

Market Review

Global Market Strategy @ Natixis Investment Managers Solutions

Marketing Communication

Macroeconomic developments

Inflation, rising interest rates, the war in Ukraine, and falling profit margins were the main concerns for markets in December. As widely expected, the Federal Reserve, the European Central Bank (ECB) and the Bank of England (BoE) kept their hawkish tone largely unchanged and all raised interest rates by 50 basis points, reaching 4.5%, 2% and 3.5%, respectively. The ECB also announced that its quantitative tightening process will start next March via the unwinding of its Asset Purchase Program, and amount to EUR 15 billion per month until the end of June, when the process will be reassessed. Moreover, while the inflation prints released in December showed signs of abating price pressures across major countries, the downward move is mainly being driven by falling energy prices. Core figures remain well above central banks' targets and only showed signs of slowing in the US, where it decelerated by 0.5% on a month-over-month basis. Labour markets in developed countries continued experiencing a shortage of workers as unemployment rates remained close to record lows. The US job report again indicated a decline in the labour participation rate, which likely supported the pickup in wages growth, which came in at 0.6% month-over-month –twice as high as expected. This upward pressure on wages underscores why central banks are likely to keep rates higher for longer than markets currently expect. However, the inversion of the US yield curve to its deepest levels since the 1980s together with the continued weakening of global manufacturing orders, supported markets view of a looming recession in 2023 and a thereby turn in central banks policy. In addition, the Bank of Japan surprised markets by loosening its yield curve control policy few days before yearend. Its target range was widened by 25 percentage points to +/- 0.5%, suggesting a potential first move towards the normalization of the central bank's monetary policy. Lastly, China experienced a surge in Covid cases as a result of easing its zero-Covid policy to support its weakening economy.

Markets' reaction

After having closed the gap initiated with September's sell-off, global stocks suffered in December as central banks again dumped a bucket of ice water on markets hopes for an early pivot. The MSCI World finished 2022 with a monthly decline of 4.3% and closed the year with a drop of 18.1%, its worst result since 2008. The US led the monthly decline, with the S&P 500 and the Nasdaq 5.8% and 8.7%, respectively. On the other hand, Europe held up better as the STOXX 600 declined 3.3% but managed to remain flat in US dollar terms. Moreover, the MSCI Emerging Markets outperformed developed markets for their second consecutive month in December. But still the index posted a monthly decline of 1.4%, with a large regional dispersion between China (5.2%) and India (-5.5%). Global value outperformed global growth both on a monthly basis, -2.5% versus -6.1%, and a yearly basis, -6.3% versus -29.2%. On a global sectoral basis, utilities (+0.2%), healthcare (-1.2%) and consumer staples (-1.6%) were the monthly winners while consumer discretionary (-8.5%), information technology (-8%) and communication services (-6.4%) were the losers.

