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Flash stats

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Strong earnings growth helped global equities post positive returns despite rising COVID infections, which have seen GDP forecasts revised lower. Short-term sovereign yields rose as markets moved to price in a faster pace of interest rate rises in the face of rising inflation.

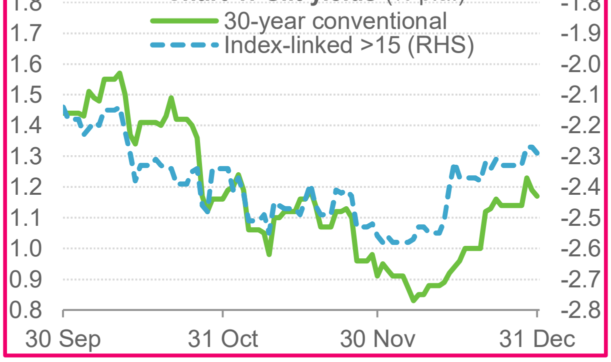
Sterling returns (%) to 31st Dec 21

		3 mths	12 mths			3 mths	12 mths
EQUITY INDICES				**STERLING BOND INDICES**			
Global	*FTSE All-World*	6.2	20.0	Gilts (All)	*FTSE*	2.4	-5.2
UK	*FTSE 100*	4.7	18.4	Index-linked (All)	*FTSE*	4.9	4.2
	FTSE All-Share	4.2	18.3	Corporates (All)	*iBoxx*	0.3	-3.2
US	*S&P 500*	10.5	29.9	**MODEL PORTFOLIOS**			
Japan	*TOPIX*	-5.2	2.0	70% equity		4.1	12.3
Europe ex UK	*FTSE Dev Europe*	5.1	17.6	50% equity		3.2	7.6
Emerging	*FTSE Emerging*	-1.4	1.0	30% equity		2.4	3.0

- Economic momentum has slowed with the imposition of restrictions and increasing social distancing. This is expected to weigh on growth in Q4 2021 and Q1 2022, but we still anticipate above-trend growth in 2022.

- Falls in the Purchasing Managers Indices across the US, UK and Eurozone suggest the Omicron variant has slowed service activity. However, global manufacturing sentiment appears relatively resilient, with output increasing despite ongoing supply constraints and rising input prices.

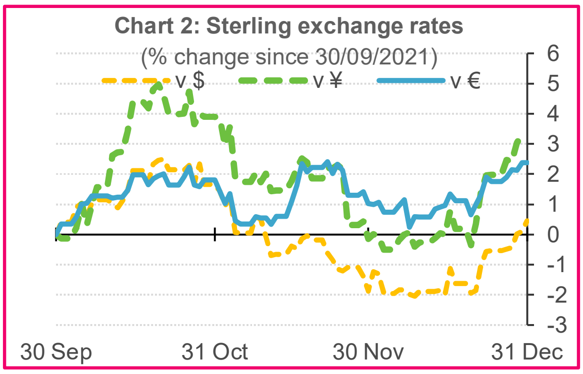
Chart 1: Gilt yields (% p.a.)



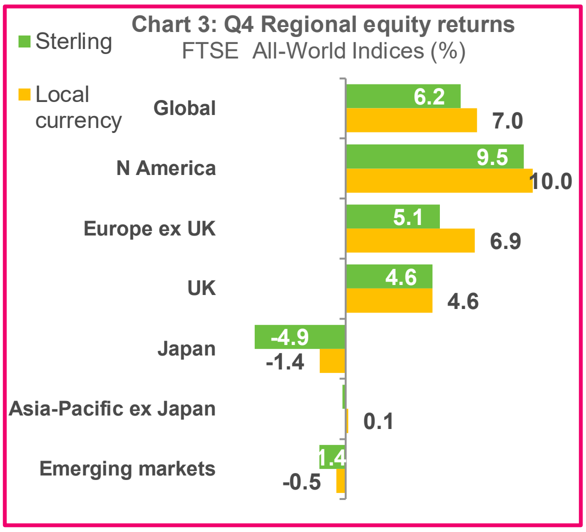
- There are signs that the strain on supply chains is easing, though the overall rate of price increases remains near record-highs. UK headline CPI inflation rose to 5.1% year-on-year in November whilst the equivalent US and eurozone measures rose to 6.8% and 4.9% respectively. Rising petrol and second-hand car prices have continued to drive up headline measures but prices are rising in almost all goods and services.

