Flash stats

Q1 2023

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While equity and bond markets generally rallied over the quarter, the banking sector's recent stresses have caused market sentiment to decline amid concerns around financial stability. Against this backdrop, equities gave back some of their gains towards the end of the quarter, while bond prices rose, yields fell, and credit spreads widened.

Sterling returns (%) to 31st March 2023

		3 mths	12 mths			3 mths	12 mths
EQUITY INDICES				**STERLING BOND INDICES**			
Global	*FTSE All-World*	4.3	-0.9	Gilts (All)	*FTSE*	2.0	-16.3
UK	*FTSE 100*	3.6	5.4	Index-linked (All)	*FTSE*	4.3	-26.7
	FTSE All-Share	3.1	2.9	Corporates (All)	*iBoxx*	2.3	-10.6
US	*S&P 500*	4.6	-1.7	**MODEL PORTFOLIOS**			
Japan	*TOPIX*	3.4	2.7	70% equity		3.3	-3.4
Europe ex UK	*FTSE Dev Europe*	8.9	8.5	50% equity		3.0	-6.1
Emerging	*FTSE Emerging*	0.2	-3.9	30% equity		2.7	-8.8

- Global growth has surprised positively in Q1 with resilient labour market and falling energy prices, improving the outlook for consumers and businesses. Forecasted 2023 GDP growth was revised higher in most developed economies, while recession in the UK is now forecasted to be shorter and shallower than previously expected.
- US headline and core inflation data releases were in line with falling expectations while UK and European inflation releases came in above expectations. Despite stresses in the banking sector due to the Silicon Valley Bank collapse and the acquisition of Credit Suisse by UBS, major central banks raised interest rates in line with expectations, further strengthening their stance on monetary tightening.

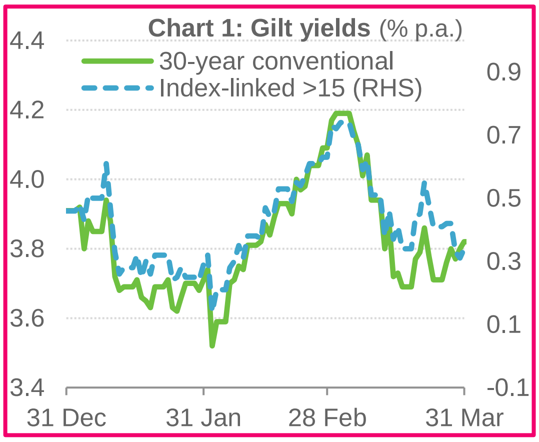
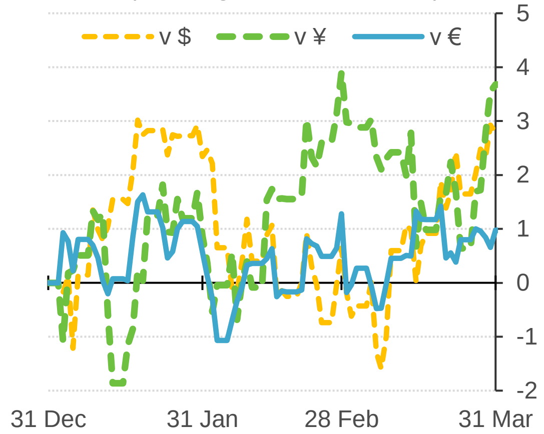


Chart 1: Gilt yields (% p.a.)

- The global manufacturing Purchasing Managers' Index (PMI) expanded over the quarter, driven largely by an increase in demand and new orders in the services sector; indicating support for the upwards revisions to GDP growth forecasts. Although the manufacturing sector remains in contraction, the rate of the decline in demand has slowed to the lowest point in six months, suggesting that supply chains pressures have eased due to faster delivery times.

- Year-on-year headline CPI inflation in the US and Eurozone fell to 6.0%, and 8.5%, respectively, as the UK measure rose to 10.4%. The equivalent core measures fell to 5.5% in the US as the UK and Eurozone measures rose to 6.2% and 5.6% respectively.
- The European Central Bank (ECB), Bank of England (BoE) and Federal Reserve (the Fed) continued to announce rate hikes. The BoE and the Fed both raised policy rates by 0.25% p.a., to 4.25% p.a. and 5.0% p.a. respectively. The ECB raised rates by a larger 0.50% p.a., to 3.50% p.a. However, the improvement in the near-term economic outlook and upside inflation surprises saw a re-assessment of both the likely peak in interest rates and the subsequent pace of rate cuts, as markets moved to anticipate higher for longer interest rates may be required to return inflation to target.

Chart 2: Sterling exchange rates
(% change since 31/12/2022)



- UK 10-year implied inflation, as measured by the difference between conventional and inflation-linked bonds of the same maturity is 3.8% p.a., 0.2% above end-December levels.
- Bonds have been volatile over the quarter, rallying in January before posting mark-to-market year-to-date losses in February and rallying again in March after investor flight to safety due to stresses in the banking sector and low investor sentiment. As a result, UK 10-year gilt yields ended the period at 3.5% p.a., 0.2% p.a. below end-December levels. Equivalent US yields fell 0.4% p.a., to 3.5% p.a., and Germans yields fell 0.3% p.a. to 2.3% p.a.
- Credit had positive returns due to the falling underlying sovereign bond yields. Global investment-grade credit spreads widened 0.1% p.a. to 1.5% p.a. while speculative-grade credit spreads tightened 0.1% p.a. to 5.0% p.a. By region, US investment grade spreads widened more than their UK and European counterparts, with UK speculative grade credit outperforming.
- The FTSE All World Total Return Index rose 7.0%, buoyed by the support lent to stocks from resilient economic data which together with high core inflation led to investors reassessing interest rate expectations in higher for longer. The improvement in consumer and business sentiment in Europe, on the back of lower gas prices, led European equities to outperform. Growth stocks outperformed value stocks over the quarter, as falling bond yields supported the former while the latter were weighed down by stresses in the banking sector and a significant hit to bank shares in March. By sector, energy, healthcare and financials were the worst underperformers.
- The MSCI UK Monthly Property Total Return Index fell for the eighth consecutive month in February, with the 12-month total return declining -12.8%. However, the monthly pace of the decline has slowed from end of December 2022. Capital values have fallen 17% over the last 12 months, with the most pronounced declines being in the industrial sector.

Chart 3: Q1 Regional equity returns
FTSE All-World Indices (%)

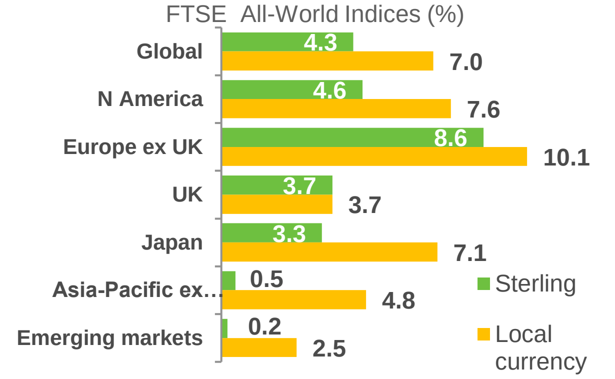


Chart 4: Q1 global sector performance
relative to FTSE All-World Index (%)