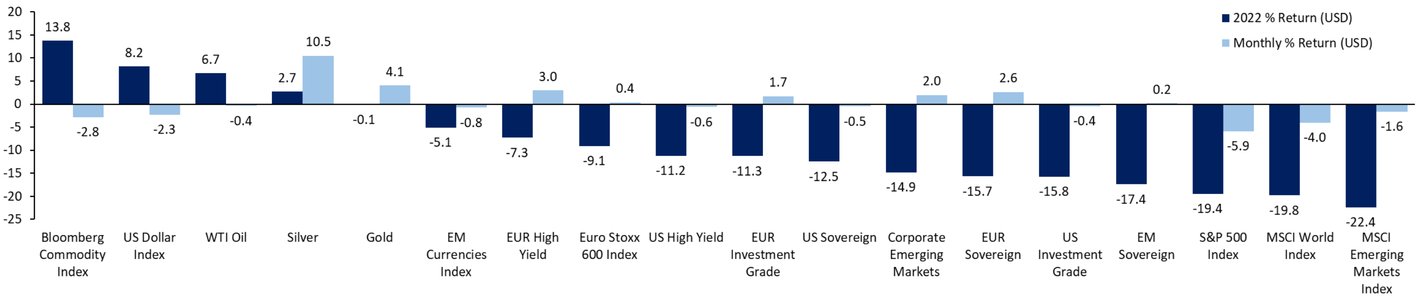
January 4, 2023

Monthly Market Wrap, December 2022

2022 was a difficult year, not only for risk assets with the MSCI World Index registering its fourth worst annual performance in 50 years, but also for consumers and businesses which had to manage a soaring inflation, restrictive monetary policies, and increasing geopolitical tensions. While inflation appears to be cooling down, albeit at a slow pace, the global economies emerge weakened from 2022, and on the brink of downfall. With cracks appearing in all sectors of the economy we advise to remain prudent and retain a protective asset allocation approach.

Chart 1. Asset Class Return 2022 (USD Base)



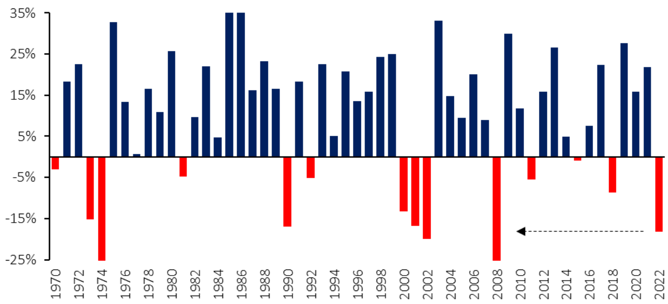
Equities

The final month of 2022 served as a microcosm of the challenging year it has been in the equities markets. Following two months of positive returns, developed market equities fell -4.2% in December to close the year down -18.1%, the worst annual performance since the GFC **(Chart 2)**. The fear of a global recession kept looming while heightened and sticky inflation, along with interest rate hikes held volatility elevated.

The US equity market ended the year falling almost six percent in December. The fall was driven by the Fed's emphasis on the need for further rate hikes, bringing the terminal rate projections to 5.1%, up from 4.6% in September. The Fed also argued that it was not expecting any easing of financial conditions (i.e., lower interest rates) until 2024. Indications of an economic slowdown also weighed on equities as retail sales and manufacturing output both declined -0.6%, well beneath their respective expectations. The S&P 500 closed down -5.8% in December, and -18.1% on the year **(Chart 3)**. The Nasdaq 100 and Russell 2000 were respectively down -9.0% and -6.5%, -32.4% and -20.4% annually. The decline in stocks was broad-based and all 11 sectors of the S&P 500 fell. The decline was led by the consumer discretionary sector (-11.3%), while utilities outperformed in anticipation of the winter season (-0.6%).

European equities face similar headwinds. Although the ECB slowed its hiking pace to 50bps, Lagarde reiterated that interest rates must rise significantly and steadily to reach restrictive levels. The Eurostoxx 50 fell -4.3% to close the year down -9.5% **(Chart 4)**. Technology and automobiles were the worst performing sectors, down a respective 7.2% and 5.8%, while banks managed to close marginally positive, up 8bps.