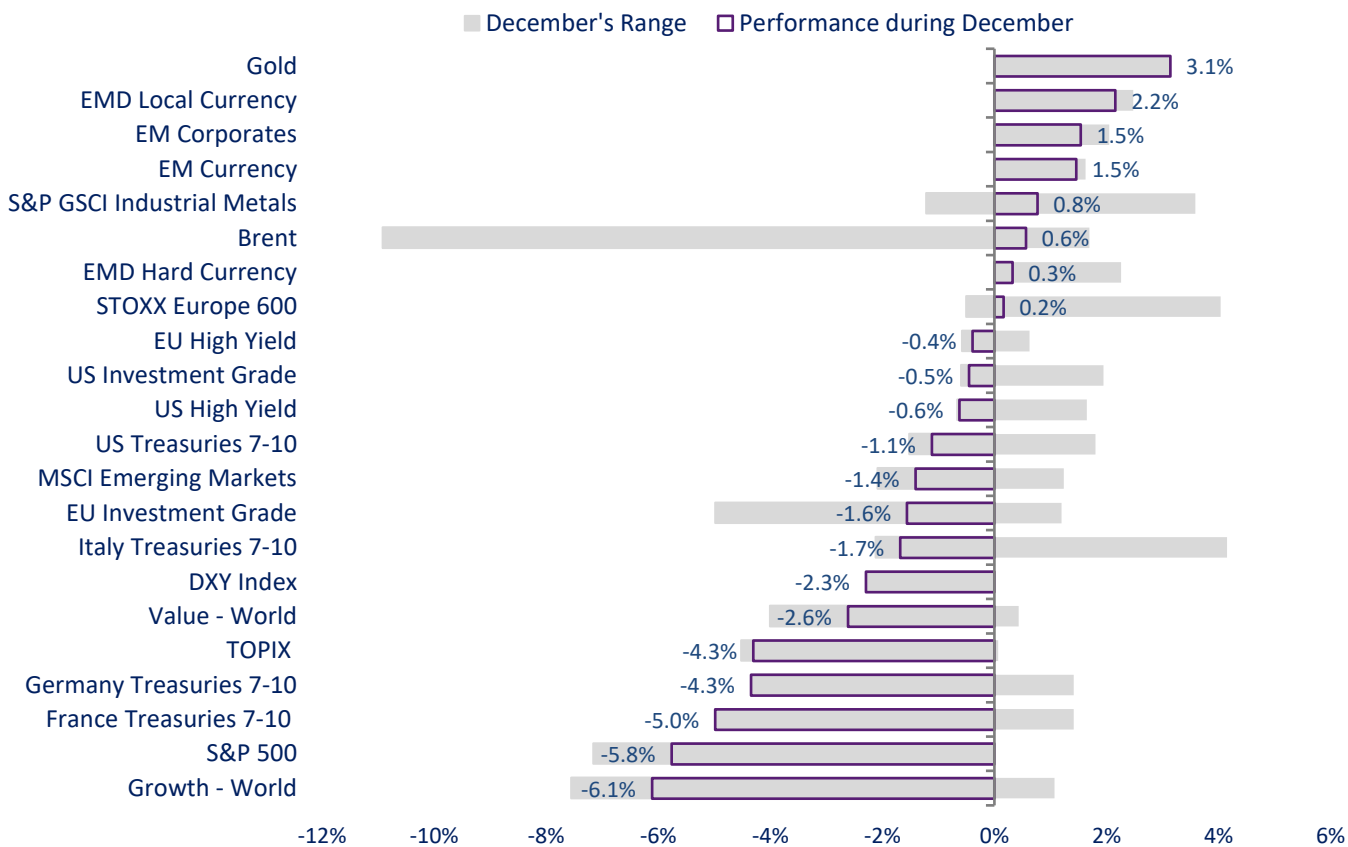
Global bonds were mixed in December as emerging bond markets broadly outperformed core ones. China's reopening news, the hawkish tone of central banks, especially that of the ECB, and the weakening of the US dollar were the main drivers of the month. The emerging market high yield corporate debt returned 3.1% and the European one -0.9% while the US and EU investment grade debt returned 0.2% and -2.4%, respectively. The high yield buckets fared relatively better than higher quality ones (except in the US where performance dispersion in terms of quality was broadly flat). As such, high yield debt in emerging markets returned 3.1%, -0.1% in the US and -0.9% in the EU. Moreover, core government bonds suffered in December as yields increased, especially in Europe. The US 10-year yield increased 13bp to 3.87%, the German 10-year yield fell 65bp to 2.57%, OATs 73bp to 3.12%, BTPs 89bp to 4.72%, Gilts 57bp to 3.67% and JGBs 17 to 0.42%. Despite these moves, the BTP-Bund spread remained well behaved and widened 24bp to 214bp.

The US dollar continued the downward trend it started at the end of October and retreated against all major currencies, especially again versus the Japanese Yen (-5%). The US dollar lost 2.2% against the Swiss Franc, 2.9% against the Euro, 0.2% against the British Pound and 2.7% against the Chinese Renminbi.

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Cross Asset Performance in December – USD

Past performance information presented is not indicative of future performance



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