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Wealth Management

MARKET PERSPECTIVE | DECEMBER 2022

The economic mist clears

Foreword

We've noted often how markets can seem callously indifferent to wider humanitarian concerns, focusing narrowly on the bottom lines of expected profitability and interest rates. But for the first time perhaps since Presidents Reagan and Gorbachev took their walk in the woods, the world got materially more dangerous in 2022. Today's superpowers are facing off, and as we look to 2023, geopolitical risk is too big for markets to ignore.

The attrition in Ukraine is grim enough, but seems containable. Looking beyond the winter, the world can do without Russia's energy, and the conflict itself has not escalated as it could have. But economic or (heaven forbid) military tension around China's claim on Taiwan poses risk of a different order of magnitude – for us, the most daunting component of today's unusually large wall of worry.

China will never give up on its claim, and the US seems incapable of nuance in addressing it. And because China matters to the world in a way that Russia doesn't, sanctions in this context effectively represent what a colleague terms Mutually Assured *Economic* Destruction.

Meanwhile, extrapolating President Xi's apparent covid climbdown into a more profound reversal of state control seems fanciful. Liberal democracy may still be the only long-run game in town – we never bought the idea of the end of "The End of History" – but that run could be very long indeed.

The good (constructive?) news however is that China knows the stakes, and – unlike Russia – usually pursues its own best interests. We think it will remain patient: non-negotiable does not mean imminently actionable. Tensions may stay high, but need not ratchet up further. And there can be – there was – business as usual even in a MAD world.

This still leaves us facing the more familiar but pressing cyclical question of whether inflation can subside without an economic slump. But here the mists may be clearing, and we continue to think it can. We offer our reasoning below, together with our usual inflation round-up – and a review of COP27, where the mix of mitigation and adaptation in the collective response to climate change continues to evolve.

We wish readers a peaceful Christmas and New Year.

Kevin Gardiner / Victor Balfour / Anthony Abrahamian
Global Investment Strategists

14 December 2022

Image sources: Swiss francs
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SLUMP: NOT NEEDED, NOT LIKELY?

How weak do economies have to be to bring inflation down? It does look as if US and European inflation is peaking: see below. But the jury is still out on how big an economic setback is needed to make sure it falls far and fast enough for central banks to stop raising interest rates in 2023 – and for investors to relax, on this count at least.

As yet, the US and European economies have mostly continued to grow, and unemployment remains historically low. (China is ploughing a different cyclical furrow – it doesn't have much inflation, but it does have ongoing real estate and covid-management issues, and its higher trend rate of growth has been fading – that said, it has also expanded, and firmly, in 2022.)

Business surveys point to further western slowdown in the New Year, however, and recession – a period of falling, not just slowing, GDP – is still a risk on both sides of the Atlantic.

As we see it, the key issue has been not whether recession will/won't occur – it may be too close to call – but instead whether we face a more serious downturn, bigger than the "typical" recession, of the sort so widely predicted since the spring. We think such a slump is neither necessary nor likely. Slack can be created in several ways – and they are not all equally painful.

TODAY'S INFLATION: WEAK SUPPLY, STRONG DEMAND...

Inflation usually reflects an imbalance between the drivers of aggregate supply and aggregate demand. Specifically, an excess of vibrant demand over constrained supply. It should subside when the drivers of supply revive, and/or the forces boosting demand fade.

Frustratingly, we can't measure the exact excess with any precision, and we often use divergences of output from trend, and rates of change, as guides to it. So while we tell the inflation story theoretically in terms of levels of activity, we often track it practically in terms of *rates of change*.

Both sides of the economy have been misbehaving of late. Today's inflation surge reflects a mix of post-pandemic supply bottlenecks, augmented by the surging energy costs and disruption which followed Russia's attack on Ukraine; and resurgent aggregate demand, amplified by careless monetary policy (needlessly generous interest rates and liquidity provision).

... AND SUPPLY CAN IMPROVE, EVEN AS DEMAND WEAKENS

Looking ahead, if revived supply factors play a role alongside fading demand in bringing inflation down, the chances of the economy shrinking significantly, of a big economic setback, are smaller.

Supply is the laggard when inflation is rising, and if the excess demand – or the excess of the *rate of growth* of demand over the *rate of growth* of supply – is reduced by the laggard catching up, as it were, then output is less likely to slow or fall. The pressure of demand will fall, and spare capacity or slack will grow – but because normal capacity is rising, not just because the demand placed on that capacity is falling.

Apologies for labouring the point (and mixing the metaphor), but it's a bit like the gap between two runners in a race. The gap can narrow if the second-placed runner catches up, in which case their average speed rises, or by the leader slowing down, in which case it falls. If the front runner slows and the laggard speeds up, their average speed is unchanged.

We are of course cutting lots of corners with this account, and as we have noted very many times, it is one thing to say confidently that inflation reflects an excess pressure of demand – "too much money chasing too few goods" – and quite another to say that we can track, predict or fine tune it with any great confidence. Central bankers take note!

To date, most of the supply squeeze has reflected higher commodity and goods prices, and many of the former have started to reverse (as they often do, eventually). Logistical problems have also eased – freight costs, port congestion – and if China is indeed relaxing its anti-virus controls, they may be about to ease further.

Increasingly, however, it is labour shortages which seem to pose the major supply constraint – and because labour is the primary input to production, even in manufacturing, this is where much of the underlying or long-term inflation battle will be fought.

