2nd January 2023

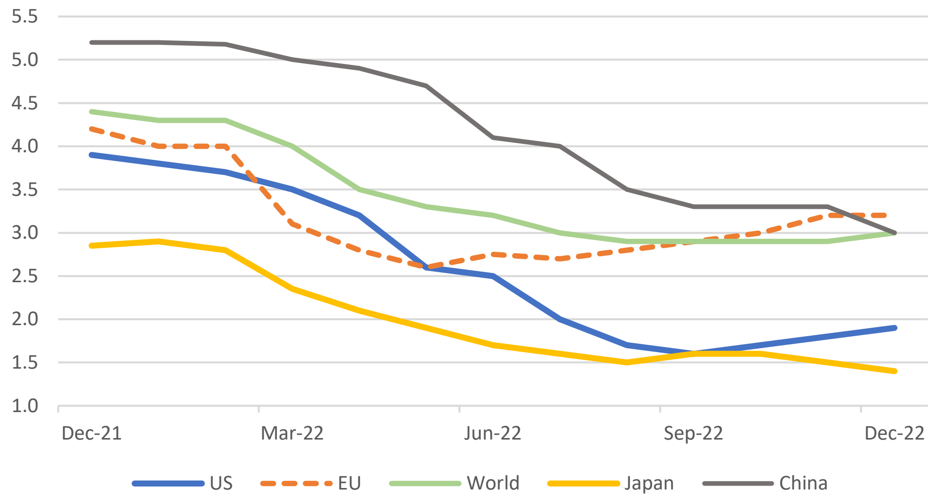
2022 – Well I'm Glad That's Over!

2022 could be characterised as one of the most challenging for investors in decades. The highest inflation in the memory of many, central bankers initially underestimated the challenges ahead, and a war in Ukraine brought losses across asset classes.

Economic backdrop to 2022

The market view on the global economy has improved in the fourth quarter, even though it may be fragile. Consensus GDP forecasts have risen marginally at a global level, led by Europe. Meanwhile, the inflation surprises have abated even if the level of inflation remains very elevated.

Chart 1: Consensus GDP forecasts for 2022 growth have held up in Q4



Source: Bloomberg

Global Equities

Equities at least ended the year on a positive note. Fourth-quarter returns wiped out about a third of the previous year-to-date losses. The market has rushed to discount a hope that the work of central bankers to tighten policy will be done by the first half of the year. Hence, the argument runs that we can look forward to cuts in interest rates at the back end of 2023. Unfortunately, we don't believe that life will be that easy.

Table 1: Equity market returns

Total Returns	1H		Q4		Year	
	Local	USD	Local	USD	**Local**	**USD**
MSCI World	-20.7%	-17.6%	9.8%	7.5%	**-18.1%**	**-16.0%**
MSCI US	-20.0%	-20.0%	7.0%	7.0%	**-19.8%**	**-19.8%**
MSCI Europe ex UK	-15.1%	-24.1%	14.6%	19.3%	**-5.0%**	**-15.1%**
MSCI Japan	-4.1%	-18.5%	3.2%	13.2%	**-4.5%**	**-16.6%**
MSCI UK	-6.2%	-21.0%	8.6%	17.0%	**7.1%**	**-4.8%**
MSCI Asia Ex Japan	-15.4%	-22.0%	8.4%	11.4%	**-12.8%**	**-19.7%**
Emerging Markets	-16.0%	-22.2%	6.6%	9.7%	**-15.5%**	**-20.1%**

Sectors	1H	Q4	Year
Energy	-6.9%	19.5%	**46.0%**
Consumer Discretionary	-22.3%	-2.4%	**-33.4%**
Banks	-20.3%	15.7%	**-11.3%**
Tech	-25.3%	5.1%	**-30.8%**

Source: Bloomberg

Global Bonds

Like equities, bonds generated a better performance in the fourth quarter. However, it was achieved with a good measure of volatility. The US 10-year government bond yield in October reached a 14-year yield high of 4.24% before buyers re-emerged as the market took the view that the Fed was likely to be easing monetary policy by the back end of 2023. Such a view remains at odds with the messages from the fed policy meeting.

Despite the problems in the Chinese economy, Chinese government bonds ended as one of the best performers for the year, reinforcing the low correlation they have historically displayed versus global bond markets. Global high yield performed well in the fourth quarter in line with their ongoing high correlation with equity markets. EM debt recovered well after a particularly poor third quarter.

Table 2: Bond market total returns

Total return (%)	1H	Q4	Year
Global Aggregate	-4.1%	1.0%	-11.2%
US Aggregate	-4.4%	1.9%	-13.0%
Global High Yield	-10.5%	6.4%	-11.0%
China Bond Index	-4.1%	2.0%	-5.2%
UK Aggregate bond	-6.5%	1.4%	-20.5%
EM Debt	-10.3%	7.4%	-16.5%

Bps change			
US 10 year (3.88%)	63	5	236
US 2 year (4.42%)	50	-1	230

Source: Bloomberg

Commodities

Oil was the star of the commodity markets. The Brent oil price peaked in March at close to $130 bbl hence the solid first-half performance when the disruption from the war in Ukraine was at its greatest. At year-end, from the lows of mid-December when Brent hit $76, prices rose. Base metals have followed the fortunes of the global economy more tightly, with concerns about the risk of recession building in the middle of the year, and prices fell sharply. However, as we closed the year with GDP forecasts stabilising, prices started to rise again.

Gold had a stellar year with a flat absolute return compared with bonds and equities. However, the strong performance in the fourth quarter, when gold was up close to 10%, bodes well for 2023.

Table: 3 Key commodity market total returns (%)

	1H	Q4	Year
Gold	-1.2%	+9.8%	-0.2%
Oil	+47.6%	-2.3%	+10.4%
Base Metals	0.0%	+16.6%	-0.5%
GSCI	+35.8%	+3.4%	+26.0%

Source: Bloomberg

Currency markets

Dollar strength was the key feature of the currency markets. The USD appreciated 12% against eth Yen over the year, somewhat less strong against sterling and the euro. Indeed, all major crosses were strengthening against the dollar in the year's final quarter.

Table 4: Key currency movements

	1H	Q4	Year
Dollar trade weighted	-1.2%	-6.5%	+8.1%
EUR vs USD	-7.7%%	+9.2%	-5.8%
GBP vs USD	-10.0%	+8.2%	-10.7%

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