

Monthly Market Summary

December 2021



Summary: A positive end to an eventful year for equities

After falling at the beginning of December, global stock markets recovered and closed the month with gains (4.0% in USD terms). Global IG bonds meanwhile lost 0.1% (in USD, unhedged). Key events included:

- Investors viewing the spread of Omicron as manageable despite restrictions;
- US stocks ending 2021 close to record highs and the FED signalling an end to its pandemic-era bond-purchasing programme by March 2022; as well as
- Robust economic data and further multi-decade highs in G7 inflation rates.

The second year of the Pandemic was characterized by gains for risky asset classes despite the familiar "wall of worry" from a challenging news backdrop. The MSCI World Index rose circa 19% and the S&P 500 some 29% against a backdrop of an historic Covid-19 vaccination campaign and a global economic recovery, but also rising inflation, global supply chain shortages and talk of central bank tapering asset purchase programmes and rising interest rates. The latter resulted in 10-year US Treasuries ending the year down 3.1% and 10-year German Bunds down 2.8% (in local currencies). During the year but with little global market impact, we saw a surge in retail trading – think GameStop - the rise and fall of special purpose acquisition companies (SPACS) and an increasingly crowded conversation around crypto currencies with the launch of the first US futures ETF on bitcoin. China meanwhile cracked down on its onshore education and tech sectors and saw the default of property developer Evergrande wipe out \$1tn of market capitalization. Turning to central banks, the Bank of England became the first G7 central bank to raise interest rates since March 2020. With rising inflation rates and strong economic recovery in 2021, more central banks are expected to follow this year. Finally, in commodity markets oil prices rebounded strongly from 2020 lows; a surge in natural gas prices further increased inflationary pressures across G7 economies, but gold ended down some -3.6% over the year.

US: Fed to tighten monetary policy; upturn in business activity

The Federal Reserve announced its plans to end its pandemic-era bond purchases in March, seemingly paving the way for higher interest rates in 2022, as policymakers voiced concerns over persistently high inflation against the backdrop of a steady recovery in the labour market. The IHS Market US Services PMI declined to 57.5, suggesting the upturn in business activity remained sharp as demand strengthened.

Europe: ECB emergency bond purchases; German business sentiment

The European Central Bank announced it will reduce the pace of its asset purchases in Q1 2022 and will wind down the €1.85tn PEPP scheme in March 2022, citing progress on economic recovery and reaching its medium-term inflation target. The Ifo Business Climate indicator for Germany fell for the sixth month to 94.7 points (Dec.21), the lowest since February and below market expectations of 95.3 as business morale in Europe's largest economy continued to deteriorate.

ROW: China's inflation accelerates; Japan's consumer prices rise

China's consumer price inflation accelerated to 2.3% in November 2021, up from 1.5% a month earlier. It was the highest rate since August 2020, due to seasonal rising demand, supply constraints, and sporadic COVID-19 outbreaks causing local lockdowns. Meanwhile, Japan's consumer prices rose 0.6% YoY (Nov.21). In both cases inflation rates remained well below Western levels, allowing China to trim its policy rates in response to slowing local growth even as Western rates prepare to rise.

Performance figures (as of 31/12/2021 in local currency)

Fixed Income	Yield	1W %	YTD %
US 10 Yr	1.51%	-0.3%	-3.1%
UK 10 Yr	0.97%	-1.1%	-4.9%
Swiss 10 Yr	-0.14%	-0.9%	-2.8%
German 10 Yr	-0.18%	-1.5%	-2.8%
Global IG (hdg \$)	1.86%	-0.1%	-0.8%
Global HY (hdg \$)	4.85%	1.6%	2.5%

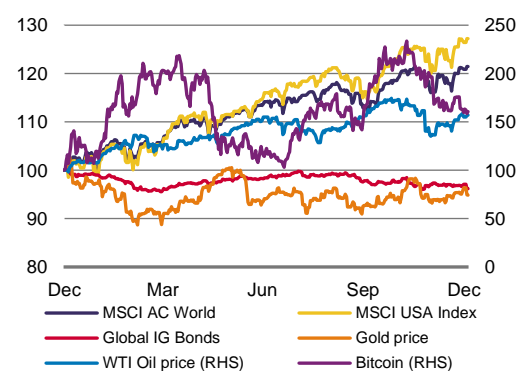
Equity Index	Level	1M %	YTD %
MSCI World (\$)	389	4.0%	18.5%
S&P 500	4,766	4.5%	28.7%
MSCI UK	12,897	4.8%	19.6%
SMI	12,876	5.9%	23.7%
Eurostoxx 50	4,298	5.8%	24.1%
DAX	15,885	5.2%	15.8%
CAC	7,153	6.5%	31.9%
Hang Seng	23,398	-0.3%	-11.8%
MSCI EM (\$)	608	1.9%	-2.5%

Currencies (trade-weighted, nominal)			
US Dollar		-0.9%	6.4%
Euro		-0.4%	-3.6%
Yen		-2.5%	-11.4%
Pound Sterling		1.2%	5.9%
Swiss Franc		0.2%	-1.1%
Chinese Yuan		-0.1%	5.1%

Commodities	Level	1M %	YTD %
Gold (\$/oz)	1,829	3.1%	-3.6%
Brent (\$/bl)	77.78	10.2%	50.2%
Copper (\$/t)	9,741	2.4%	25.7%

Source: Bloomberg, Rothschild & Co

Asset class performances in 2021 (in local currency)



Source: Bloomberg, Rothschild & Co; 31/12/2020 - 31/12/2021



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