A MORE FLEXIBLE LABOUR MARKET...

The labour market may not be quite as tight as it appears, however. Some sectors – including distribution, transport, hotels, catering and entertainment – are struggling, and doing so seemingly across much of the developed world (that is, not just in the post-Brexit UK), but many others are in better shape. Some shortages may be structural, and reflect evolving business models and relative wage costs, rather than cyclical.

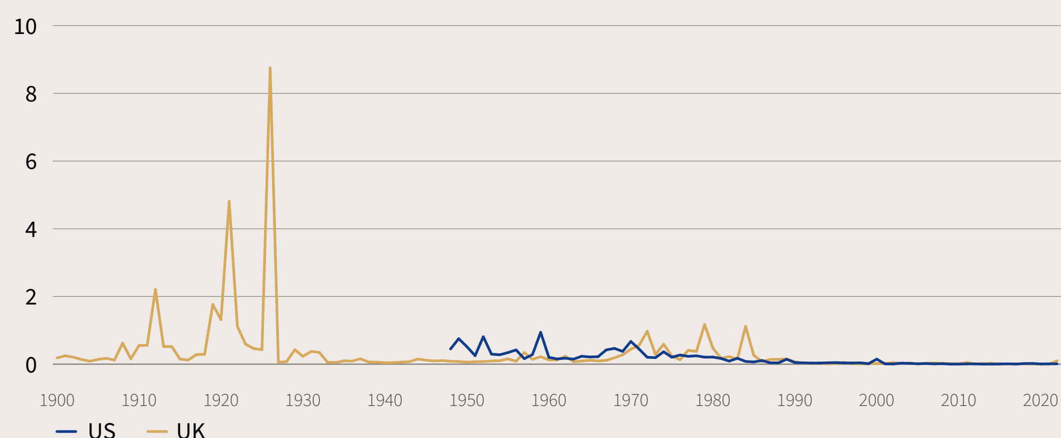
How can we suggest the labour market may not be that tight when industrial unrest is seemingly spreading as it is? Because the strikes we are seeing currently are still not yet that widespread – they remain largely confined to public services, and are sporadic rather than continuous. Historically, the number of working days lost to disputes, though much higher than we've seen in recent years, is small when set alongside the routine stoppages of the 1970s, when wage-price spirals were last a reality (figure1).

And today's strikes are largely defensive. Here in the UK – no stranger to industrial unrest historically – average real wages have already fallen by more than they did in the entire 1970s. Wages then were leading inflation higher – real pay was trending upwards – whereas today it is lagging.

This shouldn't really be a surprise: after all, if wages really were rampant now, there wouldn't be "the cost of living crisis".

FIGURE 1: INDUSTRIAL DISPUTES

Annual working days lost per year per employee in the US and UK



Source: Refinitiv Datastream, US Bureau of Labor Statistics, Bank of England, UK Office for National Statistics, Rothschild & Co
Note: US data to November 2022. The UK estimate for 2022 is an annualised figure based on the available June-September data (and assuming a further big increase in Q4).

Again, there may be structural factors at play. Here in the UK, nurses may not have been paid adequately to begin with, even before inflation cut their real pay. But the striking thing about the wider developed world labour market so far is how quiescent it has been.

Perhaps we collectively recognise that the main hit to real incomes has been outside our control – namely the weaker terms of trade delivered by surging energy costs (that said, as we write, real oil prices are back below a 10-year trend, and European natural gas prices are still significantly below August's highs, even as the temperature drops…).

Maybe too it is just a matter of time, and a more dramatic surge in pay claims lies just around the corner. But something else which lies just around the corner is a likely decline in headline inflation as those base effects from commodity prices drop out. It is not far-fetched to suggest that in the second half of 2023, pay may indeed be growing again in real terms – but passively, as consumer price growth dips below wage growth.

In the meantime, the fall in real pay may itself be supporting employment and activity. As we noted in November, there is more "wiggle room" in economies than pundits like to suggest: real pay and spending, for example, often travel in different directions.

There are several reasons why today's labour markets might be more flexible, including: their less collectivised nature; structural reforms across many European countries; the introduction of China's workers to the global supply pool; the changed nature of production; and, most recently, altered working practices. And one of the reasons we have had such historically low unemployment rates recently may have been that flexibility. The effective supply curve of labour may have shifted to the right, almost as if labour has implicitly traded its bargaining power for more secure employment.

… AND A FESTIVE FAIRY TALE

By contrast, a recent UK broadsheet headline suggested that labour supply has recently fallen significantly: "The missing millions: where have Britain's workers gone?" (*The Times*, 3rd December) – calling to mind perhaps the festive fable of the elves and the shoemaker. The assertion was that there has been a sudden and significant drop in the workforce since the pandemic.

The data show that reported long-term illness has risen – as has the number of people opting for further/higher education and training. "Activity" or participation rates have indeed fallen.

But they have not fallen far. UK working-age participation rates in fact touched an all-time high just before the pandemic, and are still firmly in the upper half of the long-term historical range. The number of "missing" workers seems to be not "millions", but roughly half a million. In the US, a similar fall in participation has begun to rebound.

In the original fairy tale, of course, the shoemaker continued to prosper even after the elves had left.

Finally, another less-visible factor is boosting capacity: ongoing growth in productivity, as we move up the learning curve and innovate. It has become fashionable of late to suggest that such things no longer happen, but they do, and the developed world economy's productive potential likely continues to grow. Again, all other things being equal, this might reduce the aggregate demand/supply imbalance – and the amount by which output might otherwise need to fall.

