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Flash stats

Q4 2022

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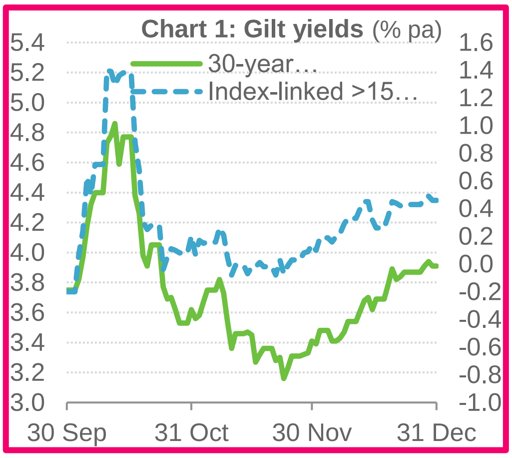
The fourth quarter of last year bought some bad reflief to a bad year for markets. Equity and credit markets rallied as inflation fell, surprising to the downside, but tight labour markets and strong wage growth prompted the major central banks to continue raising interest rates.

Sterling returns (%) to 30 December 2022							
		3 mths	**12 mths**			**3 mths**	**12 mths**
EQUITY INDICES				**STERLING BOND INDICES**			
Global	*FTSE All-World*	2.1	-7.3	Gilts (All)	*FTSE*	1.7	-23.8
UK	*FTSE 100*	8.7	4.7	Index-linked (All)	*FTSE*	-6.0	-33.6
	FTSE All-Share	8.9	0.3	Corporates (All)	*iBoxx*	7.2	-18.4
	S&P 500	-0.2	-18.1	**MODEL PORFOLIOS**			
Japan	*TOPIX*	5.1	4.1	70% equity		5.0	-9.1
Europe ex UK	*FTSE Dev Europe*	11.7	-7,5	50% equity		5.0	-12.3
Emerging	*FTSE Emerging*	0.7	-6.4	30% equity		5.0	-15.6

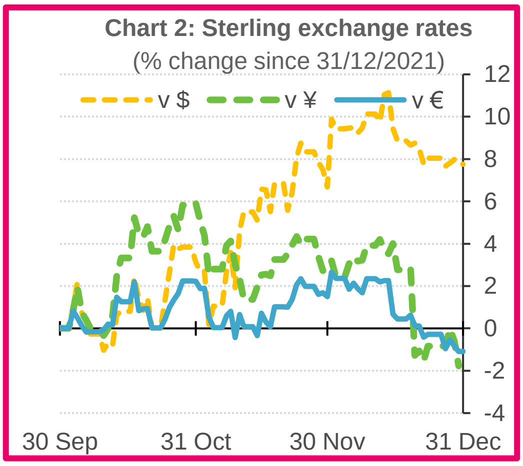
Growth data released in quarter four surprised to the upside. US labour and consumer demand remained resilient while the worst fears about potential European gas shortages have abated more recently.

- However, high inflation and rising interest rates increasingly weigh on the outlook for consumers and businesses. As a result, forward-looking indicators still point to a very challenging economic outlook, with global GDP forecasts revised lower in the fourth quarter.
- December's manufacturing PMI moved further into contractionary territory as new orders fell sharply. Price measures provided better news, as the rates of input costs and output charges fell to two-year lows. The services sector has generally performed better than the manufacturing sector in the major advanced economies, supported by robust labour markets.
- The MSCI UK Monthly Property Index fell in November, by 5.5%. The extent of recent declines in capital values, which are now 17% below their June peak, has been the primary driver. Capital values have

fallen across the three main commercial sectors but were most notable in the industrial sector, where they are down 23% since the end of Year-on year headline CPI inflation fell to 7.1%, 10.7% and 10.1% in the US, UK and eurozone respectively in November. Headline inflation is forecast to come down sharply over the course of the first half of 2023, but central bankers remain concerned about strong wage growth and core inflation.



