

# JANUARY 2023

## MONTHLY COMMENTARY

January typically tends to be the strongest performing month, already, this appears to be vindicated with markets shrugging off the bearish sentiment of 2022 and turning bullish. Global equities as measured by the MSCI World rose 7.1%, while global bonds as measured by the Bloomberg US Aggregate index also rose 3.3%.

The key drivers of performance were inflation, global growth expectations and China reopening. The downward trend continued for US inflation with the December number up 6.5% and core figure which strips out volatile items like food and energy also lower at 5.7%. Falling energy prices, airline fares and used car prices were the components which fell for the month with shelter – which tends to have a 12-month lag - expected to fall. It was the lowest level in a year after peaking at 9.1% in June and suggested the aggressive pace of monetary tightening by the Fed could slow on the back of falling consumer demand.

The US Fed after raising interest rates by 0.5% in December is now expected to revert to the traditional 0.25% hike at its February meeting. To recap: 12 months ago, US interest rates were 0-0.25% and now are at 4.5%-4.75%.

Additionally, the fourth quarter US GDP (Gross Domestic Product) print came in better than expected at 2.9% annualised and the IMF (International Monetary Fund) global growth predictions for 2023 were revised up 0.5% to 3.2%, with most countries avoiding a recession this year.

Conversely the US employment market remains tight with unemployment at 3.5%, job openings at 11million plus and wage inflation above 5%. Retail sales remain subdued, and US corporate earnings continued to be a mixed bag with some of the bigger tech companies shedding staff and revising down earnings expectations.

Furthermore, the reopening of China has added to optimism with consumer demand expected to pick up domestically and abroad for the region.

Cable was broadly flat for the month while the USD, against a basket of major indices, fell 1.4%. Overall, markets digested the data positively providing a tailwind for financial indices.

Across the pond in Europe and the UK, sentiment and data were broadly the same although the pace of the disinflation (slowing inflation) was not as steep as the US. The region benefitted from a cooler winter meaning gas prices in fact fell to around 80€ per megawatt versus the summer when prices were +300€. Furthermore, it appears the fiscal support coupled with lifting of lockdowns have outweighed the fallout from Ukraine conflict. The UK appears to be the one region expected to fall into a recession according to the IMF citing a variety of factors including

Brexit, higher levels of job vacancies and cooling housing market due to rising mortgages. Within equities growth sectors such as consumer discretionary (+14.5%) and technology (+13%) outperformed the more defensive areas like consumer staples and utilities which were both flat. Regionally all markets performed well with China outperforming the developed markets with Germany up 8%, UK up 4.4% and US up 6.3%.

Within fixed income, short term deposit rates which are influenced by central bank policy remain unchanged, while the longer maturities which tend to be influenced by inflation were marginally lower. The US curve is inverted which implies short term rates e.g. 1yr at 4.7% interest are higher than long term rates 3.5% which could be a sign of an imminent recession.

Within commodities gold had a strong month rising on the back of lower-than-expected interest rate expectations and increased reserve purchases from China and emerging market regions. WTI and Brent oil prices were broadly flat while European gas prices as discussed continued its downward descent. Wheat prices fell due to higher than anticipated Australian crop and continued supply of wheat from black sea.

In terms of asset allocation, for balanced multi asset portfolios, the strategies remain well diversified with high quality bias. Within equities the core proposition is the London & Capital Global Star flagship product that focuses on leading global brands with resilient cash flow generation, stable business models, low debt to equity and attractive growing dividends. While fixed income is short duration with a focus on key economic sectors such as financials, utilities and global corporates that are considered well capitalised, highly cash flow generative and well covered for interest payments. Gold is in the portfolio as a hedge against weaker dollar and falling interest rates.

Please refer to the [Q1 2023 Macro Outlook](#) for more detail.

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