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# Flash stats

**Q3 2023**

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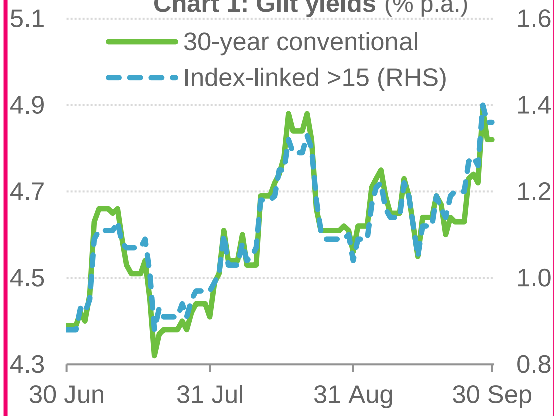
Global equity markets weakened and sovereign bond yields rose as markets braced for higher-for-longer interest rates being needed to return inflation to target. Credit spreads marginally tightened as expectations of outright recession receded.

| Sterling returns (%) to 30th September 2023 | | 3 mths | 12 mths | | | 3 mths | 12 mths |
|---|---|---|---|---|---|---|---|
| **EQUITY INDICES** | | | | **STERLING BOND INDICES** | | | |
| Global | *FTSE All-World* | 0.9 | 11.1 | Gilts (All) | *FTSE* | -0.6 | -2.5 |
| UK | *FTSE 100* | 2.2 | 14.7 | Index-linked (All) | *FTSE* | -4.7 | -12.7 |
| | *FTSE All-Share* | 1.9 | 13.8 | Corporates (All) | *iBoxx* | 2.5 | 8.7 |
| US | *S&P 500* | 0.8 | 11.2 | **MODEL PORTFOLIOS** | | | |
| Japan | *TOPIX* | 3.3 | 15.1 | 70% equity | | 1.3 | 9.8 |
| Europe ex UK | *FTSE Dev* | -1.9 | 19.9 | 50% equity | | 1.3 | 8.2 |
| Emerging | *FTSE Emerging* | 2.6 | 1.6 | 30% equity | | 1.3 | 6.6 |

*Source: DataStream/Hymans*

- Better-than-expected Q2 data, released in Q3, led to further upwards revisions to 2023 global growth forecasts for Q3. Survey indicators suggested that economic activity weakened in Q3, particularly in Europe, but growth is expected to slow, rather than collapse. While inflation generally declined, it remained above target, and markets are coming to expect that central banks will have to keep interest rates higher for longer to return inflation to target.
- Headline inflation is at 3.7%, 6.7%, and 5.2% year on year in the US, UK, and eurozone, respectively. Furthermore, year-on-year core CPI inflation, which excludes more volatile energy and food prices, is also substantially above central bank targets, at 4.3%, 6.2%, and 5.3%, in the US, UK and eurozone, respectively.

**Chart 1: Gilt yields** (% p.a.)




Source: DataStream/Hymans

- The Fed and Bank of England (BoE) both raised rates 0.25% pa in Q3, to 5.5% pa and 5.25% pa, respectively, before leaving rates unchanged at their September meetings. The BoE took markets by surprise as another 0.25% pa rate hike was expected. Given a smaller cumulative increase in interest rates in this cycle, the European Central Bank raised its deposit rate twice, to 4.0% pa. While major central banks, and markets, are indicating interest rates are close to peaking, they also suggest that rates may have to remain at current, or higher, levels for longer to return inflation to target.

- Amid expectations central banks may have to keep interest rates elevated for an extended period, sovereign bond yields rose. Heavy issuance compounded the moves in 10-year US treasury yields, which rose 0.7% pa to 4.6% pa, while equivalent German yields rose 0.5% p.a., to 2.8% p.a. Japanese government bond yields rose 0.4% pa, to 0.8% pa, as the Bank of Japan loosened its yield curve control policy in July. Following August's downside inflation surprise and the Bank of England's surprise pause in rate rises, short-term gilt yields fell, while longer-term yields rose – the 10-year yield saw more muted moves, rising 0.1% pa to 4.4% pa.

