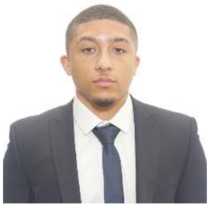
Flash stats

Q4 2022



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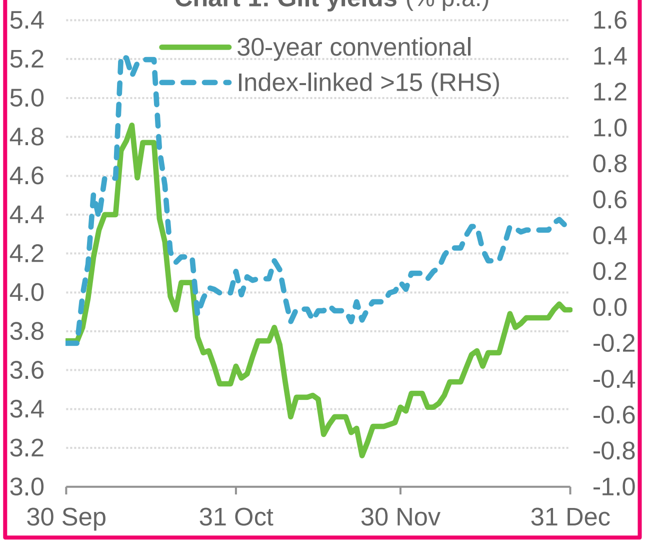
The 4th quarter of 2022 brought some relief to a bad year for markets. Equity and credit markets rallied as inflation fell, and surprised to the downside, but tight labour markets and strong wage growth saw the major central banks continue to raise interest rates.

Sterling returns (%) to 30th of 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
US	*S&P 500*	-0.2	-18.1	**MODEL PORTFOLIOS**			
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

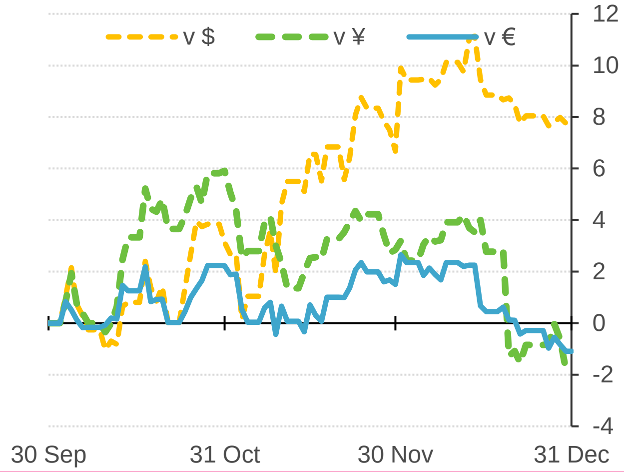
- Growth outturns, released in Q4, surprised to the upside. US labour and consumer demand remains resilient while the worst fears around potential European gas shortages and resultant economic impact, have abated more recently.
- However, high inflation and rising interest rates increasingly weigh on 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 Q4.
- December's manufacturing PMI moved further into contraction territory as new orders fell sharply. Price measures provided better news as the rates of input costs and output charges fell to 2-year lows. The services sector has generally performed better than the manufacturing sector in the major advanced economies, supported by robust labour markets.

Chart 1: Gilt yields (% p.a.)



- 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 first half of 2023, but central bankers remain concerned about strong wage growth and core inflation.
- Following a round of 0.75% p.a. hikes, the major central banks shifted down to smaller 0.5% p.a. increases in December, taking policy rates in the US, UK, and eurozone to 4.5% p.a., 3.5% p.a. and 2.0% p.a., respectively.
- UK 10-year gilt yields fell 0.5% p.a., to 3.7% p.a. 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% p.a. to 3.4% p.a.

Chart 2: Sterling exchange rates
(% change since 31/12/2021)



- Global investment grade credit spreads fell 0.3% p.a., to 1.5% p.a., while speculative-grade spreads fell 1.0% p.a., to 5.1% p.a. Speculative-grade default rates have risen a little since the start of 2022 but remain below long-term average levels.
- 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. Though, sterling appreciation, primarily against the dollar, will have weighed on unhedged returns in GBP terms. The energy sector outperformed amid record earnings reports, as did Industrials and basic materials, energy intensive sectors which 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 notably 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.
- 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 occurred across the 3 main commercial sectors but have been most notable in the industrial sector, where they have fallen 23% since the end of June.

Chart 3: Q4 Regional equity returns
FTSE All-World Indices (%)

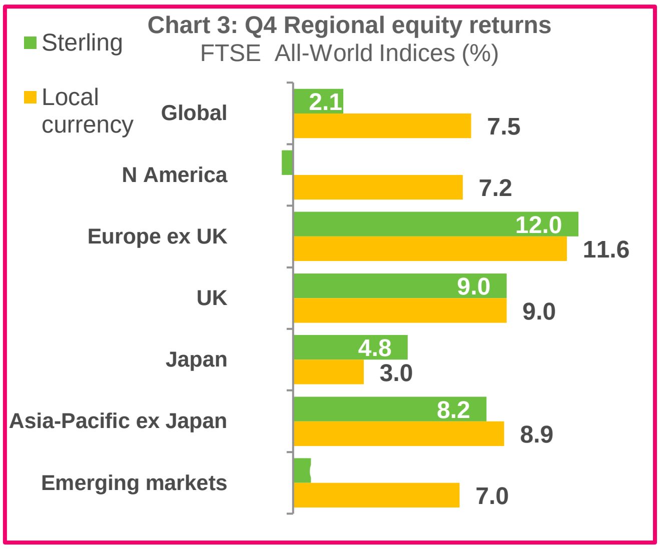


Chart 4: Q4 global sector performance
relative to FTSE All-World Index (%)