- Following a round of 0.75% pa hikes, the major central banks shifted down to smaller 0.5% pa increases in December, taking policy rates in the US, UK and eurozone to 4.5% pa, 3.5% and 2.0% pa respectively.
- UK 10-year gilt yields fell 0.5% to 3.7% pa, as the market continued to recover from intense selling pressure seen in the wake of the mini-budget, while longer-term yields rose. UK 10-year implied inflation, as measured by the difference between conventional and inflation-linked bonds of the same maturity, fell 0.6% pa to 3.4% pa.
- Global investment-grade credit spreads fell 0.3% pa, to 1.5%, while speculative-grades fell 1.0% pa, to 5.1% pa. Speculative-grade default rates have risen a little since the start of 2022 but remain below long-term average results.
- The FTSE All World Total Return Index rose 7.6%, as downside inflation surprises and an easing of potential European gas shortages led to an improvement in investor sentiment. However, sterling appreciation, primarily against the US dollar, will have weighed on unhedged returns in sterling terms. The energy sector outperformed amid record earnings reports, as did industrials and basic materials – these energy-intensive sectors had previously weakened on European energy-supply concerns. Consumer-discretionary stocks underperformed as the cost-of-living squeeze intensified and technology continued 2022's underperformance. Europe ex UK notably outperformed, followed by the UK and Asia ex Japan. Japan sharply underperformed on the back of yen strength and doubts over ongoing monetary support from the Bank of Japan.



- Signs of a more rapid easing in US inflation pressures saw the US dollar fall 4.8% in trade-weighted terms, reducing its year-to-date gains to 6.3%. Equivalent sterling, euro and yen measures rose 1.9%, 4.4% and 5.2%, respectively.
- The MSCI UK Monthly Property Index fell in November, by 5.5%. The extent of recent declines in capital values, which are now 17% below their June peak, has been the primary driver. Capital values have fallen across the three main commercial sectors but were most notable in the industrial sector, where they are down 23% since the end of June.

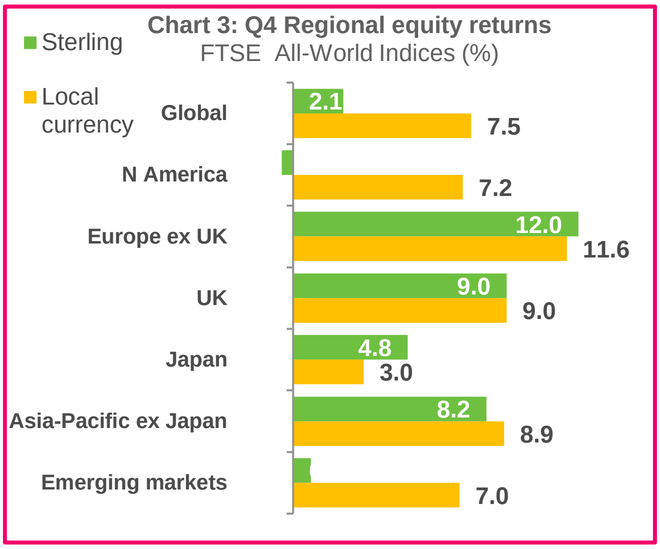


Chart 3: Q4 Regional equity returns
FTSE All-World Indices (%)
Sterling
Local currency
Global
N America
Europe ex UK
UK
Japan
Asia-Pacific ex Japan
Emerging markets
2.1
7.5
7.2
12.0
11.6
9.0
9.0
4.8
3.0
8.2
8.9
7.0

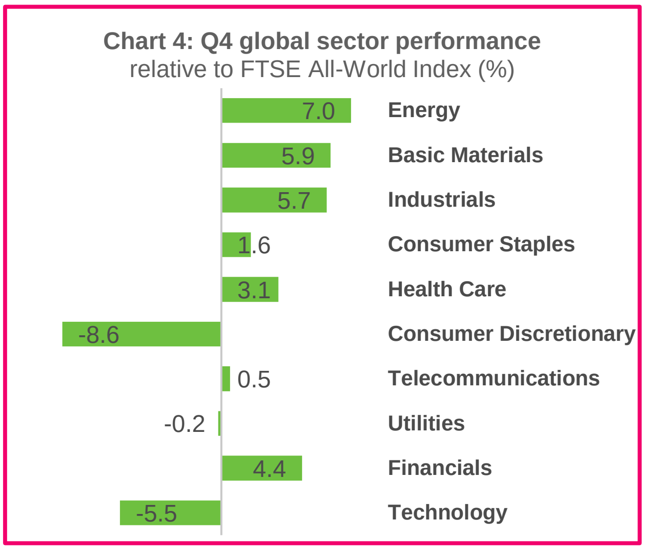


Chart 4: Q4 global sector performance
relative to FTSE All-World Index (%)
7.0
Energy
5.9
Basic Materials
5.7
Industrials
1.6
Consumer Staples
3.1
Health Care
-8.6
Consumer Discretionary
0.5
Telecommunications
-0.2
Utilities
4.4
Financials
-5.5
Technology