Rothschild & Co
Wealth Management

MARKET PERSPECTIVE | FEBRUARY 2023

Growth fears overdone

Foreword

Amidst today's falling real incomes and economic fatalism, it is easy to forget that for a century or three, material living standards have trended higher. There is no reason why this should not resume.

Inflation is the tactical threat – via an energy-led loss of spending power in Europe, and via the tighter monetary policy helping to tackle it. But it is retreating – and not just because European gas prices have (unsurprisingly) slumped. Despite understandable unrest, and still-low unemployment, a 'wage-price spiral' looks unlikely.

Monetary tightening has yet to make itself fully felt – but even in the UK, a large majority of households do not face a big increase in mortgage costs this year. And if inflation is peaking, so is the risk of monetary overkill.

Perceived longer-term threats are not new. Economists from Malthus and Marx to Reinhart and Rogoff showed in theory why economies couldn't grow as they did in practice. The idea that there are no technological breakthroughs to come is presumptuous. Climate change certainly requires that we grow differently – but adaptation, alongside mitigation, will be a source of innovation and invention.

Despite earlier, post-GFC worries about "secular stagnation", 10-year GDP trends had rebounded, just before the pandemic, to historically respectable levels. We think something similar can happen now.

In this Market Perspective, we suggest that 2023 can be a less unhappy new year – not least because there are still few signs of the widely predicted big recession, and because our tracking of inflation continues to suggest it is indeed fading (though surely not disappearing). We ask whether it is time for eurozone stocks to outperform. And we outline why we think that currencies may warrant less attention in long-term portfolio design than they receive.

Kevin Gardiner / Victor Balfour / Anthony Abrahamian
Global Investment Strategists

Image sources: Euro banknote detail
© Gettyimages

Wealth Management
New Court
St. Swithin's Lane
London EC4N 8AL
+44 20 7280 5000
rothschildandco.com

© 2023 Rothschild & Co
Wealth Management

Publication date: February 2023.
Values: all data as at 8 February 2023,
text as at 13 February 2023.

Sources of charts and tables:
Rothschild & Co or Bloomberg
unless otherwise stated.

Growth fears overdone

INFLATION IS SUBSIDING…

We asked in December how weak economies have to be in order to bring inflation down. But inflation seems to be rolling over with (so far) only a relatively modest slowing in growth, a far cry from the significant fall in output – a big recession – widely said to be imminent through 2022.

We review the latest inflation data in the essay below. Here we note (again) that while it may be too late to describe this episode as 'transitory', it is way too early to call it 'permanent'. On a long-term view, it seems unlikely to represent a distinct sixth wave to add to the other five visible since the sixteenth century (figure 1 – a 'wave' here being a material rise in inflation's 10-year moving average above its trend beforehand).

This does not mean that both headline and core rates are about to fall quickly back to 2% targets and stay there: we note below that we think it will stick around 2–4% in coming years. But while this may keep bond markets and central banks on their toes, it may not greatly trouble historians.