INTEREST RATES: WE'RE NEARLY THERE NOW

None of this is to suggest that central banks were right to take such monetary risks. They weren't. That said, having realised their mistake they have been quickly normalising rates during 2022: money markets have travelled a long way.

The banks are not quite done yet (we write with the next policy meetings imminent), but expected policy rates in 2023 are back at "old normal" levels (figure 2) – which looks appropriate to us, even if wages do stay relatively passive. We see rates staying there for longer than the money markets do (again, even if wage growth starts to slow) as the chastened central banks rebuild their credibility. This leaves longer-dated real interest rates in particular looking still a little low to us, especially after bonds' recent rally (figure 3) – but no longer outlandishly so.

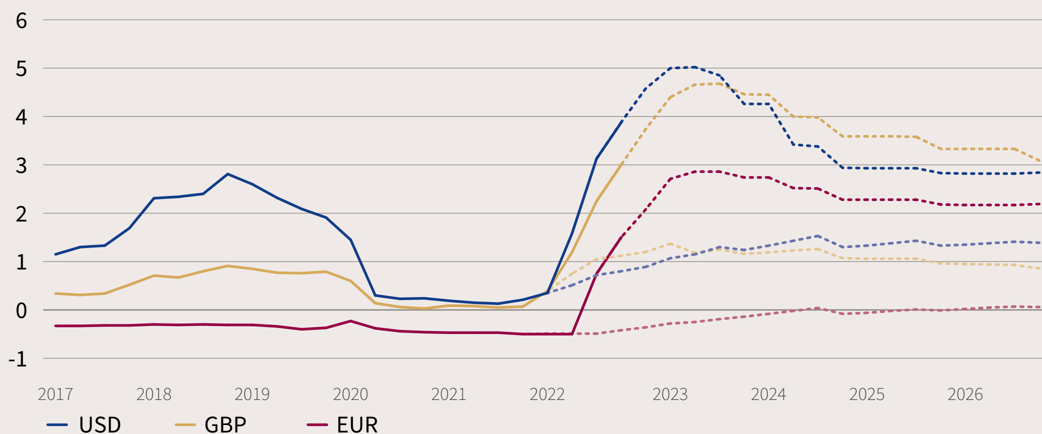
Flexible labour markets and productivity growth have not stopped rates from normalising, but they may be helping to reduce the risk of monetary overkill – now perhaps the main threat to economic growth, as that terms of trade hit is being muted by governments, and energy supply seems likely to improve through 2023 – by doing their bit to reduce the aggregate demand/supply imbalance.

INVESTMENT CONCLUSION

None of this is intended to suggest that households and businesses will not face a difficult winter. Many small businesses have closed already. But our focus here has to be on the aggregates and averages that drive capital markets and portfolios. And as we move through 2023, central bankers and investors may begin to relax (at least on the economic front: we still have that geopolitical elephant in the room of course).

FIGURE 2: POLICY INTEREST RATES

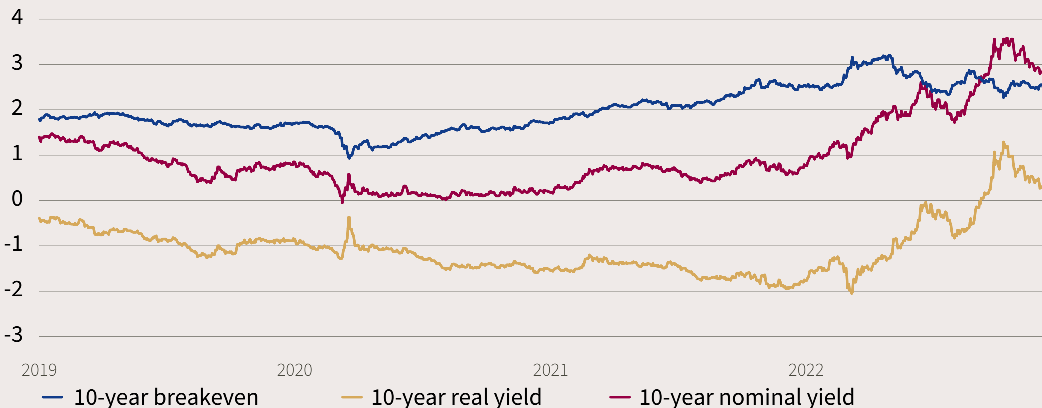
Actual and market-implied rates: Fed, ECB, BoE (%)



Source: Bloomberg, Rothschild & Co
Note: Dotted lines are market-implied rate expectations. Bolder series are latest figures, transparent series are January figures. Derived from OIS curves (three-month tenor: USD – SOFR; GBP – SONIA; EUR – ESTR).

FIGURE 3: COMPOSITE 10-YEAR BOND YIELDS (US, GE, UK)

Nominal and real yields, and implied inflation (%)



Source: Bloomberg, Rothschild & Co
Note: UK real yield and breakeven data have been CPI-adjusted, given that they are normally quoted on an RPI basis

In November we saw the main investment question as being when to buy, not when to sell. Stock valuations were close to trend, and even bonds were looking less expensive than for many years. We advised waiting for residual interest rate and earnings risk to be priced in (figure 4). We offered a checklist of possible catalysts to look out for as we waited to advocate reinvestment.

