Wealth Management
Weekly Market Update

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Market Update

Last week, equity markets were largely positive as the December US jobs report figures indicated slower than expected labour market and wage growth, while adding another 223,000 jobs. Global and US stocks rose, up +1.9% and +1.6% respectively in Sterling terms, as the jobs data translated into investor expectations of a less hawkish Federal Reserve. Risk-on sentiment was also observed in the UK, up +3.3%, and in Europe, where equities continued to outperform, up +5.4%. Emerging market stocks also rose +3.5%, as speculation mounted that the restrictions surrounding China's 'three-red lines' rule would be lifted, providing a significant boost to the struggling property sector. Meanwhile, Japanese stocks were the main underperformers, falling -1.6% as inflation figures continue to tick higher and investors assess the impacts of yield-curve controls incorporated by the Bank of Japan. Fixed income also performed well, with UK Gilts rising +1.0%. Gold prices rose +2.4% to $1875.90/oz, while oil prices continued to fall as recession fears continue to weigh on demand expectations, down -8.0%.

UK Stocks	US Stocks	EU Stocks	Global Stocks	EM Stocks	Japan Stocks	Gilts	GBP/USD
▲ +3.3%	▲ +1.6%	▲ +5.4%	▲ +1.9%	▲ +3.5%	▼ -1.6%	▲ +1.0%	▲ +0.1%

all returns in GBP to Friday close

Macro News

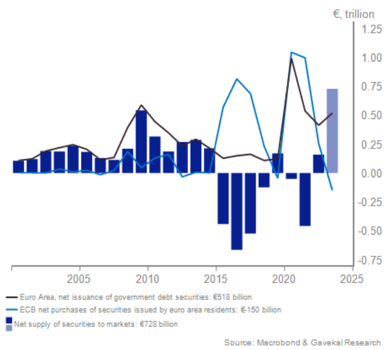
- Inflation in France, Spain and Germany surprised to the downside last week, coming in at 6.7%, 5.6% and 9.6% respectively. This led to a rally in European stock markets and saw interest rate expectations fall, as investors priced in an earlier end to European Central Bank (ECB) tightening. Such a reaction may be premature however, in light of the ECB's recently announced quantitative tightening programme. This program would allow €15bn worth of debt purchased by the ECB under its asset purchase program to mature every month starting from March. Furthermore, the ECB will be increasing the supply of bonds in the market, after eight years during which net issuance was largely offset by its bond purchases.
- US non-farm payrolls increased by 223,000 for the month of December, down from 256,000 in November. Wage growth was slightly less than expected at 4.6% year-on-year, indicating that inflation pressures are easing. The figures raise hopes that the Federal Reserve could achieve a 'soft landing' in spite of its aggressive interest rate hikes.

The Week Ahead

- The focus will be on US inflation figures, which will be released this week. UK GDP growth figures will also be released.

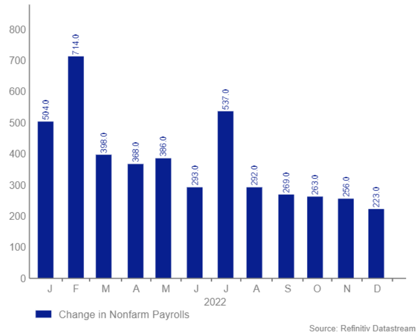
Week in Charts

A supply shock may put strain on EU sovereign bonds
Net issuance of goverment bonds minus net securities purchases by the ECB



For the past eight years, net issuance of EU government bonds has been offset or exceeded by the ECB's purchases under its asset purchase programme. As the ECB unwinds its asset purchases, net issuance is set to reach over €700bn per year in 2023.

Non-farm payrolls increased by 223,000 in November
US non-farm payroll employment, increase from previous month



US non-farm payrolls increased by 223,000 in December, while wage growth slowed to 4.6% year-on-year. Average weekly hours decreased from 34.4 to 34.3, while the participation rate edged higher to 62.3% from 62.2%.

View From the Desk

Outlooks, our own included, paint quite a grim economic picture at the start of the year. Inflation is really an independent variable* and, even if the rate of price rises moderates, prices themselves are set to remain high. Meanwhile, central banks are determined to put the brakes on economic growth in a bid to prevent inflation from becoming entrenched. Thus, the oncoming recession is a near-certainty, especially for lower-income consumers, not because the forecast is thus, but because it's expressly engineered as an inflation-fighting tool.

Meanwhile, Quantitative Easing, the 'Only Game In Town' for risk assets for more than a decade, along with the Fed Put, has for the time being stopped. This does not mean that central banks do not remain lenders of the last resort of course. The BoE happily bought circa £70bn of UK bonds to avert a systemic risk two months ago, before promptly resuming rate hikes. It does mean, however, that investors can't expect central banks to shoulder part of their risks when they invest.

That's bad news for investors over the shorter-term, for sure. But we are now easily beyond the shorter-term. The downturn has lasted for almost a year. By historical standards (which are reinforced when robots do a lot of the trading) recessions last for eighteen months. This quite handily fits with the economic narrative as well. Central banks are already seeing lower inflation.

In our latest Investment Committee, 'Quality' was the world that stood out. We decided that risks remain elevated for the time being. US equities, a global leading indicator, are fairly valued and have not discounted a possible 15% or greater drop in earnings, the standard for a recession. Markets being much more optimistic than the Fed is also reason to give us pause.

At a headline level, we remain neutral for major asset classes, as we don't feel that there's a compelling case for markets to turn in the next ninety days. However, in terms of equities, we reduced our exposure to growth and chose more quality in the form of UK income stocks because of the compellingly low valuations these companies offer. In terms of bonds, we took some weight off high yield, which we believe could suffer in a volatile environment, and moved it to better quality investment grade bonds.

David Baker, CIO

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