Market Review

Global Market Strategy at Natixis Investment Managers Solutions January, 2023

Macroeconomic developments

The year started on a high note thanks to convincing data that showed ongoing economic resilience. Although mostly driven by falling energy and good prices, headline inflation kept slowing in most countries. However, core inflation figures in the US and in the Eurozone continued to diverge from each other. Core prices in the US declined to 5.7% YoY from 6.0% in November and the 6.6% peak last September, while those in the Old Continent have yet to peak as evidenced by the 5.2% YoY increase, up from the 5.0% in November. This persistence in core price increases across the Eurozone is why the European Central Bank has been sounding more hawkish than its American counterpart. Moreover, US personal consumption expenditure slowed in line with expectations while personal savings as a percentage of disposable income ticked up by 0.5 percentage points to 3.4% -its highest level since May 2022. The mild Winter in Europe continued to support sentiment as reflected by the improvement in the region's composite PMI, which came in at 50.3 (above the 50-threshold level for the first time since June 2022). Labour markets remained very strong, with the unemployment rate in the US at 3.5% (the lowest level since 1968) and that of the Eurozone at 6.6% (the lowest level since the series started in 1998). Lastly, China's reopening continued in January, with subway daily passengers reaching almost 70% of pre-pandemic levels in major cities prior to the usual slowdown observed due to the Chinese Lunar New Year. In the meantime, economic data for December remained weak with retail sales falling by 1.8% YoY and industrial production slowing to 1.3% YoY from 2.2% in the month before due to labour shortages.

None of the main western central banks met during January, however, the tone used by policymakers during public appearances throughout the month was broadly unchanged: policy rates are expected to remain higher for longer, no cuts are expected in 2023 and decisions will remain data-dependent and follow a meeting-by-meeting approach. The Bank of Canada did meet this month and raised its policy rate by 25 basis points to 4.5% and announced its intention to hold it at the current level while it assess the cumulative impact of the rate increases. Conversely, the Bank of Japan, after having widened their yield curve control target band to 50 basis points from 25 basis points last December, left its policy unchanged at its January meeting.

Markets' reaction

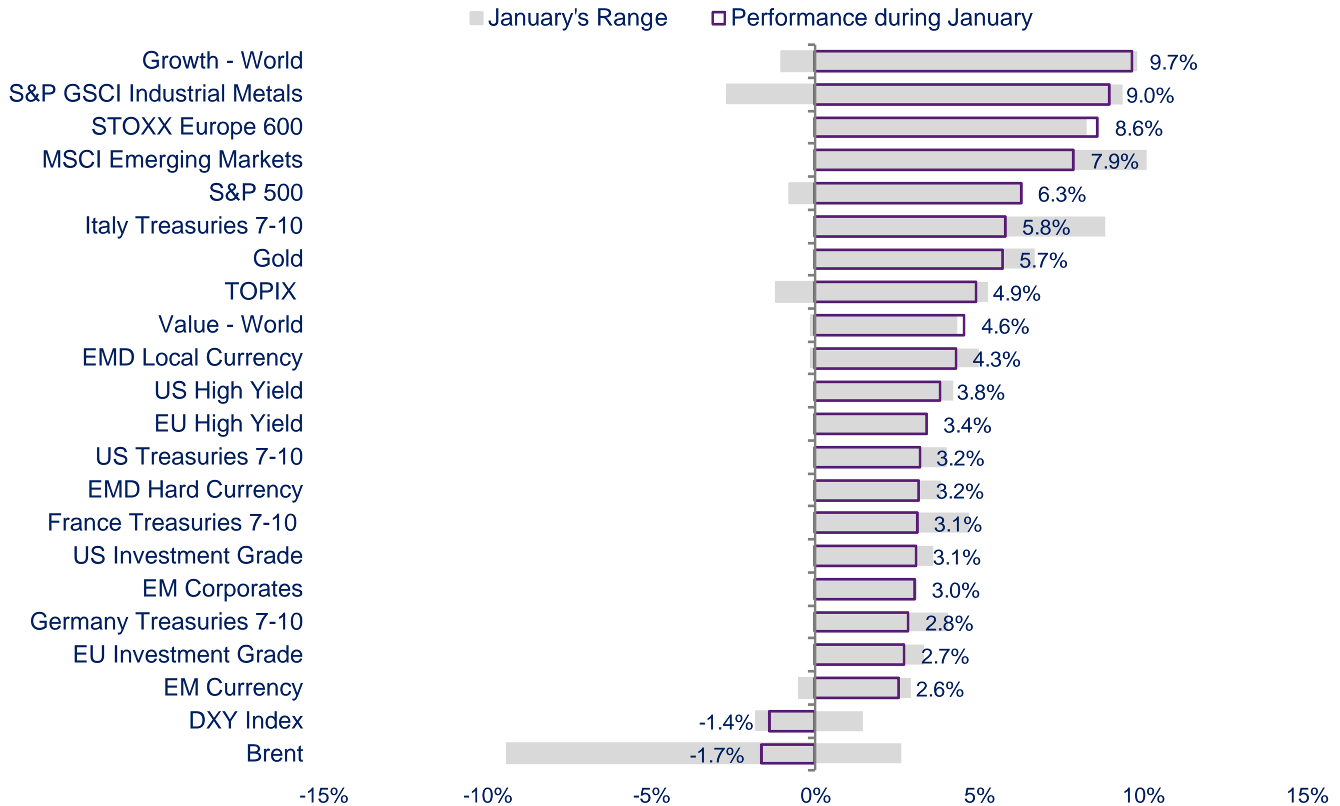
Markets had a sharp rally to start year with both equity and fixed income markets reporting positive performance to investors in January. The MSCI World rose by 7.1%, the strongest January return since 1987, and the MSCI Emerging Markets rallied by 7.9% supported by the encouraging news from China's ongoing reopening process. Across regions, the MSCI EM Latam (+9.9%) led the way as better-than-expected consumer spending and a receding USD benefited the region. European markets followed with a strong performance coming from the STOXX600 (+8.6%), where the FTSE MIB (+12.7%) and the IBEX35 (+10.2%) stood out as fears for an energy shortage dissipated and economic activity surprised on the upside. The only exception to this broad equity rally was the MSCI EM India (-3.0%), where performance was impacted the fraud allegations surrounding the country's largest industrial conglomerate. Global growth vastly outperformed value during January, +9.7% versus +4.6%, with the technology-heavy Nasdaq rallying 10.7%. On a global sectoral basis markets experienced a broad rotation into economically sensitive sectors away from defensive ones in January, with consumer discretionary (+14.6%), communication services (+13.1%) and materials (+10.5%) being the monthly winners and health care (-0.6%), utilities (+0.3%) and consumer staples (+1.1%) the losers.

