FOR PROFESSIONAL ADVISERS ONLY

2023 - 12 months in 12 Pages

Anthony Walters

Head of ESG - Clever

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www.cleveradviser.com

www.clevermps.com

January

Markets started the year strongly as China's re-opening after a zero-covid policy helped to boost confidence and optimism.

US inflation cooled to 6.50% from 7.10% prior which investors hoped would lead to slower interest rate rises. Consumer discretionary and cyclical sectors made gains whilst defensive areas of the market softened, as investors took a 'risk on' approach to the market.

UK Inflation fell to 10.10% from 10.50% in a sign that interest rate rises were working but had much further to go in order to tame inflation.

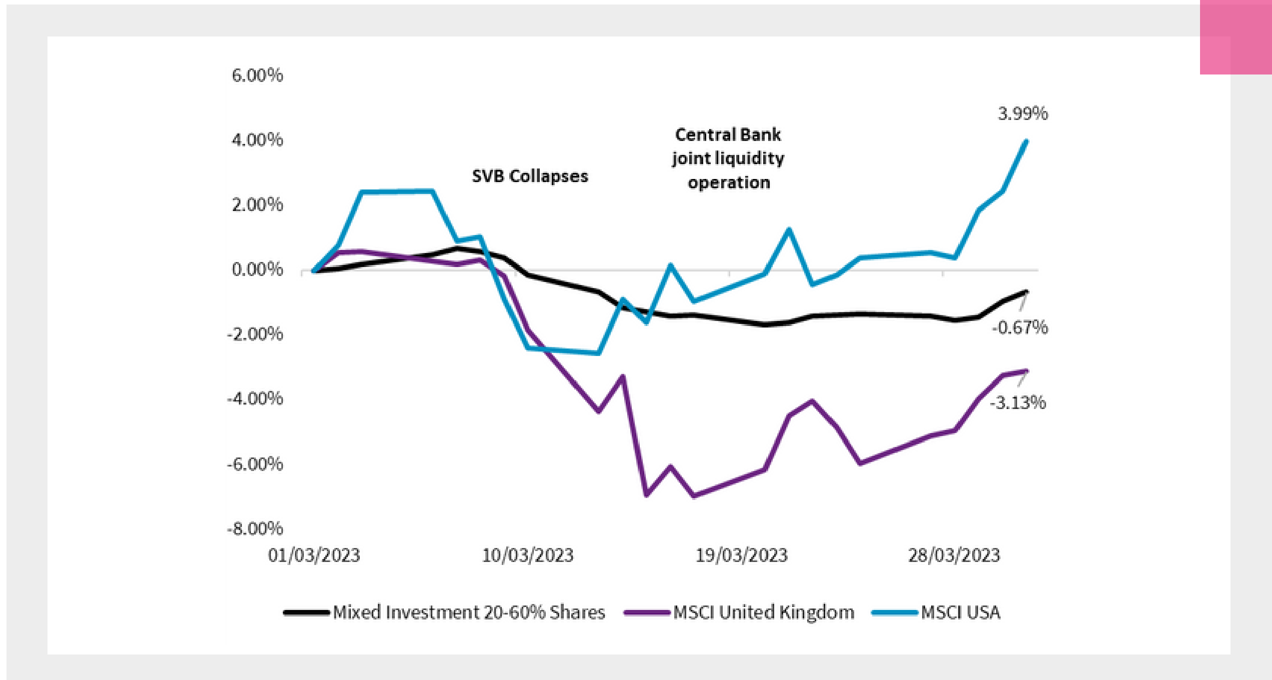
Tech rallied, with the sector gaining 7.46%, whilst China/Greater China was close behind, posting a 7.29% gain. India had a slow start in January, falling by 3.25% for the month. Markets enjoyed relative calm as optimism abounded for the year ahead.

February

Bank of England, Monetary Policy Committee member Catherine Mann said more tightening was needed and cautioned that a pivot on monetary policy towards interest rate cuts was not imminent, signalling that they were likely to rise again when the MPC meets in March.

Despite inflationary headwinds, the FTSE 100 made a new record high during February, before retreating slightly and still being within 2% of the same.Inflation continued to recede although stood at 10.10%, which is a stark contrast to the 3.90% of today. Fixed Income continued to be challenged as the Bank of England increased the base interest rate from 3.50% to 4.00% in February. UK Gilts and UK Index-Linked gilts fell by 3.67% and 5.59% respectively.

