

Review

- **Global equities (shares) rose** in December on investor optimism that interest rates may have peaked.
- **Government bond prices rose**, while government bond yields fell.
- **Commodity prices fell**, driven by falling energy prices.

Company shares

- **UK equities rose.** UK small and medium-sized companies, which are often more focused on the domestic economy, performed particularly strongly overall, due to increased investor optimism that interest rates may have peaked. Some more international and economically sensitive areas of the market also performed well, most notably the industrial and financial areas.
- **US equities also rose**, supported by investor optimism that interest rates may be cut in 2024. Real estate, industrials and non-essential consumer goods were among the top-performing areas of the market.
- **Eurozone shares rose**, again due to optimism that interest rates are set to fall. Real estate and industrials companies performed particularly strongly overall, while energy and communication services performed relatively weakly.
- **Asian equities (excluding Japan) rose**, with all markets in the MSCI Asia (ex Japan) index apart from China ending the month positively. Chinese equities fell due to concerns over weaker economic growth. India was the strongest market in the index.
- **Emerging market equities rose** in US dollar terms in December as the US economy continued to appear on track for a slowdown rather than a recession. But emerging markets generally performed more weakly than developed markets.

Bonds

- Government bond prices rose in December as comments from the US Federal Reserve (Fed) suggested there is a greater chance of interest rate cuts. But other major central banks attempted to counter market expectations of earlier rate cuts.
- Government bond yields fell as their prices rose. The yield on US government bonds with a 10-year expiry date fell from 4.33 percent to 3.88 percent, while the yield on 10-year UK government bonds dropped by 0.64 percentage points, to 3.54 percent. The German 10-year yield fell to 2.02 percent from 2.45 percent.
- **Prices of high-quality (investment grade) and riskier (high yield) corporate bonds both generally rose more strongly than government bond prices.** This was fuelled by investor expectations that the US economy is on course for a slowdown rather than a recession.

Commodities

The Bloomberg Commodity index, a benchmark for investment in global commodities, fell in December, with modest price gains in precious metals and industrial metals failing to offset weaker prices in energy, agriculture and livestock. Energy performed particularly poorly, with significant price falls for crude oil, heating oil and natural gas. In precious metals, the gold price rose modestly while silver declined.

Outlook

Our expectations for a peak in US interest rates and an economic slowdown rather than a recession found support from comments from Fed chair Jerome Powell. But strong equity and bond returns suggest our relatively positive economic stance is already shared by other market investors. Consequently, we have turned from a positive stance to a neutral stance on equities, government bonds and corporate bonds. We also have a neutral stance on commodities as economic growth slows.

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 December 2023.

Equities	●	We have moved from a positive to a neutral stance on equities. We believe market investors generally share our view that the US will experience a slowdown rather than a recession.
Government bonds	●	We have upgraded our stance to neutral but note that government bond prices have risen as investors expect significant cuts in interest rates.
Corporate bonds	●	We have downgraded our stance on corporate bonds to neutral, following a significant rise in corporate bond prices relative to government bond prices.
Commodities	●	We have moved to a neutral stance, partly due to the relatively high availability of energy commodities.

Legend	
●	Positive outlook
●	Negative outlook
●	Neutral outlook

Source: Schroder Investment Management and Schrodgers Personal Wealth, 3 January 2024

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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