Wealth Management
Weekly Market Update

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Market Update

Most indicies finished 2022 sharply lower than where they started the year, with US, EU and EM stocks down -8.4%, -3.7% and -10.6% respectively in Sterling terms. The notable exception was the UK, which saw its large caps rise +4.7% over 2022, in large part due to its exposure to energy and mining companies. Stocks made modest movements over the holiday period, during which trading volumes were low. The final week of the year saw developed markets falling slightly, while emerging markets and Japanese stocks made small gains. The week was relatively light on macroeconomic data releases, but did bring the news that China would be further loosening Covid-19 restrictions. Changes to the government's Covid-19 policy included removing the requirement for inbound travellers to quarantine, and the relaxation of rules relating to testing and contact tracing. The changes drove positive sentiment in Asian markets, which welcomed China's willingness to reopen its economy.

UK Stocks	US Stocks	EU Stocks	Global Stocks	EM Stocks	Japan Stocks	Gilts	GBP/USD
▼ -0.3%	▼ -0.4%	▼ -0.3%	▼ -0.4%	▲ +0.4%	▲ +0.6%	▼ -0.3%	▲ +0.3%

all returns in GBP to Friday close

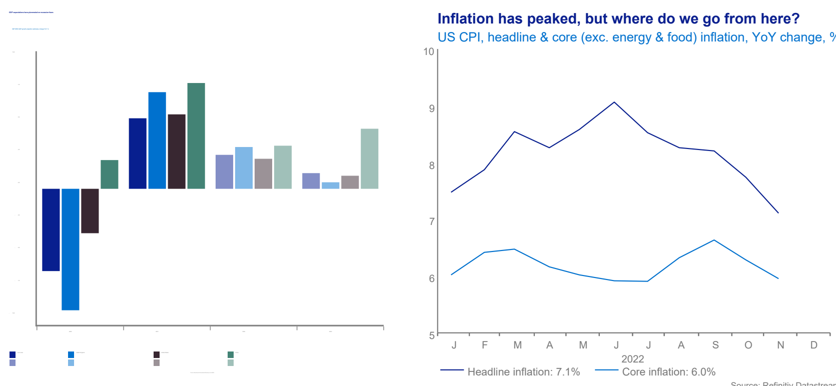
Macro News

- 2022 was a tough year for both economic activity and risk assets alike, and remarks made by the IMF indicate that 2023 will start in much the same vein. Managing director of the IMF, Kristalina Georgieva, remarked that recession will impact a third of the world's population in 2023. However, the severity of these downturns is far less understood. A confluence of economic influences are likely to make themselves known as we make our way through the year. New challenges, including further rate hikes by central banks and the use of QT, will be felt alongside the now almost familiar concerns surrounding inflation. Even an almost forgotten adversary, Covid-19, is causing fresh problems in China, threatening to further hamper economic activity that stagnated following the spate of lockdowns across many provinces.
- However, there are certainly reasons to be optimistic. Inflation now appears to have peaked in developed markets. In addition, bond yields have substantially risen and equity valuations are far less lofty than they were a year ago. Opportunities are increasing for fixed-income and equity investors alike.

The Week Ahead

- Economists will be focused on US and EU December inflation data reported this week. However, inflation base effects are unlikely to truly kick in until February at the earliest.

Week in Charts



As we move into 2023, recession fears have come to the forefront of most investors' minds. Central banks in developed markets remain vehemently hawkish and the risk of overtightening is prevalent.

Inflation will continue to be a key metric observed by the Federal Reserve when setting interest rates. The sharp rise early last year may help to moderate inflation readings this quarter via base effects, but the risk that inflation remains sticky will be one closely watched by investors and policymakers alike.

View From the Desk

Stability should never be seen as the 'normal' state of things. And that's well and truly better for truly long-term investors.

Since 2008, the US Federal Reserve has been the 'only game in town'. Its will and whims, expressed by Quantitative Easing, a method to print money without incurring consumer inflation, have moved markets up and down almost singularly. On the surface, it was all really positive. Since the demise of Lehman Brothers, global stocks and bonds gave investors a healthy 12% and 4% per annum respectively, higher than their long term averages and at lower volatility. However, the short-term strategy turned long-term solution came at a cost and could not possibly last ad infinitum.

Good short-term returns at low volatility don't come for free. Global debt soared to pay for lowering that volatility. Yield curves flattened, with risk-free rates kept at zero, imperilling not only pension funds, but the flow of money itself. Further arresting healthy credit flows, central banks dominating bond markets crowded out traders and specialist bond investors, leaving a gaping hole as they abruptly retreated. Meanwhile, low volatility / high returns lured investors away from the real economy (with all its risks) to the financial economy, resulting in gross capital misallocation across the world. Consequently, good jobs became more scarce and wages stagnated.

But now Covid has caused high supply-side inflation, causing the system to reboot itself. Yet this is good. A QE-turbo-charged financial market was too quick to stop and think of fundamentals. Now a reckoning is coming for company management models. Wall Street has already scrapped the guru-style-led WeWork before private investors had had a chance to pour money into a disastrous business model, while investors are taking a closer look at dual-class shares, which allow founders (and presumably their offspring) to control the fates of the very influential and highly valued tech behemoths

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, butto 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.

David Baker, CIO

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