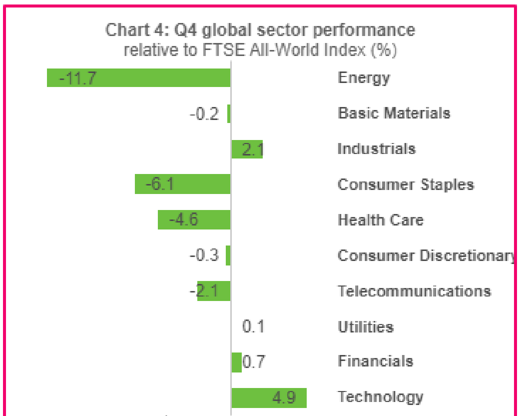

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