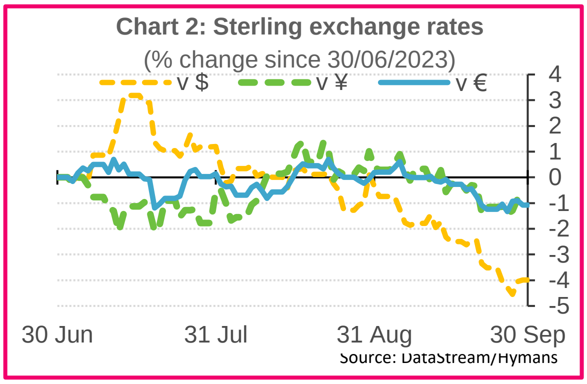



**Chart 2: Sterling exchange rates**
(% change since 30/06/2023)
Source: DataStream/Hymans

- A fall in short-term gilt yields and a 0.2% pa fall in credit spreads both contributed to positive total returns in the sterling investment-grade credit market. Global investment-grade spreads fell 0.1% pa to 1.3% pa. Speculative-grade credit spread movements were muted: US spreads little changed, at 4.0% pa, with euro spreads tightening 0.1% to 4.4%. Realised defaults are rising, but peak defaults forecasts have been revised downwards. Attractive all-in yields and a subdued pace of new issuance in speculative-grade markets have lent technical support to credit markets.
- The FTSE All World Total Return Index erased July's gains to end the quarter 2.2% lower, in local currency terms, as sovereign bond yields rose and survey data indicated weaker global economic activity in Q3. Given its bond-like qualities, the utilities sector notably underperformed while higher sovereign bond yields weighed on the valuation of the technology sector's 'long-duration' cashflows. The energy sector outperformed as sharply higher oil prices boosted earnings prospects. Europe ex-UK underperformed, given relatively weak business surveys and a large exposure to the struggling manufacturing sector. Above-average exposure to the tech sector saw North American equities also underperform. Japan outperformed as yen weakness lent support to the earnings of the export-heavy market and UK equities also outperformed, given above-average exposure to the energy sector.
- Oil prices rose 28% over the quarter, nearing $100 per barrel, as data on low US stockpiles compounded supply shortfall fears as Russia and Saudi Arabia extended voluntary production cuts. Trade-weighted sterling fell 2.2% as near-term interest rate expectations fell, while the equivalent US dollar measure rose 1.7% and the Japanese yen fell a further 1.4%.
- MSCI UK Monthly Property Total Return Index rose only slightly in the quarter to end-August as income was largely offset by capital-value declines in the office and retail sectors, which are down close to 23% and 15% respectively on year-on-year basis. The office and retail sectors continue to see month-on-month declines in capital values, while the industrial sector has recorded six consecutive months of growth, though the pace has eased in recent months.

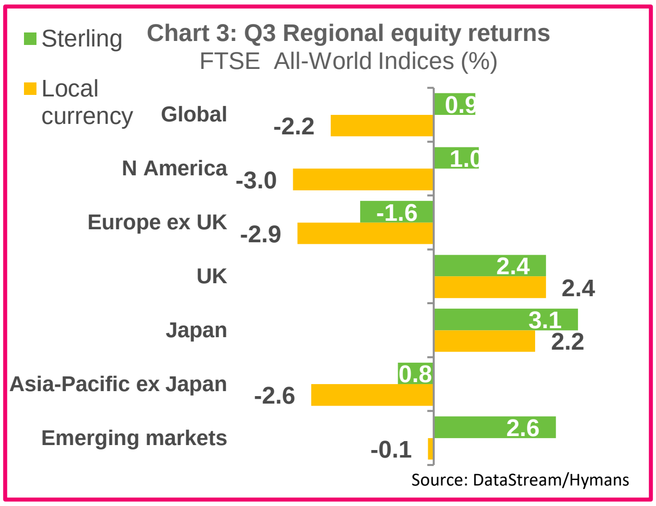



**Chart 3: Q3 Regional equity returns**
FTSE All-World Indices (%)
Source: DataStream/Hymans

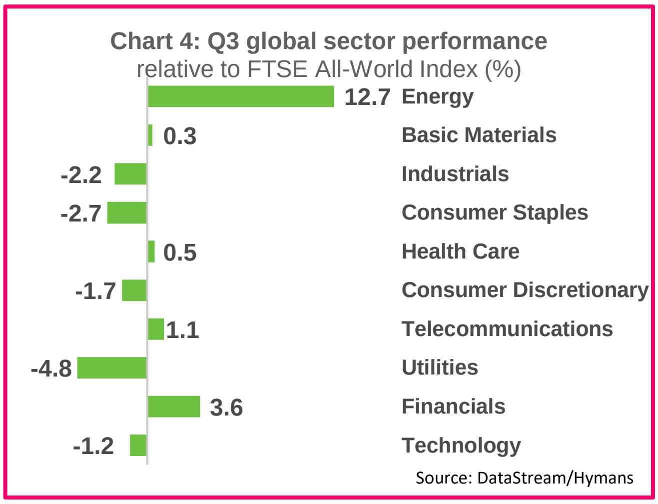



**Chart 4: Q3 global sector performance**
relative to FTSE All-World Index (%)
Source: DataStream/Hymans