March



Markets encountered 'bank-induced' volatility during the month, as the Balanced portfolio benchmark was down by 0.67%, despite starting the month with the same gain. The key event during the month was the collapse of Silicon Valley Bank (SVB) and the resultant provision of liquidity by the major central banks, which provided a much-needed boost to markets.

SVB was different in its approach, compared to the banking majors, as its business model depended on taking in deposits and investing them in a range of bonds to generate profit from the difference in interest rates. The liquidity challenge came when the bank continued to operate the model deep into the interest rate hiking cycle, which impaired the value of the bond investments on SVB's books.

Despite volatility, the MSCI USA index returned 0.97% whilst its UK counterpart posted a 3.13% loss. Index-Linked Gilts also rallied on news of liquidity support from central banks as the sector rallied by 7.39%.

April

The 2nd largest bank failure in US history did little to disrupt markets. First Republic collapsed at the end of April, although one could barely tell by looking at the market. Action taken by central banks to guarantee deposits, means that for most people, the chance of losing money because of a bank collapsing is greatly reduced. And markets reacted accordingly, with the Balanced portfolio benchmark posting a 0.52% gain for the month.

US inflation slowed to 4.90% whilst the UK (10.10%) and the EU (7.00%) continued their seemingly harder battle. Poland stood out among emerging markets, returning 11.65% for the month. Oil traded down to around $70 per barrel, as OPEC+ lowered production to support the price.

May

The MSCI Japan index broke out to an all-time high as volatility touched a 3-year low. News of a possible US default dissipated as US Congress agreed to borrow more than the current $31.4 trillion debt ceiling, with little said about how this trend will be reversed in future. Since 1960, Congress has acted 78 separate times to permanently raise, temporarily extend, or revise the definition of the debt limit.

The United States sat in 11th place for debt relative to GDP, a league table topped by Japan with an incredible 264% Debt to GDP. Positive news abounded in UK services as the Services PMI (Purchase Managers Index) sat at 55.2, with any reading above 50 considered to be growth.

UK inflation rose by more than the market expected with the Consumer Prices Index (CPI) increasing by 8.70% in the 12 months to April 2023, down from 10.10% in March. The governor of the Bank of England (BoE) said there were “very big lessons to learn” in setting monetary policy after the BoE failed to forecast the rise and persistence of inflation.

June

Broader markets fared well although Fixed Income components were challenged by continued suggestion from central banks that interest rate rises are, by no means, confined to the past. Bank of England Governor, Andrew Bailey, said that he has ‘always been interested that markets expect that peak interest rates will be short-lived when we are dealing with more persistent inflation’, pointing to stickier Core inflation. US inflation fell sharply from a peak of 9% down to 4%, largely due to favourable base effects from oil prices, which peaked in June of 2022 and have come down significantly since.

And almost half of Inflation in the EU was said to be caused by corporate profits. A report released by the International Monetary Fund (IMF) said that rising corporate margins accounted for 45% of inflation in Europe since the start of 2022. The MSCI USA index gained a very healthy 3.95% whilst the UK Index posted a moderate rise of 1.25%.

July

A broad market rally took place in July, with the Balanced portfolio benchmark returning 1.44%, amid a continued decline in inflation. Oil futures traded around $83 per barrel, with OPEC+ production cuts in April now starting to take effect.

China/Greater China returned 7.06% for the month, a surprising turnaround as the sector was down by 2.55% until 24th July. The one-week rally was driven by the 'Politburo meeting', where Chinese leaders pledged to step up policy support for the economy. On a year-to-date basis, the sector was down by 8.50% in Pounds Sterling terms.

A Property paradox occurred as the asset class occupied spots in both the Top and Bottom 5 performing sectors, with Equity-based exposure benefitting from Equity-market tailwinds whilst Direct Property fared less well.

August

Oil drove higher to $90 per barrel, as demand grew thanks to economic resilience whilst the market saw continued production cuts by OPEC+. Bank of England governor, Andrew Bailey, said that the central bank is "much nearer" to ending its run of interest rates increases but that borrowing costs might still have further to rise because of stubborn inflation pressures.

Speaking at the Jackson Hole Symposium in August, Federal Reserve Chair Jerome Powell said, “We are attentive to signs that the economy may not be cooling as expected and are prepared to raise rates further if appropriate and intend to hold policy at a restrictive level until we are confident that inflation is moving sustainably down toward our objective”.

