stonehill
FINANCIAL


# 2023 Stonehill Annual Market Review

Global markets confounded expectations in 2023, capping a strong year of returns with additional gains in December as geopolitical risks subsided and optimism for a soft landing grew. Early in the year interest rates continued to rise and hit multi-year highs, however tumbled in November and December as softer inflation data indicated room for central bank easing, with attention now shifting to the prospect of rate cuts in 2024. Earlier fears that the interest rate hikes could trigger a recession also subsided, with several major stock markets ending the year approaching all-time highs.

UK investors in global stocks ended the year with a 17.6% total return in GBP, with December contributing 4.8%. Performance was led by growth stocks, with the tech-heavy Nasdaq having its best year since 1999, as interest rate declines allowed valuations to rally. The best performing market overall however was Japan, with commentators hopeful that the country may have finally emerged from a 30-year deflationary cycle as inflation was imported and the Yen dropped to its lowest level since 1990.

The UK ended the year as the worst performing equity market however, with the outperformance of the previous year unwinding as the market moved away from value orientated stocks. Real Estate stocks were mixed throughout the year, with commercial real estate under pressure as consumer and business preferences changed, however they proved to be the strongest asset class in December rallying 8.3% as interest rates fell and valuations firmed.

Fixed Income assets were volatile throughout the year, with UK and US 10-year yields hitting multi-year highs mid-year as inflation appeared to remain stubborn, however both countries saw yields drop rapidly towards year-end as data improved. Further cooler inflation data from the UK in December saw 10-year yields drop 0.68% during the month, while the Federal Reserve shifted commentary to the possibility of rate cuts in 2024 and allowed US yields to drop 0.46% as well.

Energy prices remain a key determinant to inflation data, and reduced geopolitical risk allowed Oil to be one of the few major asset classes falling over the year. Similarly, Natural Gas prices in Europe and the UK dropped considerably, and are now more than 90% below their peak, as Russian gas was mostly replaced with LNG and Norwegian imports. Prices for these imports are higher than their Russian equivalents however, so spot gas prices remain around 50% above their pre-invasion levels in Europe.

Looking forward to 2024, politics is likely to dominate news later in the year, with both the UK and US moving towards Presidential and General elections. While the US election outcome appears to be in the balance, the UK is expected to see a change in power with the ruling Conservative Party set to announce a final full Budget with some ‘goodies’ in Spring to prop up support. Geopolitics will also remain in the fore with wars ongoing in Ukraine and Palestine, while inflation and interest rate trajectories will remain keenly watched.

## Asset class returns 2019 - 2023

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **2019** | US Equities **28.9%** | Europe Equities **23.4%** | Oil **25.3%** | Gold **18.3%** | Emerging Market Equities **15.4%** | Japan Equities **15.2%** | UK Equities **14.2%** | Global Bonds **4.6%** |
| **2020** | Gold **25%** | US Equities **16.3%** | Emerging Market Equities **15.8%** | Japan Equities **4.8%** | Global Bonds **2.9%** | Europe Equities **0.1%** | UK Equities **-13%** | Oil **-23.1%** |
| **2021** | Oil **51.1%** | US Equities **26.9%** | Europe Equities **22.9%** | UK Equities **14.4%** | Japan Equities **10.4%** | Global Bonds **-2.9%** | Gold **-3.6%** | Emerging Market Equities **-4.6%** |
| **2022** | Oil **9.8%** | Gold **-0.2%** | UK Equities **-2.7%** | Japan Equities **-5.1%** | Global Bonds **-13.3%** | Europe Equities **-14.4%** | US Equities **-19.4%** | Emerging Market Equities **-22.4%** |
| **2023** | Japan Equities **25.1%** | US Equities **24.2%** | Europe Equities **14.4%** | Gold **13.1%** | Emerging Market Equities **7%** | UK Equities **3.9%** | Global Bonds **3.7%** | Oil **-10%** |

Source: Fundment

mark@stonehillfinancial.co.uk

stonehill FINANCIAL

# Areas to watch in 2024

- The UK General Election needs to be called by December with Keir Starmer appearing poised to take power, with policy announcements from either of the two main parties capable of moving markets.
- The US Presidential election is due to be held on 5th November with both parties appearing unflustered by high budget deficits and intent on holding or regaining power.
- Economists are increasingly looking for interest rate cuts later in 2024 as inflation data stabilises, in a move that would provide relief to consumers and businesses alike.
- Wars in Ukraine and Palestine appear likely to rumble on through the year, though resolutions to either of these could bring economic benefits as supply chains ease and risk premiums fall, although the risk of escalation remains.
- Emerging Markets are having a mixed time, with China's property sector woes continuing to weigh on sentiment, however India appears to have turned a corner and is expected to report the fastest growth in the G20 in 2024, with Indonesia in second place.

# News

## UK

- Average Earnings growth dropped faster than expected to 7.2% YoY, from 8% the month before, amid signs that there is increasing slack in the labour market.
- GDP unexpectedly declined 0.1% in the third quarter, after stagnating the previous quarter, leaving the UK on the precipice of a recession and highlighting the still weak economic backdrop.
- The Composite PMI rose to a six-month high of 51.7 in December, from 50.7 previously, with the Services sector buoyed by falling interest rates. However, manufacturers struggled amid stalled demand.

## US

- Core CPI Inflation rose to 0.3% MoM in November from 0.2% MoM growth previously, highlighting the choppy path ahead as a strong labour market continued to buoy consumer spending power.
- The Federal Reserve held rates steady but pivoted their commentary towards an expectation for rate cuts in 2024, with a median estimate of a 0.75% cut by year-end, as inflation continues to moderate.
- ISM Manufacturing rose to 47.4 in December from 46.7 previously, with production levels growing but new order levels continuing to decline.

## China

- Retail Sales grew 10.1% from a year earlier, improving from the previous month but missing expectations of a 12.5% jump, as previous-year Covid restrictions cycled out.
- Several state-owned banks cut deposit rates offered to customers, in a move encouraged by government to boost investment, with the 30yr Chinese government bond yield dropping to its lowest level since 2005 in the aftermath.
- The Official PMI remained steady at 50.3, indicating weak but positive growth, with the manufacturing gauge dropping to the weakest in six months but the consumer focussed service sector showing some recovery.

## Europe

- CPI Inflation dropped to its lowest in more than two years while the Core reading also fell faster than expected, to 3.6% in November from 4.2% previously, giving hope that price pressures may be easing.
- Natural Gas prices fell 20% over the month, returning close to levels seen last summer, as Ukraine perhaps surprisingly emerged as a key gas storage hub for Europe and storage levels remained firm.
- The Composite PMI survey reading dropped to 47.0 from 47.6, indicating that the Eurozone economy likely remains in a modest recession with six straight months of output contraction as inflationary pressures persist.

## Other

- Bitcoin rose to a two-year high and is now nearly triple its low seen in 2022, as risk assets made a comeback on increased confidence.
- India's benchmark stock index rose an additional 7.8% over the month, capping a year of strong returns as the country became the fastest growing country in the G20, with around 7.3% GDP growth expected in 2024.

mark@stonehillfinancial.co.uk