

# DECEMBER 2023

## MONTHLY COMMENTARY

December brought with it the gift that market participants had been waiting for all year – a Federal Reserve (Fed) policy pivot. With the continuation of the disinflation story, the Fed striking a more dovish tone and strong economic data published throughout the month; both equity and bonds markets showed that the festive period was not lost on them as they rallied into the end of the year. Economic data released in December painted a mixed picture for the global economy. Uneasy geopolitical factors provided a concerning backdrop in the month with a financial aid package for Ukraine vetoed at the EU summit and the Middle Eastern conflict affecting trade in the Red Sea. Despite these developments, markets continued unruffled. COP28 concluded with an agreement that signalled the “beginning of the end” for fossil fuel usage.

	DECEMBER	YTD
MSCI World (USD)	4.9%	24.4%
S&P 500 (USD)	4.5%	26.3%
FTSE 100 (GBP)	3.8%	7.7%
Euro STOXX	3.2%	23.2%
Gold	1.30%	13.1%
Bloomberg Global Agg (USD)	4.2%	5.7%

### US

In the US, inflation data released for November showed a continuation of the downward trend posting a 3.1% year-on-year increase, down from the 3.2% figure in October and the lowest since March 2021. Core inflation (with food and energy components stripped out) remained unchanged at 4% fuelling concern that it may remain sticky until significant cooling is seen in the labour market. However, shelter continued to make up a large proportion of the headline inflation figures and, with stabilising house prices and mortgage rates, this typically ‘lagged’ data is expected to normalise in the months to come and bring overall inflation down. Strong economic data was seen in November with ‘core’ retail sales and industrial production both up. The labour market remained tight with the unemployment rate shrinking to 3.7% and jobless claims grew less than expected.

Markets responded to Jay Powell’s comments after the Fed’s final meeting of the year where they decided to keep rates steady at the 22-year high target of 5.25%-5.5%. The comments, which were welcomed by both bond and equity investors, signalled a policy pivot towards rate cuts in 2024 with projections of three quarter-point cuts. The 10-year treasury yield fell below 4% for the first time since July after a peak of 5% in mid-October, as bond prices rallied on the back of Powell’s comments.

## UK

Data released during the month of December dealt a mixed bag to the UK economy where consumers continue to struggle with the cost of living crisis, comically dubbed the 'cozzie livs'. The Office for National Statistics (ONS) published that the UK economy unexpectedly contracted by 0.3% in October. The ONS published later in December that third quarter Gross Domestic Product (GDP) was revised down from initially flat to negative 0.1%, illustrating that the interest rate hiking cycle was weighing down the economy.

In the December meeting, the Monetary Policy Committee (MPC) voted to maintain the bank rate at 5.25%. Inflation figures for November brought some respite to investors as headline Consumer Price Index (CPI) rose 3.9% year-on-year, down from 4.6% in October. This was reflected in the Core CPI which was up 5.1% year-on-year, down from 5.7% in October. Further optimism came from retail sales figures which rose more than expected at 1.3% (vs 0.4% consensus) in November with help from key Black Friday discount week. A figure which was welcomed after no growth in retail sales was recorded in October. Many investors were comforted by the improved inflation picture and renewed strength of the consumer. With expected rising real wages, easing mortgage rates and the cut to national insurance contributions announced in the autumn statement set to improve the outlook into 2024.

## EURO

The economic activity in the eurozone came under scrutiny during December as various economic data was released. Industrial production declined by more than expected in October posting -0.7% month-on-month, which compared to the consensus of -0.3%. The confidence of the consumer also came under fire, as retail sales in November posted a decline of 0.3%. Furthermore, the Purchasing Managers' Index (PMI) composite data released in December came in at 47.6 reflecting the same figure from the month previous. A posting below the critical 50 threshold indicates a decline in business activity, and for the eurozone this is the seventh consecutive month of falling below that level.

In the December meeting, the European Central Bank (ECB) kept rates steady at 4% and dashed investors' hopes of an imminent policy pivot with a hawkish stance. The meeting concluded with President Lagarde striking a contrasting tone to her counterpart Powell in the U.S., citing price pressures and potential inflation rebounds would require rates to remain higher for longer.

## CHINA

In China the economic picture remained mixed. Industrial production gained 6.6% year-on-year, beating expectations of 5.6% and following October's 4.6%. This was the fastest pace of growth since February 2022. Retail sales also grew 10.1% but this came in lower than expectations. Investors have been watching China closely throughout 2023 as the region struggled to sustain a post-pandemic recovery amid a declining housing crisis and worsening deflation. Policymakers released their plan to boost economic activity in China in 2024 in December's annual Central Economic Work Conference. Key areas of focus were boosting domestic demand, financial sector stability and advancing technological advancements to create a modern industrial system and AI development.

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