

Quarterly market and economic update - Q1 2023

Financial market background

As can be seen from the charts below, equities and bonds generally posted negative returns over 2022 (in sterling terms). This includes all the main equity regions as well as gilts, UK corporate bonds and global fixed income. In terms of equity sectors, technology fared the worst. 2022 was the first year for some time that saw both equities and bonds fall - when equities fell heavily in the 2008 Global Financial Crisis and 2000-2002 'tech bubble' bonds rose. The main reason for both falling last year was higher than expected inflation.

Equities performed well across most of the main regions over Q4, though, as inflation showed some signs of easing and US Fed officials started issuing more dovish statements.

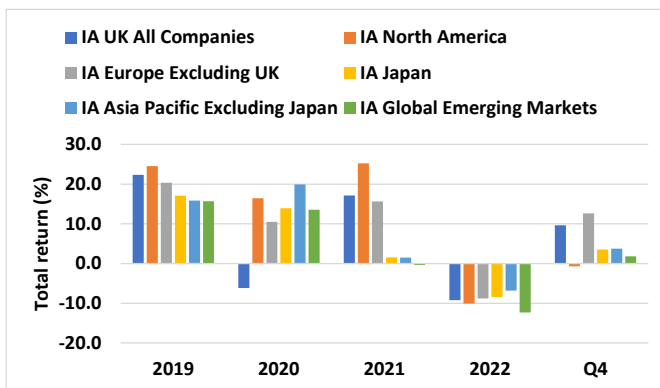
The exception was North American equities. Europe ex-UK equities, meanwhile, saw the strongest growth. Much of this

was due to currency effects, as sterling gained versus the US dollar but fell slightly against the euro.

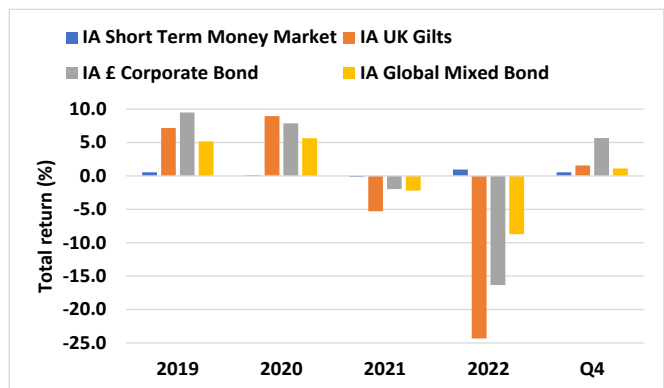
UK 10 year government bond yields fell over the quarter, from 4.12% to 3.7%. Markets settled down after a new government was installed and the unfunded tax-cuts from the 'mini-budget' were cancelled and they reacted calmly to the November Autumn Statement. US 10 year government bond yields rose very slightly over Q4, from 3.74% to 3.83%.

Commodities and infrastructure were almost flat over the quarter while UK property fell quite sharply. Commodities performed very well over the whole of 2022, although there were big differences within this asset class, for example natural gas futures increased very strongly while copper fared badly due to slower growth in China.

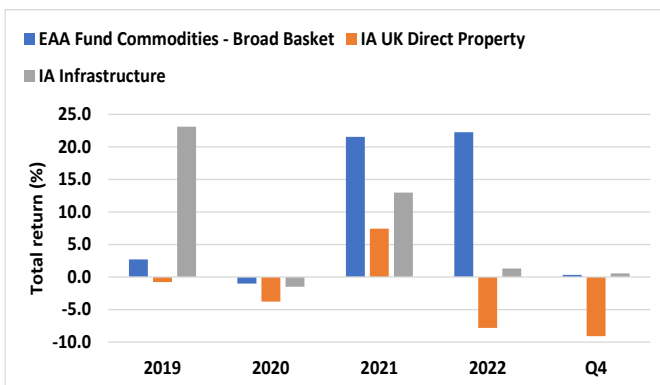
Total returns for the main equity markets