European Central Bank (ECB) president Christine Lagarde said “actions speak louder than words”. She reminded the market that the ECB “have increased policy rates by a cumulative total of 425 basis points in the space of 12 months — a record pace in record time. And we will achieve a timely return of inflation to our 2% medium-term target”. Denmark stood proudly as the top performer in developed markets in August, largely driven by the game changing weight loss drug developed by Novo Nordisk. The Danish pharmaceutical giant gained 22% since the start of August as the much-heralded weight loss drug Wegovy, also known as Ozempic, was proven to aid weight loss. China/Greater China returned -7.32% showing that the economic promise in July was erased in August.

September

Inflation data continued to trend down as the effects of higher interest rates continued to be felt. The Balanced benchmark returned -0.67% for the month whilst Oil peaked for the year at $93 per barrel. The Bank of England and Federal Reserve both opted to pause interest rates whilst the European Central Bank bucked the trend and increased theirs by 25 basis points.

The oil rally benefitted Scandinavian nations as two produced top performance among Developed Markets, with Norway and Sweden gaining 7.27% and 3.90% respectively. Emerging Markets also benefitted from a broader rally, with half posting gains. Egypt continued to lead as the country endured double-digit inflation. Interestingly, the Egyptian Index is only comprised of 3 companies, with Commercial International Bank accounting for 80% of the market.

October

Markets were volatile in October, caused primarily by the outbreak of conflict and hawkish rhetoric from Central Banks, who suggested that the timing of rate cuts is still uncertain.

The Balanced portfolio benchmark was slightly negative with a return of -1.83%. Conflict in the Middle East resumed between Palestine and Israel, causing the Israeli index to selloff and investors to fear contagion, with potential for conflict to spill over into other areas of the world.

Bank of England Chief Economist Huw Pill said that labour market data showed a weakening of pay growth but was still too high to be consistent with the British central bank's 2% inflation target. Pay grew at 7.70% per year, outstripping Consumer Price inflation of 6.70%.

US inflation fell to 3.20%, down from 3.70% a month earlier. Whilst Fed Chair, Jerome Powell, cautioned that the campaign to manage interest rates still had “a long way to go,” October figures suggested that the “Fed” were well on their way to achieving the inflationary target of 2.00% per annum.

November

Bonds and Equities enjoyed a ‘dual rally’ amid better than expected inflation data and as concerns about contagion from conflict in the Middle East continued to dissipate.

Inflation continued to fall across the world as the effects of interest rate rises continued to be felt.

UK inflation sat at 4.60% and the Bank of England reminded markets that there was further to go in order to normalise rates. Governor Andrew Bailey said getting inflation down to the central bank's 2.00% target will be "hard work" as most of its recent fall was due to the unwinding of the jump in energy costs last year. "The rest of it has to be done by policy and monetary policy" he said.

US inflation fell to 3.10% in November, down from 3.20% prior, whilst core inflation remained steady at 4.00%. The level of Core inflation caused the Federal Reserve to take a cautious approach to monetary policy. Chair Jay Powell stated that “It would be premature to conclude with confidence that we have achieved a sufficiently restrictive stance (in monetary policy)”.

Eurozone inflation fell by more than expected for a third straight month, challenging the European Central Bank's narrative that price growth is stubborn. Policymakers cautioned against excessive optimism and warned that the "last mile" of disinflation could be more difficult and take twice as long as getting back under 3.00%. Despite this, traders continued to bet that the ECB would be the first central bank to cut interest rates in 2024.

December

The dual rally continued in December as all bar two sectors produced a positive return. In equities, the Nasdaq 100 ETF led the charge, with a 5.13% gain. UK Gilts enjoyed a strong month as yields continued to decline at the prospect of interest rate cuts in 2024. And the Balanced portfolio benchmark gained 3.76% as the '60-40' portfolio benefitted from both Equities and Bonds rallying.

Inflation continued to decline across developed markets with inflation in the UK, US, and EU falling to 3.90%, 3.10%, and 2.40% respectively. Of the three, UK inflation fell by more than expected thanks to a decline in petrol prices and air fares. And whilst the market awaits the comments of the Bank of England on the latest fall in inflation, one may suggest that it would mean a 'Dovish' stance towards monetary policy and the near advent of interest rate cuts.

Risk Warnings

The value and income from investments can go down as well as up and are not guaranteed. An investor may get back significantly less than they invest. Past performance is not a reliable indicator of current or future performance and should not be the sole factor considered when selecting funds. Our funds invest for the long-term and may not be appropriate for investors who plan to take money out within five years. The fund will be exposed to stock markets and market conditions can change rapidly. Prices can move irrationally and be affected unpredictably by diverse factors, including political and economic events.

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