Although this month was particularly light in terms of central banks meetings, global bond yields fell driven by the encouraging news on the inflation front and, once again, by markets' anticipation for a slower pace of tightening from central banks. This lift in sentiment led credit markets to outperform sovereign bonds both in the US and Europe and across both investment grade and high yield and markets. Like back in December, high yield emerging corporate debt outperformed (+4.1%) followed by the US (+3.8%) and Europe (+3.4%). More broadly, the US 10-year yield increased 37bp to 3.51%, the German 10-year yield fell 29bp to 2.29%, OATs 36bp to 2.75%, BTPs 56bp to 4.16%, Gilts 34bp to 3.33% and JGBs increased 7bp to 0.5% (the top of the range of the yield curve control policy). The BTP-Bund spread remained well behaved and tightened 28bp to 187bp. The US dollar continued the downward trend it started at the end of October and retreated against all major currencies, losing 1.8% against the Euro, 2.3% against the Pound, 1.1% against the Franc, 0.5% against the Yen, 1.1% against the Yuan and 5.3% against the Real.

Sources: Bloomberg & NIM Solutions

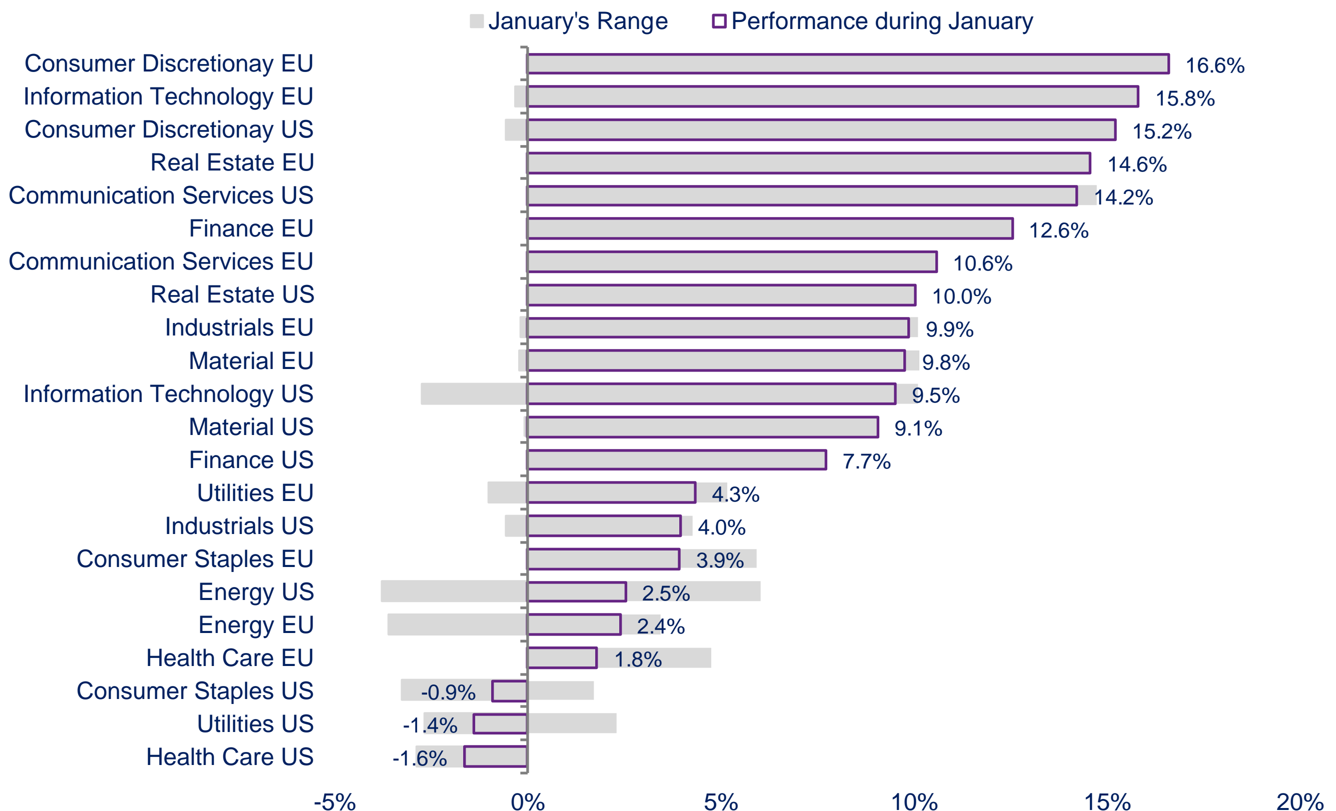
Cross Asset Performance in January – USD

Past performance information presented is not indicative of future performance



Sector Performance in January – USD

Past performance information presented is not indicative of future performance



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