Flash stats

Q3 2022

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Investors suffered further losses in the third quarter of 2022, with global equity and bond markets falling as central banks turned increasingly hawkish in a bid to combat persistent inflation pressures. UK government bonds and sterling underperformed as markets questioned the credibility of the government's unfunded fiscal package.

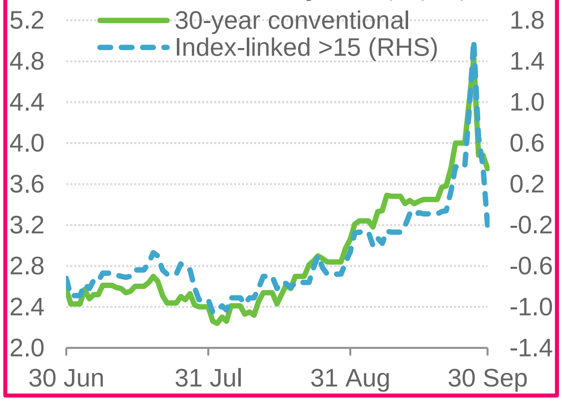
Sterling returns (%) to 30th September 2022

		3 mths	12 mths			3 mths	12 mths
EQUITY INDICES				**STERLING BOND INDICES**			
Global	*FTSE All-World*	1.4	-3.6	Gilts (All)	*FTSE*	-12.8	-23.3
UK	*FTSE 100*	-2.7	0.9	Index-linked (All)	*FTSE*	-9.3	-25.9
	FTSE All-Share	-3.4	-4.0	Corporates (All)	*iBoxx*	-11.5	-23.6
US	*S&P 500*	3.5	2.1	**MODEL PORTFOLIOS**			
Japan	*TOPIX*	1.3	-13.5	70% equity		-4.1	-9.8
Europe ex UK	*FTSE Dev Europe*	-2.4	-12.9	50% equity		-6.3	-13.7
Emerging	*FTSE Emerging*	-2.2	-8.5	30% equity		-8.6	-17.6

- Higher current and forecast inflation, and subsequent expectations of tighter monetary policy, are weighing heavily on consumer and business sentiment, with growth forecasts continuing to see downwards revisions. Recessions are now forecast in several key European economies and the US economy also expected to slow substantially, increasing global recession risks.

- The global manufacturing Purchasing Managers' Index weakened over the quarter as output and new orders lost ground; suggesting that global industrial production is slipping into recession. Surveys in the US remained at a level consistent with expansion (just), whereas European and UK surveys fell to a level consistent with contraction, whilst also pointing to an acceleration in cost and inflation pressures.

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



- Year-on-year headline CPI inflation is running at 9.9%, 8.3%, and 9.1%, in the UK, eurozone, and US, respectively. Of more concern to central bankers, core measures are also well above target, at 6.3% in the UK and US, and 4.3% in the eurozone. Furthermore, year-on-year wage growth in excess of 5% year-on-year in the US and UK is adding to core inflation pressures. Energy price interventions by European governments will limit the near-term peak in headline inflation, but will also support aggregate demand, potentially generating greater medium-term inflation pressure. Inflation is forecast to moderate in 2023 but remain well above target in most major economies.

- Growing concerns about sustained high inflation were met with aggressive messaging and action by central banks. The Fed raised interest rates by a cumulative 1.5% p.a. in Q3, while the Bank of England and the ECB raised rates by a total of 1% p.a. and 1.25% p.a., respectively. Markets have also moved to price in a much more aggressive path for interest rates, with rates now expected to reach 4.5% p.a., 3.5% p.a. and 5.8% p.a. by next year in the US, Europe, and UK, respectively. UK 10-year implied inflation, rose 0.4% p.a. to 4.0% p.a. Equivalent US implied inflation fell 0.2% p.a., to 2.2% p.a.

- Against a global backdrop of high inflation and rising interest rate expectations, increases in UK government bond yields accelerated as the government unveiled a substantial unfunded fiscal package in late September. 10-year gilt yields rose above 4.5% p.a. before the Bank of England was forced to intervene with temporary purchases of long-dated bonds, citing material risks to UK financial stability. UK 10-year yields ended the period at 4.1% p.a., 1.9% p.a. above end-June levels.