Top of that list was a turning point in core inflation – and one seems to have appeared with the US October and now November CPIs. But two months' data are not yet decisive, and there had already been rallies in both bonds and stocks: we have continued to advocate waiting. Maybe we are being overly tactical – we have after all written often about how difficult it can be to accurately "time" markets – but despite our own constructive economic views, we still suspect we haven't seen the end of market volatility just yet.

Yes, we may be nearly there now – but still, we get there when we get there.

UK FISCAL POSTSCRIPT: A LESSON IN NOISE

In November we devoted quite a bit of space to talking about the UK. It represents only a small portion of most global portfolios, but in recent weeks it had been punching above its weight volatility-wise.

A richness of political and fiscal embarrassments had hit the gilt market hard, and unsettled the currency. There was talk of a new era of "austerity" to make good the damage, and to reduce a "moron premium" on yields.

In the event, even though the Autumn Statement containing the new "new" administration's fiscal projections actually confirmed a significant net *loosening* of fiscal stance in the two years running up to the next election (likely in January 2025), the moron premium had by then already been priced out, and remains so as we write.

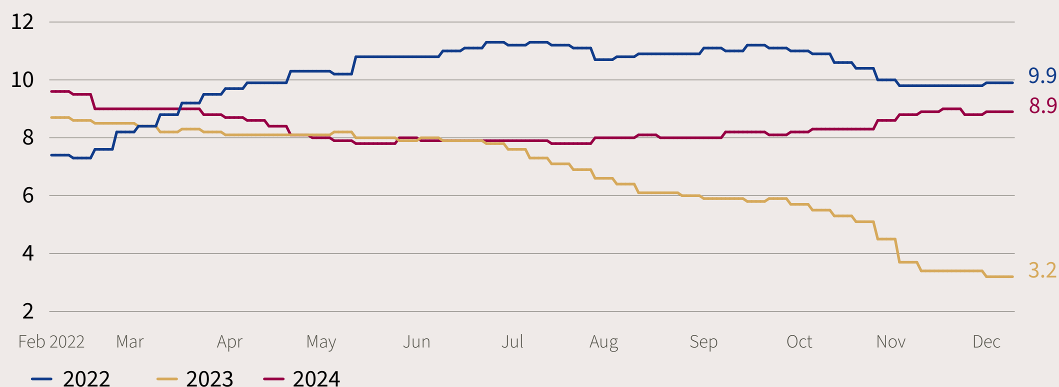
Arguably, the rally in long-dated gilts since late September has been genuinely sensational – as has the rebound in the sterling/dollar exchange rate (partly attributable, as was the earlier fall, to the dollar, not the pound). Of course, the rebounds attracted much less media attention than the declines did – that's how the news industry works.

As we suggested at the time, the establishment response to the Truss proposals – incoherent, divisive and poorly presented though they were – was as embarrassing as the package itself. The UK economy had not been "crashed", its prospective relative performance did not look to be significantly out of line with the EU's, and its government remained highly creditworthy.

We carry no torch for either of the big parties, but two things strike us. If, as Harold Wilson said, a week is a long time in politics, what might two years be? And one of the most potent drivers of perceived well-being is not how things are, but how they feel compared to how they felt previously. We note that the peak in energy costs, and the low point in real incomes, will likely occur this winter.

FIGURE 4: EXPECTED CORPORATE EARNINGS

Evolving consensus expectations for growth in earnings per share (%, USD terms)



Source: Rothschild & Co, Refinitiv Datastream, IBES

Inflation update

As noted, inflation developments will continue to be watched closely in 2023. Promisingly, global pressures may be subsiding.

Supply chain stress – a major contributor to goods price inflation – has continued to moderate. The New York Fed's Global Supply Chain Pressure Index has recently declined to more "normal" territory, though not in a straight line (figure 5). This may partly be explained by slowing demand, but supply has also returned online as manufacturing hubs have learnt to cope with covid over time. China's reopening process, albeit gradual, should help further to alleviate global supply issues going forward.

Commodity prices have also broadly rolled over, and a peak in headline inflation rates is likely at hand. Of course, some commodity prices remain at elevated levels – particularly food and European energy costs – but looming base effects are starting to play an important role: year-on-year growth in the UN Food and Agriculture Organization world food price index, for instance, is approaching zero (figure 6).

Of the major economies, the US has perhaps experienced the most noticeable improvement: the headline rate has moved lower for five consecutive months, falling to 7.1% in November (figure 7). Energy's contribution to headline CPI has been fading away – partly due to favourable base effects – and food prices have recently started to follow this path.

US core inflation (that is, excluding energy and food) has been stickier, but also appears to have peaked (figure 8). Goods price pressures have notably weakened over the past few months. Supply-side improvements and falling commodity prices have reduced firms' input costs (they now have less reason to pass on higher costs to consumers), while reopening economies have shifted consumer demand from goods to services.

Consequently, the trend in US services-related inflation has been firmer. Even there, however, the contribution from shelter – which accounts for roughly one-third of the entire inflation basket – should start to ease soon, given that it trails US house price growth by a year or so, and the latter started to slow noticeably slow some months back. The outlook for the services ex-shelter CPI is perhaps the most unclear – yet the level of that index actually fell very modestly in October and November.