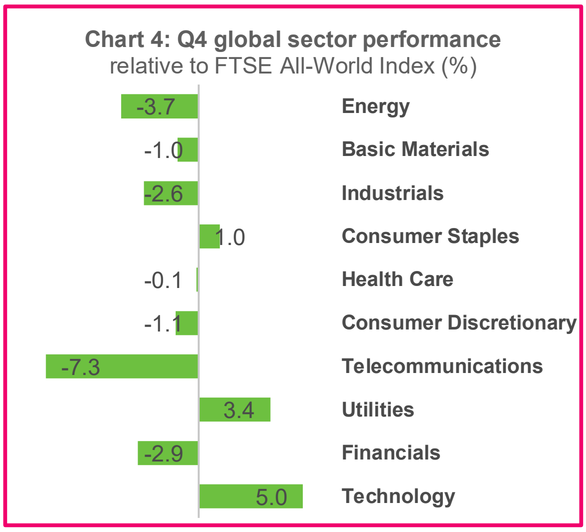
- As realised and forecast inflation continue to move higher amid labour market tightening, central banks have adopted less accommodative stances. The Federal Open Markets Committee (FOMC) announced plans to accelerate the tapering of asset purchases, with the median FOMC member forecasting three rate hikes next year. The Bank of England raised rates to 0.25% p.a., with further rate hikes expected in 2022.

- US and UK bond yield curves flattened significantly with short-term yields rising to reflect expectations of further interest rate hikes. UK 10-year gilt yields fell to 1.0% p.a., whilst the equivalent US treasury yield nudged up to 1.5% p.a.
- UK 10-year Implied inflation (chart 1), as measured by the difference between conventional and inflation-linked bonds of the same maturity, ended the quarter a little higher at 3.9% p.a. whilst longer term implied inflation fell. US 10-year implied inflation rose 0.2% p.a. to 2.6% p.a.



- Global investment-grade spreads increased by 0.1%p.a. to 1.0% p.a. whilst speculative-grade spreads ended the quarter broadly in line with end-September levels at 3.7% p.a.
- Trade-weighted sterling rose 1.7% through the quarter as markets adjusted for the earlier than expected rate rises. The US dollar rose 0.6% in trade-weighted terms, perhaps reflecting both safe haven appeal and slightly more hawkish messaging from the Federal Reserve. Gold rose 3.5% over the quarter as real US 10-year Treasury yields fell.
- Despite falling in November over Omicron variant concerns, global equities produced a total return of 7.0% in Q4, propelled higher by strong earnings growth. Sterling strength weighed on returns to unhedged UK investors delivering a 6.2% return in sterling terms. All sectors produced positive returns except telecoms. Outside telecoms, energy and financials were the main underperformers, weighed on by demand expectations and flatter yield curves, respectively. Technology was the notable outperformer, bolstered by strong earnings releases and the prospect of further lockdowns spurring demand for tech.
- North America posted double digit returns on the back of tech outperformance. Japan, which reintroduced strict border restrictions shortly after the Omicron variant was made public, is at the bottom of the regional performance rankings over the quarter. Asian and emerging markets also continued their underperformance versus developed markets.
- UK Monthly Property capital value index rose 10.6% over the 12 months to the end November due to a buoyant industrial sector, where capital values have risen 26.7%. Retail capital values have risen by 4.3% over 12 months. There has been a flattening of the declines experienced in the office sector, though over the 12-month period values have fallen by 0.7%. Total return on the index, including income, was 16.5% in the 12 months to the end November.





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