Monthly Review and Outlook January 2023

Review

Global equities (shares) rose in January with China's reopening, after dropping its zero-Covid policy, helping the advance.

Signs that inflation is easing in several regions supported market sentiment, amid hopes central banks may be close to the peak of interest rate rises.

In fixed income markets, bond prices rose (meaning yields fell); but there were negative returns for commodities.

Company shares

UK equities rose in January, but the advance was smaller than in some other regions. The non-essential consumer goods and financials sectors were among the top performers. Laggards included the essential consumer goods and healthcare sectors. Consumer companies generally delivered better-than-expected trading updates, which drove some very strong share price performances from the retail, travel and leisure, and housebuilding sectors.

US equities made robust gains as inflation dropped to 6.5 per cent from 7.1 per cent, leading investors to expect smaller rate rises from the US central bank. Stronger-than-expected economic growth of 2.9 per cent and lower-than-expected jobless claims also helped support US stocks. Almost all industrial sectors rose during the month, with technology, non-essential consumer goods, travel and auto sectors performing particularly strongly.

Eurozone shares were among the best regional performers in January. Top-performing sectors included information technology and non-essential consumer goods, with luxury goods stocks performing particularly strongly following China's economic reopening. Real estate also enjoyed a rebound after a poor performance in 2022. The eurozone economy eked out 0.1 per cent quarter-on-quarter economic growth in the fourth quarter of 2022, down from 0.3 per cent in the third quarter. The annual inflation rate in December was 9.2 per cent, down from 10.2 per cent in November. Christine Lagarde, president of the European Central Bank (ECB), said further interest rate rises would be needed to return inflation to the 2 per cent target.

The Japanese stock market rose in January, reversing December's decline. Asian equities (excluding Japan) also performed positively. Chinese shares made robust gains after Beijing loosened Covid-19 restrictions that have constrained the country's economic growth since early 2020. Government measures to support the country's property market and a loosening of the regulatory crackdown on China's technology companies also bolstered investor sentiment. Other Asia Pacific markets also gained. Shares in South Korea and Taiwan achieved significant growth on renewed investor optimism. Singapore also ended the month in positive territory after an upbeat global forecast for Asian markets helped allay investor fears of an economic slowdown. Emerging market (EM) equities also benefited from positive market sentiment.

Bonds

Global government bonds rose in January (meaning yields fell) following encouraging news on inflation, particularly from the US. Corporate bonds performed more strongly than government bonds in the US and Europe. Market sentiment improved as better-than-expected growth (especially across the eurozone and China) saw investors moderate recessionary fears. But core inflation across the eurozone remains relatively high. The yields on US government bonds with 10-year expiry dates fell from 3.88 per cent to 3.51 per cent, while yields on those with two-year expiry dates fell from 4.42 per cent to 4.21 per cent. Germany's 10-year yield declined from 2.57 per cent to 2.29 per cent. The UK 10-year yield fell from 3.67 per cent to 3.34 per cent and the two-year dropped from 3.56 per cent to 3.46 per cent.

Commodities

The Bloomberg Commodity index (a benchmark for investment in global commodities) had a negative performance in January. But industrial metals and precious metals achieved strong gains, driven by rising prices for zinc, aluminium and copper. Within agriculture, wheat and cocoa prices fell in the month.

Outlook

We have upgraded our view on government bonds to positive, due to current yield levels. Despite a sharp rally, we still see value in emerging market corporate bonds (in local currencies) and European high-quality (investment grade) corporate bonds. We retain our negative stance on US equities due to concerns over corporate earnings but are positive on European equities and emerging market equities due to attractive valuations.

Asset overview

Our general view of assets in the coming months is summarised as follows. These are our in-house views as at the end of January 2023.

Equities	🟡	We have moved from a negative to a neutral stance following news of the reopening of China's economy.
Government bonds	🟡	We maintain a neutral stance, despite market expectations of lower US inflation.
Corporate bonds	🟢	We prefer high-quality (investment grade) bonds to higher risk (high yield) bonds, due to market fears of a potential recession.
Commodities	🟡	China's reopening of its economy should be a positive factor for commodity prices, but a potential impending economic slowdown could offset this.

	Legend
🟢	Positive outlook
🔴	Negative outlook
🟡	Neutral outlook

Source: Schroders, 9 February 2023

Important information

Forecasts of future performance are not a reliable guide to actual results, neither is past performance a reliable indicator of future results. The value of investments and the income from them can fall as well as rise and are not guaranteed, and the investor might not get back their initial investment.

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