FIGURE 5:SUPPLY CHAIN PRESSURES HAVE EASED

Standard deviations from average value

Source: Bloomberg, Federal Reserve Bank of New York, Rothschild & Co

FIGURE 6: GLOBAL FOOD PRICE GROWTH HAS SLOWED

Year-on-year change, %

Source: Bloomberg, UN Food and Agriculture Organization, Rothschild & Co

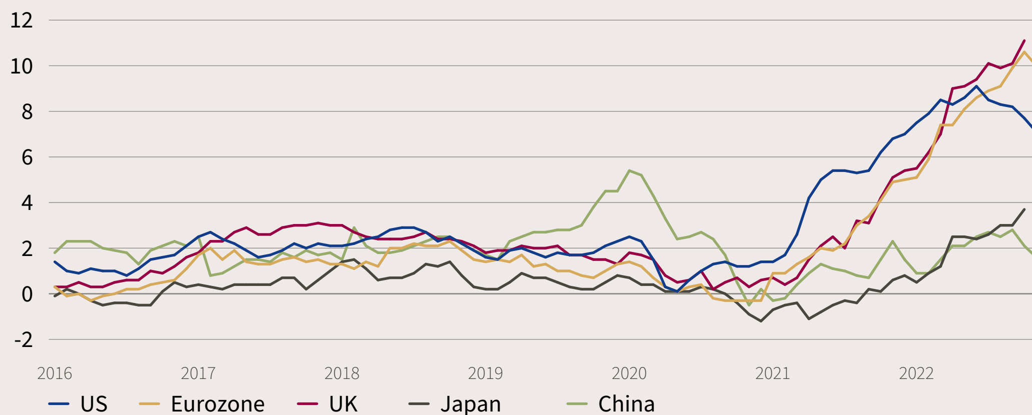
Europe's inflationary backdrop arguably seems more troubling. Headline inflation rates in the UK and euro area surpassed the US this year – reaching double-digits – after Russia's invasion of Ukraine propelled natural gas prices higher. Weaker currencies vis-à-vis the US dollar did not help either.

That said, even in Europe we may have passed the worst of energy-related inflation. While European natural gas prices remain higher than pre-pandemic levels, they are now well below their year-to-date highs (around 50–60% below their summer peaks, at the time of writing). Moreover, it's difficult to see these gas prices rising materially from here:

- Europe is no longer importing much natural gas from Russia: imports are around two-thirds lower than at the start of the year, according to estimates from Bruegel.
- European countries have clearly economised, adapted and substituted away from Russian gas. Liquified natural gas (LNG) imports have risen significantly throughout this year.
- Governments have responded by implementing energy price caps across the continent. In turn, this has prevented headline inflation rates from blowing out further – particularly in the UK.
- Fortunately, this winter has been relatively warm *so far*, further reducing demand for energy (governments are also promoting energy efficiency). Even as temperatures drop in the coming months, European gas storage is relatively high for this time of the year.

FIGURE 7: HEADLINE INFLATION RATES

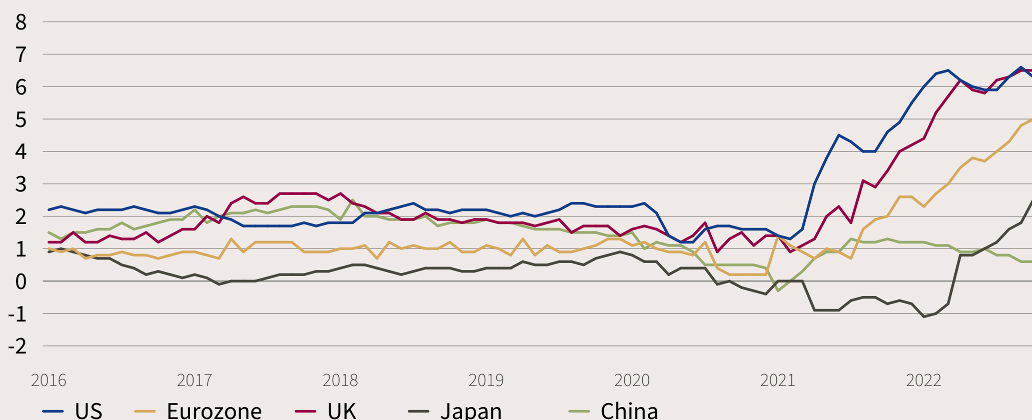
Year-on-year change, %



Source: Bloomberg, Rothschild & Co

FIGURE 8: CORE INFLATION RATES

Year-on-year change, %



Source: Bloomberg, Rothschild & Co

As a result, headline inflation rates may have already peaked in Europe: the euro area print rolled over in November, while the UK equivalent likely reached its summit this quarter.

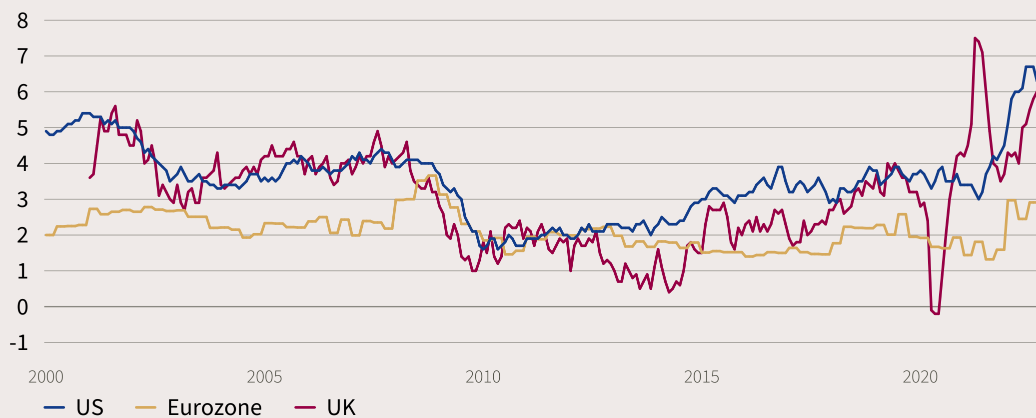
Inflationary pressures have been more muted in the major Asian economies. Japan has experienced above-trend inflation, but it is still "only" approaching 4%. China's weak and covid-interrupted growth has kept inflation unusually subdued this year: headline and core CPI rates have averaged roughly 2% and 1%, respectively.