Chart 2. MSCI World Annual Total Returns (1970-Present)



Source. Bloomberg, MAM Research

Chart 3. S&P 500 Index (Weekly)

Source. Bloomberg, MAM Research

Chart 4. EuroStoxx 50 Index (Weekly)

Source. Bloomberg, MAM Research

Fixed Income

Weakening economic data continued to paint a slowing global economy in December. The NAHB Housing Market Index fell for the 12th straight month, printing its lowest reading in a decade. On a YoY basis, it registered the steepest decline ever, down -53% YoY. Historically, a plummeting homebuilder confidence suggests higher unemployment within the next 10 months. Forward-looking data depicted the same picture as building permits plummeted 10.6% and hit their lowest level since June 2020. At the consumer level, excess savings are quickly eroding. After hitting $2.1tn in late 2021, they are now below $1tn. Unsurprisingly, what is left of excess savings are now concentrated in the top income quartile. With odds of a Fed pivot eroding, yields resumed their uptrend in December. US 2-Year yields bounced 11bps. The rally was more pronounced at the tail end of the curve, with the US 10-Year rallying 27bps. The 10-2 yield curve flattened by 15bps, although it remains at its lowest point in over four decades at -55bps **(Chart 5)**.

In Europe, retail sales posted their largest MoM drop of the year, down -1.8%, while the downturn in business activity extended for a sixth consecutive month. Following Lagarde's pledge that Eurozone "interest rates will have to rise significantly higher at a steady pace", German 10-Year yields jumped 63bps at 2.57%, a 12-year high **(Chart 6)**.

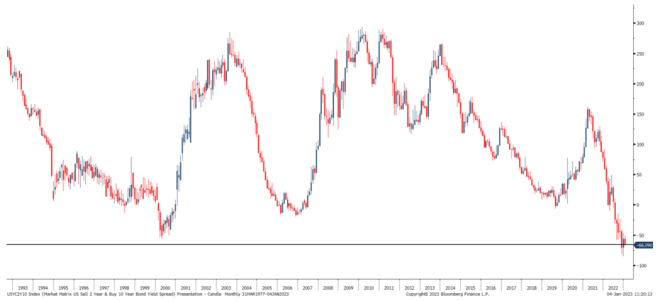
Currencies

The US Dollar was down -2.3% MoM (+8.2% annually) for the third straight month, its worst streak since the August 2020, amid easing inflationary pressures and a rising potential differential to future monetary policy tightening relative to Europe and potentially Japan **(Chart 7)**. Concerns that the Fed will be hiking into a recession also gathered pace as US economic data deteriorated further. Despite growing expectations that the ECB will continue to hike for longer, the relatively weaker and more unstable economic outlook out of Europe (i.e., weather/geopolitical risk) should provide tailwinds for the greenback.

The Euro appreciated +3.8% in December (-5.9% in 2022) to close its best quarter in two decades (+9.2% QoQ) amid a hawkish ECB Monetary Policy meeting and a mild weather to start the winter season **(Chart 8)**.

The Japanese Yen appreciated against the dollar for the second consecutive month for the first time in two years, up 6% (-14% in 2022). The Yen rebounded as the Bank of Japan announced a raft of unscheduled bond purchases by widening the band in which it would allow rates for 10-Year JGB to move to -/+ 0.5% from -/+ 0.25% previously, driving a substantial carry trade unwinding where JPY has been the funding currency **(Chart 9)**.

Chart 5. US 10-2 Treasury Spread (Monthly)

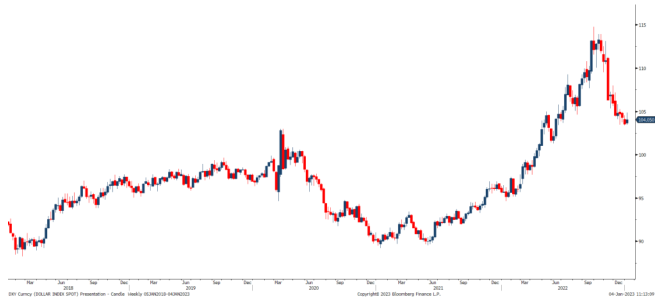


Source. Bloomberg, MAM Research

Chart 6. German 10-Year Bunds Yield

Source. Bloomberg, MAM Research

Chart 7. US Dollar Index (Weekly)



Source. Bloomberg, MAM Research

Chart 8. USD/Euro Spot Exchange Rate (Monthly)

Source. Bloomberg, MAM Research

Chart 9. USD/JPY Sport Exchange Rate (Monthly)

Source. Bloomberg, MAM Research

Commodities

Broad commodities were down -2.5% MoM (+16.1% annually). Gains in precious and industrial metals did not manage to offset the declines in energy prices.

Natural gas was the worst performing asset this month, down -35.4% (+20% in 2022) amid a weaker heating demand outlook caused by mild weather forecasts **(Chart 10)**. European replenished inventories and milder temperature forecasts in the US, China, and Europe all point to a diminished competition for liquefied natural gas cargoes. Meanwhile, global growth concerns continue to weigh down on crude oil, down 40bps in December, although SPR refills will continue to provide a floor near the $70 level **(Chart 11)**.

