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# DECEMBER 2023 MARKET REPORT

## Economic commentary

In November, the annual level of UK Consumer Price Inflation fell to 3.9%, down from 4.6% in October. It is good to see inflation falling, but it is still almost double the Bank of England's 2% target. The Bank has helped to lower inflation by increasing interest rates – which discourages borrowing and spending by businesses and households – which have now been at 5.25% for several months. Some economists and commentators have predicted that the Bank will not increase interest rates again, and instead lower them through 2024, but the Bank's Governor, Andrew Bailey, has pushed back on these claims. The economy may enter a recession if rates do not come down, but lower rates will stoke inflation – the Bank has difficult decisions to make this year. Complicating this is the tough situation UK businesses are in – if they protect profit margins by passing on costs to end consumers, or lay off workers, then this creates further headaches for the government and the Bank.

Inflation continues to dominate other economies. In the US, the Federal Reserve has maintained rates at 5.25% - 5.5%. Again, this is expected by many to come down in 2024. They have more room to manoeuvre – US inflation is forecast to fall to 2.4% in 2024 – but the picture is complicated, with food and energy prices stabilising, but price increases remaining stubborn in transportation and healthcare. China faces the opposite problem of falling prices – 'deflation' – which suggests that economic demand is weak, and can produce a downward spiralling effect with negative outcomes for businesses and households. The credit ratings agency Moody's has cut their outlook on China's creditworthiness, citing concerns about rising debt and slow growth.

## Market commentary

With evidence that inflation is under control, investors are anticipating that interest rates will fall. Falling rates tend to be positive for many investment types. Accordingly, a lot of new money has gone into markets, which led to very strong performance in December across most major investment asset classes. In the US, the main stock market index, the S&P 500, ended the year very well. Interestingly, the 'Magnificent Seven' stocks – a collective term for seven large well-known US tech companies – were responsible for two-thirds of all the growth. In contrast, Chinese stock markets continue to struggle.

December was a strong month for bonds representing loans to governments and companies around the world. They now need to offer less competitive terms to attract investment – for example, lending to the US government for 10 years will now return only 3.9% per annum, having fallen from around 5% in October. Conflicts in the Middle East continue to drive concerns around oil supply – prices as measured by the 'Brent crude' benchmark averaged only $78 per barrel in December, down from peaks of $94 in September.

Some strange contradictions have taken place in recent months – despite a mediocre outlook for many economies and increasing levels of conflict, investment markets have enjoyed some of their strongest returns for years. A somewhat similar thing happened after central banks lowered rates to stimulate economies in the early stages of the Covid pandemic. This is why we do not try to make complex predictions about future economic or financial measures, as they often have little bearing on investment outcomes in the short term. Instead, we try to focus on the investments that look cheap today, avoid those that look too risky, and hold assets for the long term where we believe we will be rewarded.

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| | 1m | 3m | 6m | YTD | 1yr | 3y pa | 5y pa | 10y pa |
|---|---|---|---|---|---|---|---|---|
| **Equity Markets (£)** | | | | | | | | |
| UK | 4.5% | 3.2% | 5.2% | 7.9% | 7.9% | 8.7% | 6.6% | 5.4% |
| US | 3.8% | 6.8% | 7.5% | 18.6% | 18.6% | 12.0% | 14.8% | 14.3% |
| Global | 4.2% | 6.6% | 7.2% | 16.7% | 16.7% | 9.7% | 12.7% | 11.3% |
| Emerging Markets | 3.0% | 3.0% | 3.9% | 2.9% | 2.9% | -3.5% | 3.1% | 4.8% |
| Europe ex UK | 4.3% | 7.5% | 5.3% | 13.7% | 13.7% | 7.8% | 10.4% | 8.1% |
| Japan | 3.9% | 3.3% | 6.6% | 12.6% | 12.6% | 2.9% | 6.2% | 7.5% |
| China | -2.8% | -7.6% | -6.9% | -16.2% | -16.2% | -16.8% | -3.3% | 2.9% |
| UK Smaller Companies | 7.6% | 7.7% | 10.5% | 9.6% | 9.6% | -1.8% | 3.8% | 3.8% |
| **Bonds (£)** | | | | | | | | |
| Sterling Corporate Bonds | 3.7% | 6.7% | 9.0% | 7.3% | 7.3% | -5.0% | -0.1% | 2.3% |
| Global High Yield (Hedged) | 3.3% | 3.5% | 4.2% | 8.4% | 8.4% | 0.4% | 2.9% | 2.7% |
| Global Bonds (Hedged) | 3.4% | 6.2% | 3.7% | 6.2% | 6.2% | -3.7% | 0.1% | 1.5% |
| **Other (£)** | | | | | | | | |
| Global Listed Property | 9.8% | 11.5% | 9.3% | 4.2% | 4.2% | 3.9% | 3.0% | |
| UK Listed Property | 9.5% | 18.8% | 19.6% | 10.3% | 10.3% | -1.2% | 0.8% | 2.1% |
| Physical Gold | 0.6% | 6.7% | 7.4% | 7.2% | 7.2% | 5.2% | 9.9% | 8.1% |

| Economic Data | At date | 3m ago | 6m ago | 1y ago | 3y ago | 5y ago | 10y ago |
|---|---|---|---|---|---|---|---|
| Sterling/Dollar Rate | $1.27 | $1.22 | $1.27 | $1.20 | $1.36 | $1.28 | $1.65 |
| Bank of England Base Rate | 5.25% | 5.25% | 5.00% | 3.50% | 0.10% | 0.75% | 0.50% |
| UK CPI YoY | | 6.7% | 8.0% | 10.5% | 0.6% | 2.1% | 2.0% |
| US Unemployment Rate | 3.7% | 3.8% | 3.6% | 3.5% | 6.7% | 3.9% | 6.7% |
| UK Unemployment Rate | | | 4.3% | 3.7% | 5.1% | 3.9% | 7.2% |

| Bond yields | At date | 3m ago | 6m ago | 1y ago | 3y ago | 5y ago | 10y ago |
|---|---|---|---|---|---|---|---|
| UK 10-Year Gilt Yield | 3.6% | 4.4% | 4.4% | 3.7% | 0.2% | 1.3% | 3.0% |
| UK Corporate Bond Yield | 5.1% | 6.3% | 6.6% | 5.8% | 1.4% | 3.1% | 4.1% |

*Data Sources: Data is at 29/12/2023. For the above asset class return data, we used passive funds to represent market returns, given that they represent an investible net-of-fee return achievable by an end client. Economic figures like unemployment and CPI rates may not have been available for latest month-end at the time of publication. All returns have been calculated by Fundhouse, with reference to data from Refinitiv, Morningstar and the Bank of England. This content cannot be distributed without the consent of Fundhouse.*

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