In summary, headline inflation rates have started to turn lower across much of the world. Underlying inflation may subside more slowly as economies remain close to full employment and wages follow CPIs higher (figure 9), but as we note above, the upturn in wages is not as dramatic as it could have been, and labour supply may be more flexible than feared. There are few signs of the much-feared wage-price spiral: real wage growth remains firmly in negative territory in most major economies (figure 10), and labour markets are structurally more flexible than in the "stagflationary" 1970s.

We think it is unlikely that inflation will return sustainably to the widely-targeted 2% any time soon, but we still think both headline (briskly) and core (sluggishly) rates will decline through 2023 – and that interest rate and recession risk may be close to their peaks too.

FIGURE 9: NOMINAL WAGE GROWTH

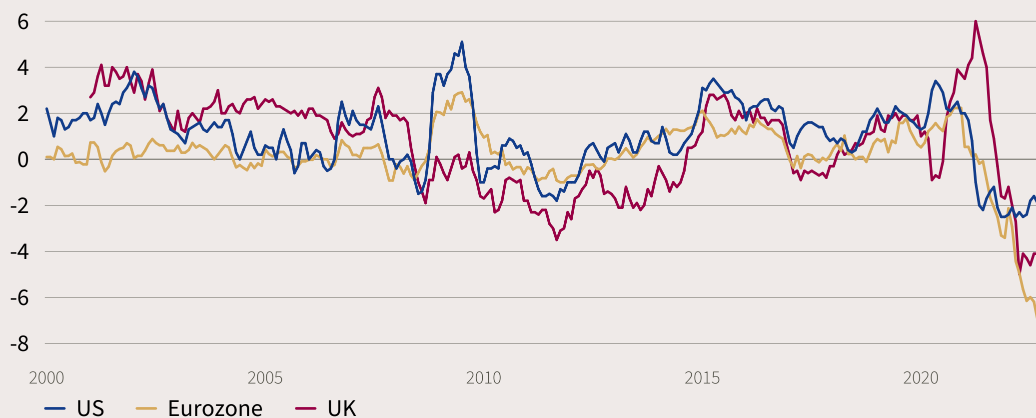
Year-on-year change, %



Source: Bloomberg, Federal Reserve Bank of Atlanta, European Central Bank, UK Office for National Statistics, Rothschild & Co

FIGURE 10: REAL WAGE GROWTH

Year-on-year change, %



Source: Bloomberg, Federal Reserve Bank of Atlanta, European Central Bank, UK Office for National Statistics, Rothschild & Co

Note: US series is the Atlanta Fed median wage growth tracker, eurozone series is the ECB's indicator of negotiated wages, and UK series is average weekly earnings ex bonuses. Real wage growth is nominal wage growth less headline inflation rates.

Good COP, bad COP

Heading into the 27th Conference of Parties in Egypt expectations were high. Food and energy markets have been upended by Russia's invasion of Ukraine, and with many commodity prices still significantly elevated – notably natural gas – the case for accelerating the shift to sustainable and self-sufficient practices has never been so strong.

The 11th hour deal saw several important initiatives agreed, but many participants left disappointed. Most conspicuous was the absence of new pledges to further phase out fossil fuel usage, despite it being billed as the 'Implementation COP'. There is little doubt that countries want to see further progress, but embracing change requires a different resolve. The lack of agreement over coal usage, in particular, highlights the conflicted position of many energy-consuming nations – such lofty goals may come with a high political price, especially in the current economic environment. Despite the urgings of the big, developed economies – including the US, Europe and the UK – it seems the 2015 Paris commitment to 'Keep 1.5°c Alive' is quietly fading away.

Yet these shortcomings shouldn't overshadow some important and constructive developments – including a 'loss and damages' fund, the recognition of the importance of 'adaptation', and the encouragement of greater private sector involvement.

Undoubtedly, the first of the three developments represented a milestone for vulnerable poorer countries. The long-awaited initiative will see the establishment of a fund to compensate for 'loss and damage' incurred by countries as a result of ongoing climate change. The details of this 'Adaptation Fund' – including its size, the donor countries and what exactly will constitute 'damage'– are yet to be fleshed out, but the subtext is clear: developed countries will be compensating developing countries for any damage. Crucially this new third pillar is not a form of 'reparation' – it is not intended to address past injustices or harm. Skirting the thorny issue of liability, this focuses on the *future* impact – for example, low-income countries might be compensated for embracing net zero earlier than would have otherwise been the case.