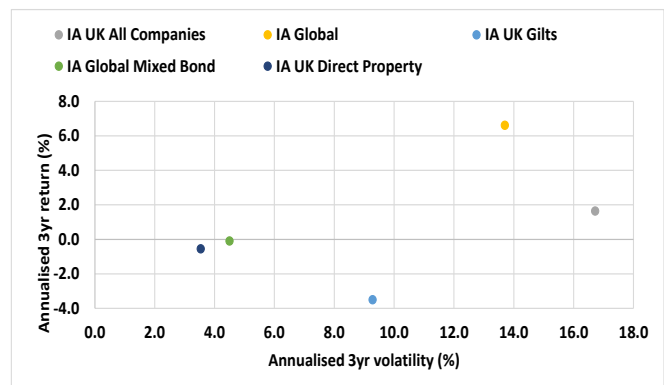
Total returns for fixed interest



Total returns for commodities, property and infrastructure



Three year risk and return for selected asset classes



Economic background

Quarter on quarter UK GDP growth has been falling for more than a year, with growth going negative in Q3 2022. Reasons for this include rising inflation squeezing real household incomes, the Bank of England raising interest rates, consumer confidence remaining at its lowest sustained level in almost 50 years and declining business investment.

Elsewhere, US GDP increased at an annual rate of 3.2% in Q3 2022, in contrast to a decrease of 0.6% seen in the second quarter. EU quarterly GDP growth fell slightly, from 0.7% in Q2 2022 to 0.4% in Q3 2022.

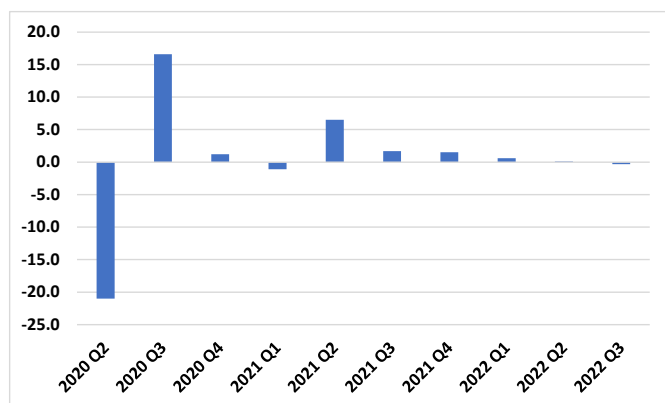
Inflation, although still high, eased slightly in November, to 10.7% in the UK and 7.1% in the US. 'Core' inflation

(excluding energy and food) also fell slightly in November, to 6.3% and 6% respectively. EU annual inflation, meanwhile, was 11.1% in November, down from 11.5% in October. Inflation has, though, remained lower in Japan (3.8%), Switzerland (3%) and China (1.6%).

The Bank of England, Fed and European Central Bank all raised interest rates twice over the quarter, by 0.75% and 0.5%, to: 3.5% (its highest level for 14 years); 4.25-4.5% (its highest for 15 years); and 2.5% (its highest for 14 years) respectively.

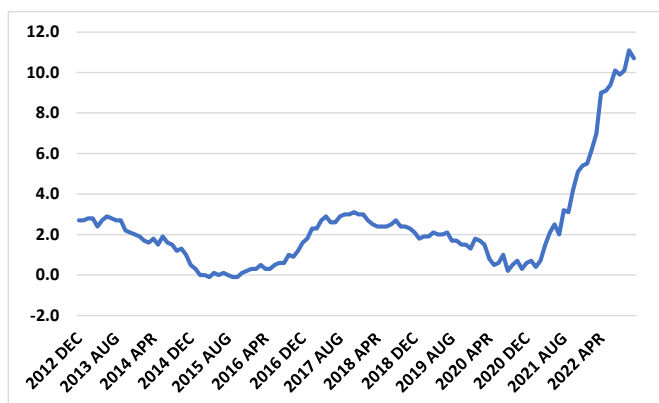
On a more positive note, unemployment is generally low by historical standards.

UK quarter on quarter GDP % growth (1955-2022 average = 0.6%)



Source: ONS; chained volume measures, seasonally adjusted

UK CPI annual % rate (all items)



Source: ONS

Some of the main events of 2022

In February Russia launches a full-scale invasion of Ukraine.

In July Boris Johnson resigns as UK Prime Minister, although he doesn't leave office until September. Liz Truss takes over but is forced to resign after just 44 days in the job.

Almost all of the tax changes announced by her Chancellor Kwasi Kwarteng in the UK 'mini-budget' at the end of September and highlighted in this section in the last

quarterly review are cancelled following the subsequent changes of Prime Minister and Chancellor (see below).

In October Rishi Sunak becomes Prime Minister and Jeremy Hunt is appointed as Chancellor.

Their Autumn Statement in November includes a halving of the dividend tax allowance and a reduction in the capital gains tax threshold.

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