

Flash stats

Q2 2022

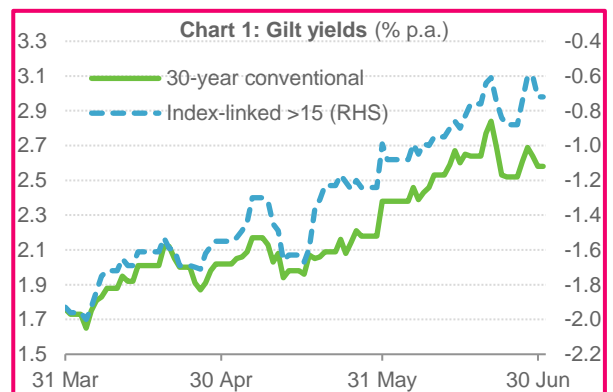


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It was another challenging quarter for investment markets, with soaring inflation and tighter financial conditions weighing on the economic outlook and giving rise to fears of recession. Equity and bond markets posted negative returns; compounding what was already a difficult start to the year.

Sterling returns (%) to 30 th June 2022		3 mths	12 mths	3 mths	12 mths
EQUITY INDICES				STERLING BOND INDICES	
Global	FTSE All-World	-8.3	-3.6	Gilts (All) FTSE	-7.4 -13.6
UK	FTSE 100	-3.7	5.8	Index-linked (All) FTSE	-17.5 -16.3
	FTSE All-Share	-5.0	1.6	Corporates (All) iBoxx	-7.8 -14.5
US	S&P 500	-9.0	1.7	MODEL PORTFOLIOS	
Japan	TOPIX	-6.7	-8.4	70% equity	-7.2 -5.3
Europe ex UK	FTSE Dev Europe	-8.6	-10.2	50% equity	-7.3 -7.8
Emerging	FTSE Emerging	-2.6	-10.4	30% equity	-7.4 -10.3

- Consumer confidence surveys have plunged in the major advanced economies as inflationary pressures and higher borrowing costs squeeze consumer's real incomes. The recent partial easing in Chinese COVID restrictions may bring some relief to strained supply chains, but corporates remain beset by product and labour shortages.
- As inflation forecasts continue to rise, global growth forecasts remain on a downwards trend: June's consensus forecasts global GDP rising 2.9% in 2022 and 2.8% in 2023, down from 4.1% and 3.2%, respectively, at the start of the year.
- Though remaining at a level consistent with modest expansion, developed market Purchasing Managers' Indices for June showed a more rapid deterioration, adding to evidence of a slowing pace of growth. Global output rose, driven by an easing of restrictions in China, but other major regions generally saw slower rates of expansion or even contraction.
- While headline inflation continues to rise across developed markets, year-on-year US and UK core inflation, which excludes volatile energy and food prices, eased slightly, but remained elevated, at 6.0% and 5.9%, respectively. US and UK inflation pressures look more broad-based, owing in part to very tight labour markets, whereas a large proportion of eurozone inflation still relates to volatile energy and food prices, with Eurozone core CPI increasing to 3.8% year-on-year. Inflation is expected to remain elevated in the near-term and fall back more slowly than previously expected.



- Despite severe supply side issues and risks to growth, central banks appear determined to bring down inflation. The Bank of England rose rates for the fifth consecutive time and the Fed delivered a bumper 0.75% p.a. increase, taking their base rates to 1.25% p.a. and 1.75% p.a., respectively. The European Central Bank have indicated a first rate hike is likely in July, along with an end to asset purchases early in Q3 2022 and the end to negative rates by the end of Q3 2022.
- Government bond prices fell, and yields rose, as markets moved to price in significant further increases in interest rates in addition to those already announced. UK 10-year gilt yields, at 2.2% p.a., are 0.6% p.a. above end-March levels, while equivalent US and German yields have increased 0.7% p.a. and 0.8% p.a., to 3.0% p.a. and 1.3% p.a., respectively.
- UK 10-year implied inflation, as measured by the difference between conventional and inflation-linked bonds of the same maturity, fell 0.8% p.a., from 4.4% p.a. to 3.6% p.a. as real yields rose more than their nominal counterparts (Chart 1).
- The impact of rising government bond yields on fixed income total returns has been compounded by spread widening, as both inflation and growth concerns have weighed on global credit markets. Global investment-grade credit spreads rose 0.5% p.a., to 1.8% p.a.; while US and European speculative-grade spreads both rose 2.4% p.a., to 5.9% p.a. and 6.4% p.a., respectively.
- Increasing differentials between expected interest rates have seen the trade-weighted dollar rise 4.7% quarter-to-date, while expectations of relatively high inflation and low growth saw the trade-weighted sterling fall 2.0%. Commodity prices fell over the quarter, with expectations of lower demand leading to a fall in industrial metals prices and rising real yields weighing on precious metals prices.
- Despite ongoing upwards revisions to consensus analyst earnings forecasts, global equities fell 13.3% (in local terms) over the quarter, as increases in expectations for the path of interest rates extended the recent decline in equity market valuations. The technology sector notably underperformed on the back of rising rates while returns within the consumer discretionary sector were impacted by a weakening consumer outlook. In contrast, consumer staples outperformed, as investors perhaps placed a premium on the sector's inherent pricing power. Traditionally defensive sectors including utilities, telecoms, and healthcare outperformed over the quarter, while the more cyclical basic materials and industrials sectors underperformed.
- North America underperformed, owing to its large exposure to the technology sector. Meanwhile, above-average exposure to energy, metals, and miners, saw the UK continue its recent outperformance, and the easing of lockdown restrictions in China provided some relative support to Emerging and Asian markets equities.
- Property remained a relative bright spot, with the MSCI UK IPD total return index rising 8.8% year-to-date. The capital value index rose 19.3% over the 12 months to the end of May, largely owing to a 36.9% rise in industrial capital values. Return on the all-property index, including income, was 25.1% in the 12 months to end-May.