- UK investment-grade credit spreads rose significantly more than global comparators, rising 0.4% p.a. to 2.4% p.a., as rising government bond yields saw pension schemes liquidate liquid assets to meet collateral calls on their interest-rate hedging programmes. Despite significant widening towards the end of the quarter, US and European speculative grade credit spreads ended the quarter 0.4% p.a. and 0.2% p.a. below end June levels, at 5.4% p.a. and 6.3% p.a., respectively.

- Commodity prices fell over the quarter as the global growth outlook weakened. Meanwhile, the US dollar continued to push higher, rising 5.5% in trade-weighted terms, taking its year-to-date gain to 12%. Sterling fell 3.3% in trade-weighted terms. Year-to-date, sterling has fallen 17.6% against the dollar, and 6% in trade-weighted terms.

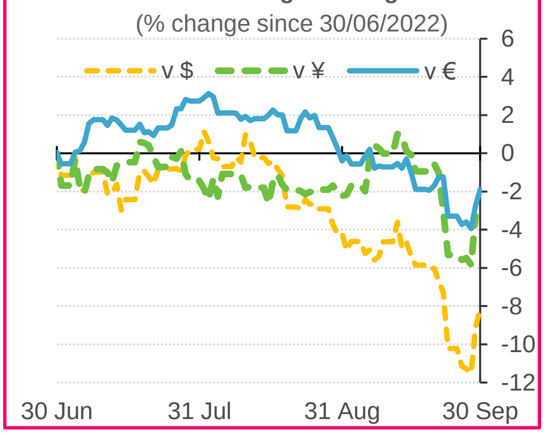


Chart 2: Sterling exchange rates
(% change since 30/06/2022)

- Despite a rally in July, global equities fell sharply in the second half of the quarter as high inflation, and subsequent higher interest rate expectations, weighed on both equity valuations and the fundamental outlook. The FTSE All World total return fell 4.8% (in local terms). Depreciation of sterling over the period resulted in a 1.4% return to unhedged UK investors. Performance was varied between cyclicals and defensives with telecoms, technology, and healthcare underperforming, while the energy and consumer discretionary sectors notably outperformed.

- Regionally, Japanese and UK markets outperformed, both supported by currency weakness flattering the international earnings profile of their markets, and the UK also benefitting from an above-average exposure to the energy sector. Emerging and Asian markets once again underperformed.

- Property remains positive over the 12 months to end of August, with the MSCI UK Monthly Property Index returning 18.3%, despite monthly returns entering negative territory in July and August. Capital value declines have been observed across the 3 main commercial sectors over the quarter, but have been more pronounced in the industrial sector, where values dropped by 2.8% in August, versus declines of 0.6% and 1.0% in the office and retail sectors, respectively.

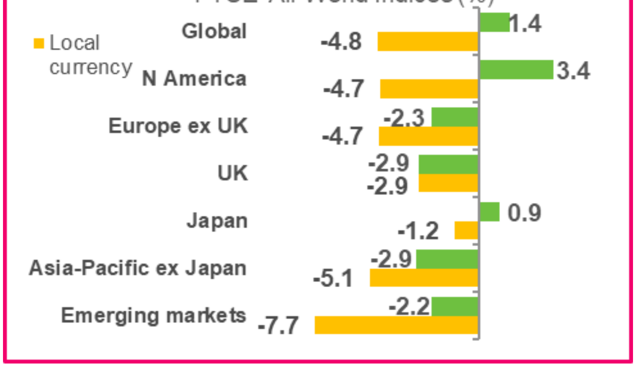


Chart 3: Q3 Regional equity returns
FTSE All-World Indices (%)

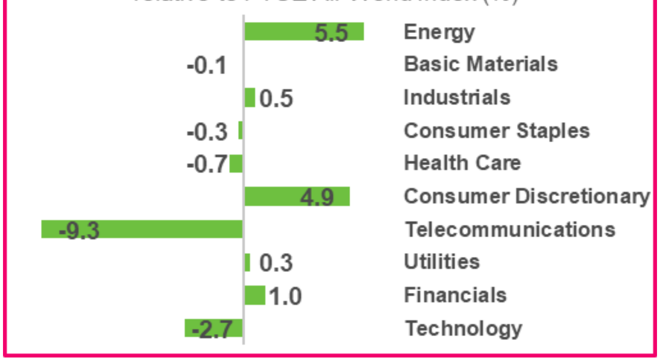


Chart 4: Q3 Global sector performance
relative to FTSE All-World Index (%)