Portfolio & Market Update

December 2023

Introduction

December was another good month for markets following a strong November, which itself was an improvement on previous months. Both equities and bonds rallied strongly, and it appears that previous geopolitical worries are no longer a concern for markets.

Lower than expected inflation rates, combined with some central banks indicating that they would lower interest rates in 2024, pushed bond yields down. At the same time, the US economy continued to show signs of resilience while the rest of the world displayed signs of economic slowdown.

However, there are strong indications that inflation has peaked in various regions. So, while some central banks maintained a cautious approach, signalling prolonged high interest rates, others indicated that the direction of travel is towards easing rates.

Markets

December was a particularly strong month for multi-asset portfolios as both equity and fixed income assets performed positively. US equities offered a particularly strong return, one of the best since 2019. This was a continuation of what we saw in November for global markets. These lower yields indicate that central banks are about to pivot and move towards lower interest rates, which supports equities.

With stronger British currency (Sterling), US equities performed positively at 3.7%, though this was better in US dollar terms at 4.4%.

Meanwhile, the FTSE 100, the MSCI Emerging Market, Asia Pacific and the Topix generated positive returns of 4.4%, 3.0%, 3.8% and 3.8% respectively.

UK

The UK markets achieved a positive return in November with a performance of 4.4% for the FTSE100. Confidence surveys showed that consumers and businesses continued to be negatively impacted by higher costs of living and interest rates, but showed a tentative sign of improvement. In fact, according to the Purchasing Managers' Index (PMI), business sentiment was above the 50 level in December, which indicates that the economy is growing again.

House prices are still negative, but the latest numbers suggest that the worst is now over.

On the inflation front, the latest number was still high but surprised us by being better than the market consensus had expected, at 3.9% year-on-year. Inflation is decreasing, but not fast enough to warrant an early reduction in interest rates.

Europe

The Euro-Stoxx continued to recover strongly during December, resulting in a strong performance of 4.3%. In the Euro area, inflation rose to 2.9% year-on-year, due to the effect of energy prices in Europe. Nonetheless, it was below the market consensus. PMI readings continue to indicate a significant slowdown in business activity, but it looks like we have reached the bottom, and some indicators are showing signs of tentative improvement.

Flying Colours is a trading name of Flying Colours Investment Management Limited, which is authorised and regulated by the Financial Conduct Authority under number 922882. Registered in England and Wales under company number 12433663. Registered office: 1301 Ocean House, The Ring, Bracknell, Berkshire RG12 1AX.

FlyingColours

Portfolio & Market Update

December 2023

US

The US experienced another good month in December, with the S&P 500 generating a positive return of 4.4% in US dollar terms but less impressive when translated into GBP (sterling). Inflation remained anchored at 3.1%, which is in line with market expectations.

Energy costs continued to decline, along with the price of used cars. Food price increases were muted compared to previous months. Composite PMI was at 50.9, which is a slight improvement from the previous month, and is further proof of US economic resilience.

The US is in the expansionary phase for the 11th month in a row, supported by a strong, albeit cooling labour market. The unemployment rate was 3.7%, which has increased from the low of April 2023.

Japan

Japan returned a strong performance of 3.8% in GBP for December. While the PMI data showed below average growth at 50.0 (above 50 indicates an expanding market) rising from the November dip. Data published in December showed that inflation rates dropped to 2.8% in November, down from 3.3% in the prior month, which is above the 2% target set by the Bank of Japan. Continuing actions by the bank have led to currency appreciation.

Asia & Emerging Markets

EM countries had a positive month in GBP terms, returning 3.0%. With the continuing better-than-expected economic news coming from China and some monetary stimulus, the equity market was pushed higher. Despite ongoing issues with the property market, employment rose, and confidence reached a 3-month high, supported by a rise in consumer spending.

Fixed income

The fixed income market was positive during the month as yields dropped. In the UK, the 10-year yield fell by nearly 1% from the high of October. This was due to better-than-expected inflation data pushing investors to revise their expectations of a rate cut as early as this year.

Outlook

We continue to expect inflation to fall in all regions, albeit at varying rates. Our outlook is that there is still the potential for a global economic slowdown in the coming months, and we are closely monitoring markets. Central banks will continue the challenging task of balancing inflation and economic growth.

At Flying Colours, we continue to monitor the economic outlook and market signals to ensure that our portfolios are positioned in the best interests of our clients.

Our portfolios are designed for long-term investment, so they are managed with this in mind. Our approach is to manage the long-term risk and not to be influenced by short-term trends which could be costly for our investors. Our aim is to achieve carefully managed risk-adjusted returns, in line with our investment philosophy.

Flying Colours is a trading name of Flying Colours Investment Management Limited, which is authorised and regulated by the Financial Conduct Authority under number 922882. Registered in England and Wales under company number 12433663. Registered office: 1301 Ocean House, The Ring, Bracknell, Berkshire RG12 1AX.