But this COP wasn't just about burden-sharing: the other important development was the promotion of 'adaptation' more broadly. This is usually seen as the inferior, less decisive cousin of 'mitigation' – which is centred on efforts to reduce carbon emissions, rather than adapting to their effect. This shift in emphasis is seen by some as a failure. Yet, given the volatile weather seemingly already with us – this year's extreme heatwaves and wildfires in Europe, record-breaking floods in Pakistan – there is recognition that we need to change our way of living to cope. This might include measures such as drought-tolerant crops; greater flood protection; more efficient and sustainable supply chains; or simply building and living less in harm's way. The reality is that even with 70 countries – reflecting three quarters of global greenhouse gas (GHG) emissions – targeting net zero by 2050, carbon emission will continue to grow over the coming decades, and adaptation is inevitable, not optional.

Another important but overlooked part of the climate discussion is how governments will engage and encourage the private sector in achieving carbon neutrality and beyond. This COP saw a significant number of companies and financial institutions attending (by historical standards), and attracting private capital will spur innovation, supporting both mitigation and adaptation. Equally important is mobilising sustainable finance in supporting green initiatives, whether through accelerating the transition away from GHGs or allowing the private sector to fill in where public financing simply doesn't exist.

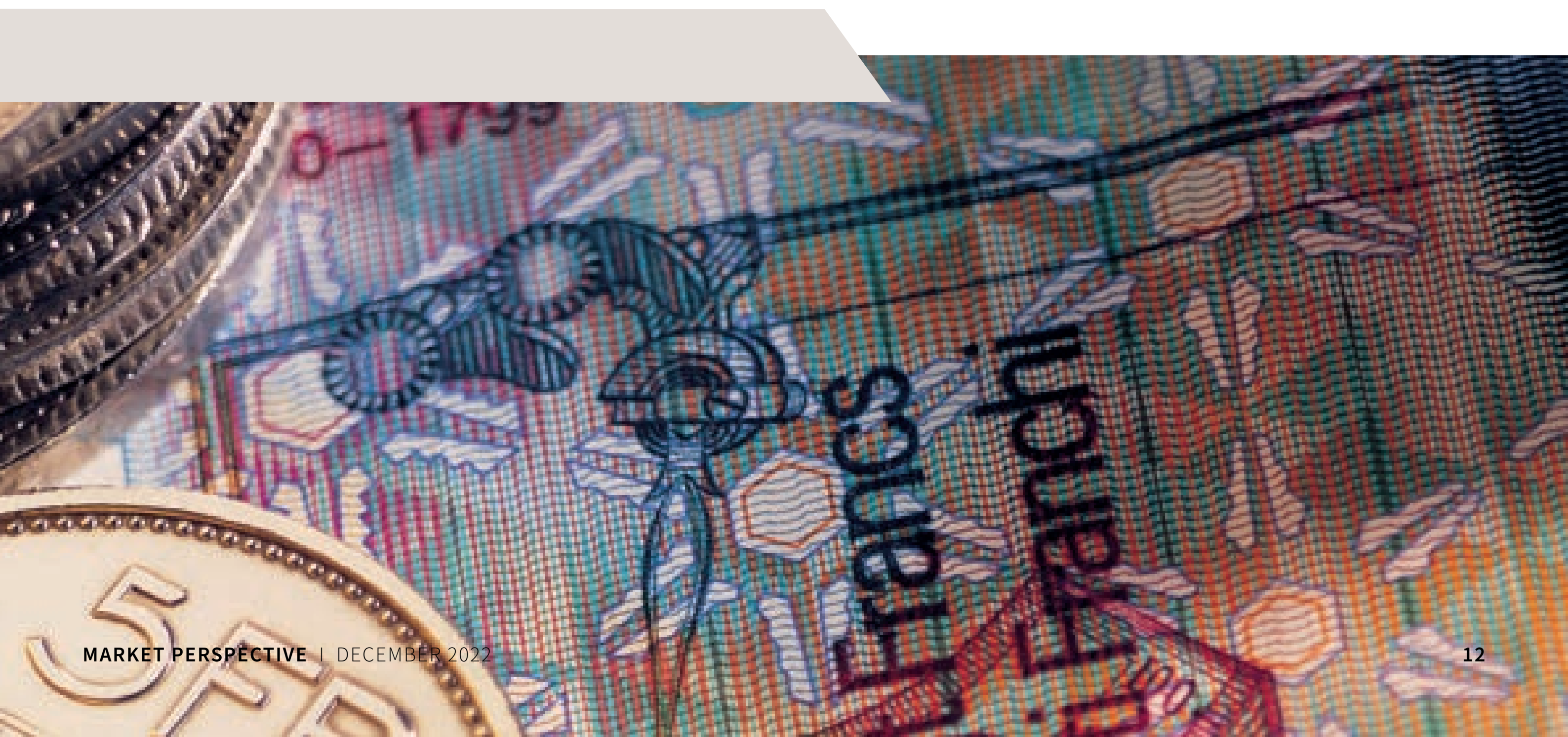
One positive innovation is the prospect of more regulation in the fast-growing carbon credit market - tradeable certificates that allow companies to emit a certain amount of carbon dioxide (or equivalent GHG). This is most pertinent within the larger, regulated 'compliance' market – where the government mandates maximum emissions for certain businesses - yet the smaller voluntary market is increasingly gaining traction. The latter enables environmentally conscious but non-regulated companies (and individuals) to achieve carbon neutrality. In recent

years this voluntary market has come under scrutiny for possible greenwashing and double counting. IOSCO, an association of global financial regulators, has put forward a number of recommendations, including possible regulation within the voluntary market, and measures to improve transparency and liquidity within the more established compliance market.