After months of underperformance, industrials caught a bid on China progressively re-opening its economy while maintaining accommodative fiscal and monetary policies. Industrials were up 2.2% MoM (-2.4% annually). Nickel jumped +11.2% and copper closed up +2.2%.

Precious metals (in dollar terms) posted strong monthly gains, up +5.7% (+0.1% yearly). Gold has benefited from a decline in inflation rates and expectations of a slower pace of rate hikes, up +4.1% MoM **(Chart 12)**. Silver printed its fourth consecutive monthly gain, up +10.5% to end the year in positive territory (+2.7% in 2022).

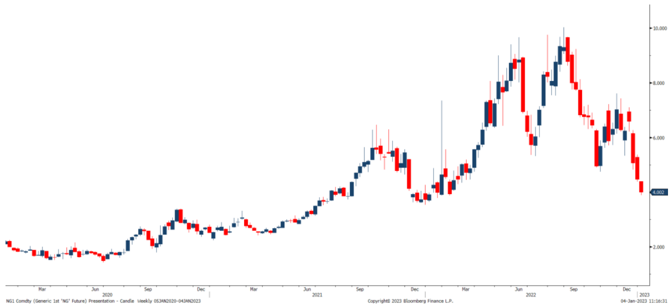
Emerging Markets

Although down -1.4% MoM (-20.1% in 2022) EM equities outperformed for the second consecutive month **(Chart 13)**. The rebound in Chinese assets as well as weaker dollar were supportive to the region in aggregate. Chinese stock markets rose, up +5.2% as Beijing's rapid easing of coronavirus pandemic restrictions bolstered investor sentiment despite weaker economic data. Retail sales declined by 5.9% in November, while industrial production rose 2.2% YoY, marking the softest growth since May.

Turkish equities climbed higher for the third straight month, up 8% MoM in USD (+90.4% YTD) as investors continue to revert to equities to hedge (partially) against inflation. Argentina is suffering from similar woes a rampant inflation (92% YoY) sent the Argentinian Pesos plunging for the 36th consecutive month, forcing investors to find refuge in equities markets. In USD terms, Argentinian equities closed the month up +12.6%.

The JPM Emerging Market Currency index fell -0.8% MoM to close the year down -5.1%, it's fifth consecutive annual decline **(Chart 14)**. The Brazilian Real was down -0.7% (+5.1% annually) while the Chinese Renminbi rebounded against the dollar amid the country's reopening, up +2.5% (-8.7% on the year).

Chart 10. Natural Gas Continuous Futures (Weekly)



Source. Bloomberg, MAM Research

Chart 11. WTI Crude Oil Continuous Futures (Weekly)

Source. Bloomberg, MAM Research

Chart 12. Gold Spot (Weekly)

Source. Bloomberg, MAM Research

Chart 13. MSCI EM Index (Weekly)

Source. Bloomberg, MAM Research

Chart 14. MSCI EM FX Index (Weekly)

Source. Bloomberg, MAM Research

Disclaimer

This document has been prepared by Monaco Asset Management (MAM). It gives a general overview of the strategies proposed by MAM.

This document is confidential and is intended solely for the recipient and may not be duplicated, distributed or published either in electronic or any other form without the prior written consent of MAM.

This document has not been reviewed or approved by any regulatory authority. It is not a personal recommendation. It is for your information only and is not intended as an offer, solicitation of an offer, public advertisement or recommendation to buy or sell any investment or other specific product. Its content has been prepared by our staff and is based on sources of information we consider to be reliable. However, we cannot provide any undertaking or guarantee as to it being correct, complete and up to date. The circumstances and principles to which the information contained in this publication relates may change at any time. Once published, therefore, information shall not be understood as implying that no change has taken place since its publication or that is still up to date. Furthermore, MAM is not under obligation to update the information contained in this document.

The information in this document does not constitute an aid for decision-making in relation to financial, legal, tax or other consulting matters, nor should any investment or other decision be made on the basis of this information alone. All recipients of this document are urged to carry out their own due diligence into any investment opportunity. They should form their own assessment and take independent professional advice on the merits of investment and the legal, regulatory, tax and investment consequences and risks of so doing.

We do not guarantee the accuracy or completeness of information which is contained in this document that may have been obtained from or is based upon trade and statistical services or other third party sources.

We disclaim without qualification all liability for any loss or damage of any kind, whether direct or indirect, which may be incurred through the use of this publication.

The above information concern this document and any associated documentation, including the e-mail or cover letter.

MAM is registered with the Monaco Chamber of Commerce and Industry under the number 99S03612 and is approved by the Commission for the Control of Financial Activities under number SAF/99-03.