Wealth Management
Weekly Market Update

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Published 19 December 2022

Market Update

Last week, global equities fell -1.3% as central banks in developed nations entered a new chapter in their fight to tackle inflation. The Federal Reserve raised interest rates by another 50 bps which was widely expected. Buoyancy in equity markets over the last month has been widely attributed to a narrative that the Federal Reserve will turn their back on their policy of aggressive, concurrent 75 bps hikes. And yet, the narrative delivered by the Fed indicates that a dovish tilt remains a long way off, despite US inflation falling further to 7.1% in November. The hard-line stance on inflation adopted by the ECB also saw EU asset prices waiver, with EU stocks falling -2.1% over the week, whilst German 10Y Bund yields rose 21.9bps to 2.152%. Emerging market stocks fell -1.2%, as risk-off sentiment and the strengthening of the US Dollar raised concerns for the sustainability of emerging market debt obligations. Meanwhile, gold prices benefitted from the risk-off environment, rising +0.6%. Oil prices recovered to $74.7/barrel, up +5.5%, as China's reopening and scrapping of the 'Zero-Covid' policies fuelled investor optimism for future demand.

UK Stocks	US Stocks	EU Stocks	Global Stocks	EM Stocks	Japan Stocks	Gilts	GBP/USD
▼ -1.9%	▼ -1.2%	▼ -2.1%	▼ -1.3%	▼ -1.2%	▲ +0.3%	▼ -1.4%	▼ -0.9%

all returns in GBP to Friday close

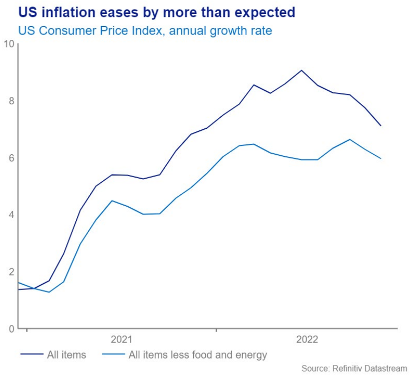
Macro News

- US inflation came in at 7.1% year-on-year, down from 7.7% reported last month, and below consensus estimates of 7.3%. Deflation in a larger range of items was seen over the month of November, including used vehicles, electronics, furniture and household items. Excluding volatile items such as food and energy, prices increased by 6% year-on-year.
- The Federal Reserve raised interest rates by a smaller 0.5% last week, ending a series of 0.75% hikes in the previous months. While the smaller hike was widely expected, markets were surprised by the Fed's economic projections, which turned out to be more hawkish in spite of the promising inflation report. Fed officials predicted a terminal interest rate of greater than 5% and also revised up its year end projection of core PCE inflation.
- Retail sales in the US fell by 0.6% in November, far worse than the 0.1% fall expected. The figures show that despite an easing of inflation in the previous months, consumers remain under pressure from higher rates and low savings.

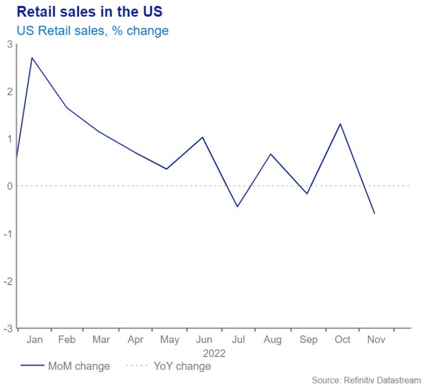
The Week Ahead

- Data on durable goods orders in the US will be released next week, along with Core PCE, the Federal Reserve's preferred gauge of inflation.

Week in Charts



The US inflation rate softened to 7.1% in November, falling from 7.7% and short of consensus estimates of 7.3%. Core inflation, which excludes the volatile elements of food and energy, came in at 6%.



Retail sales in the US fell by 0.6%, far more than the 0.1% predicted by economists. The figures show that consumers remain under pressure even as inflation numbers ease.

View From the Desk

It is an uncomfortable message that we end the year with, yet a necessary one. Stability should never be seen as the 'normal' state of things. And that's well and truly better for truly long-term investors.

Stability is a small and short-term harbour in a sea of uncertainty. No system can stay stable forever. Those of us lucky to be born in the later stages of the previous century have known economic stability, mostly low inflation and unprecedented technologic growth. With major wars consigned to the pre-Atomic era, at least in the west, disruption for developed economies has only been a term used for innovation, not backpedalling.

Stability can't be taken as a given, and instability to be seen as a surprise. Quite the opposite. We should be grateful for stability when it is found, but always prepare for instability as the natural state of play.

Meanwhile, yield has returned, and with it the benefits of a diversified portfolio. If the yield curves steepen (and remain thus) the next paradigm will be founded on a more 'normal' and stable basis. With it, credit could begin to flow again not just to stocks and bonds, but the real economy as well, ending an era dismally called 'Secular Stagnation'.

Rebooting means volatility and uncertainty, but investors should remember that value lost during these episodes may not necessarily remain lost. It remains in arrears. Returns after 'rebooting episodes' tend to be higher. On average, thus, investors with the patience and liquidity to increase their exposure in the downturn tend to win out.

So the lesson is simple.

- A changing of paradigm is unavoidable and usually necessary.
- It may be painful, even very painful for some time (one year to three if history is anything to go by), but
- the returns over the longer term tend to balance out the short term losses.

Merry Christmas to all

David Baker, CIO

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