Looking ahead, the current energy squeeze can only accelerate decarbonisation efforts: even when prices subside, security of supply has been shown to be poor. But in the short term, paradoxically, there has been a shift back towards dirtier fuels and questionable suppliers: coal-fired power consumption is up 2% and the US is allowing Venezuelan oil back onto global markets. The development of further gas infrastructure to meet near-term supply needs also remains a questionable long-term strategy – assets risk being stranded. LNG is no panacea either – one estimate suggests that the extraction, transportation and liquification of methane makes it just as polluting as coal. There are some very visible hurdles in the near term.

Encouragingly, the commitments made at last year's COP 27 in Glasgow are slowly making their way into the statute books – some of the largest emitters have started to make good on these new pledges. Over the summer, the US Congress belatedly passed the 'Inflation Reduction Act' – a slimmed down 'Build Back Better' – which takes the US one step closer to its aim of cutting carbon emissions by 50% by 2030 (relative to 2005 levels). The European Commission is also following suit with various initiatives, including the new carbon border adjustment mechanism – a tariff on imports from carbon intensive industries that don't meet the EU's green standards.

The journey is really only just beginning, as noted, and this was not the implementation COP activists were hoping for. But it was far from a bad COP. Clearly, reduction (lower output of fossil-fuelled output) and substitution (using other forms of energy) are needed to achieve long-term emission objectives. However, for some countries (and industries within them) this may be impossible or uneconomical, even with compensation, and formally acknowledging the inevitable role that 'adaptation' will play is part of the long-term solution. At the same time, better incorporating the social cost of carbon emissions more fully into public decision-making by taxing fossil fuels more, and by facilitating and regulating the growth of emission trading, are steps in the right direction.



Economy and markets: background

GROWTH: MAJOR ECONOMIES

Business optimism: standard deviations from trend

Source: Bloomberg, Rothschild & Co
Composite of the forward-looking components of manufacturing surveys from China, Germany, Japan, UK and US loosely weighted by GDP

G7 INFLATION

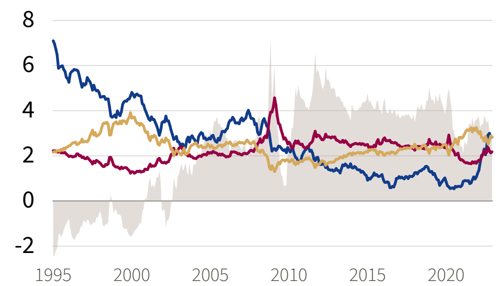
Year-on-year, %

Source: OECD, Bloomberg, Rothschild & Co

STOCKS/BONDS — RELATIVE RETURN INDEX (%)

Source: MSCI, Bank of America Merrill Lynch, Bloomberg, Rothschild & Co

STOCKS/BONDS — RELATIVE VALUATIONS



Source: MSCI, Bank of America Merrill Lynch, Bloomberg, Rothschild & Co

SELECTED BONDS

Current yields, recent local currency returns

	YIELD (%)	1YR (%)	3YR (%)
10-yr US Treasury	3.6	-13.6	-7.9
10-yr UK Gilt	3.2	-16.2	-14.3
10-yr German bund	1.9	-16.2	-15.7
10-yr Swiss Govt. bond	1.2	-9.9	-11.4
10-yr Japanese Govt. bond	0.3	-1.8	-1.6
Global credit: investment grade (USD)	3.5	-10.0	-5.7
Global credit: high yield (USD)	9.1	-10.0	-1.4
Emerging (USD)	7.4	-14.9	-9.8

Source: Bloomberg, Rothschild & Co

SELECTED STOCK MARKETS

Dividend yields, recent local currency returns (MSCI indices)

	YIELD (%)	1YR (%)	3YR (%)
World: all countries	2.3	-12.4	22.1
Developed	2.2	-12.1	24.6
Emerging	3.2	-15.1	5.0
US	1.7	-15.8	29.8
Eurozone	3.2	-7.9	10.1
UK	3.9	8.3	15.1
Switzerland	2.9	-13.0	8.5
Japan	2.6	0.4	23.4

Source: Bloomberg, Rothschild & Co

SELECTED EXCHANGE RATES

Trade-weighted indices, nominal (2000 = 100)

	LEVEL	1YR (%)	3YR (%)
US Dollar (USD)	117	7.1	6.8
Euro (EUR)	129	0.5	4.4
Yen (JPY)	76	-13.3	-18.2
Pound Sterling (GBP)	81	-0.3	1.2
Swiss Franc (CHF)	182	6.0	13.5
Chinese Yuan (CNY)	142	-1.5	10.1

Source: Bloomberg, Rothschild & Co

COMMODITIES AND VOLATILITY

	LEVEL	1YR (%)	3YR (%)
CRB spot index (1994 = 100)	269	19.2	47.3
Brent crude oil ($/b)	78	3.8	21.5
Gold ($/oz.)	1781	-0.1	21.2
Industrial metals (1991 = 100)	366	4.8	50.8
Implied stock volatility: VIX (%)	25	33.8	79.3
Implied bond volatility: MOVE (bps)	142	90.9	130.3

Source: Bloomberg, Rothschild & Co

Data correct as of 12 December 2022.

Past performance should not be taken as a guide to future performance.

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