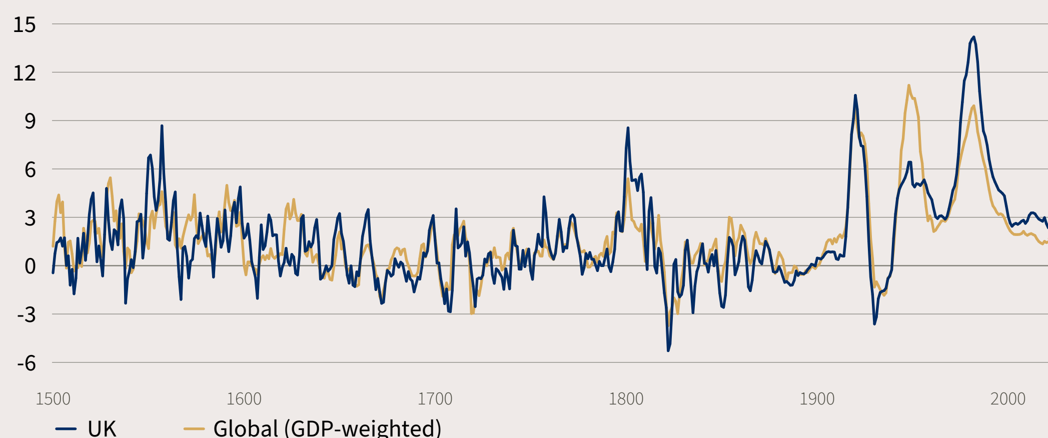
…EVEN WITH UNEMPLOYMENT LOW

Business surveys seem to be stabilising – led by China, and with the US unusually lagging – while labour markets still look tight. The IMF is slightly more optimistic about growth than it was; even the Bank of England sounds a bit less pessimistic. How can we seemingly be facing good news – or at the very least, less bad news – on both inflation and output at the same time?

This inflation episode has not only been driven by lax policy and rampant demand, but also by restrained supply. And if the latter improves while the former is restrained, the impact on economic activity is more muted than if demand management had to do all the work. Using the analogy we offered in December: if the front-runner (demand) in a race slows down, average speed declines; if the laggard (supply) catches up, it rises.

FIGURE 1: INFLATION – A HISTORY

Inflation since the sixteenth century (10-year averages, %)



Source: Bank of England, IMF, Rothschild & Co
Note: Dotted lines are from IMF WEO forecasts

A more flexible supply-side has been visible for some time in commodity prices, where food and energy costs peaked many months back, and in global shipping costs and logistics.

Meanwhile, labour supply may not be as rigid as it looks – the post-pandemic increase in inactivity rates is not that large, and in the case of the US, is half-reversed – and the implicit toleration of lower real wages might hint at a new social contract, in which greater real wage flexibility is accepted in exchange for more stable employment. Today's labour markets are very different to those of the 1970s – as we note below.

On this reading, the conventional view of labour markets has things back-to-front: real wages have not fallen despite the market being tight – the market looks tight because real wages have fallen. (Up to a point at least – real wages are likely to rebound somewhat as headline inflation slows this year: perhaps labour is just being patient.)

Most recently, China's abrupt ending of 'zero COVID' suggests an eventual further loosening of the bottlenecks that have constrained global supply chains since 2020. This assumes that more profound disruption to world trade is not triggered by China–US tensions – that China remains patient over Taiwan – which, as we noted in December, may be the most profound investment risk we face.

RISK OF MONETARY OVERKILL MAY HAVE FALLEN

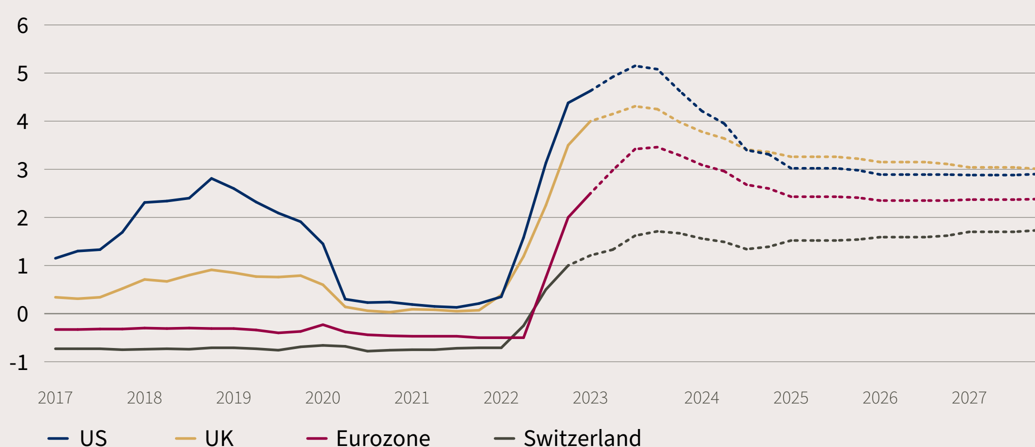
The big central banks have clearly signalled that they are not done raising rates just yet, and further increases are priced into money markets (figure 2). An overshoot even of these levels would not be a big surprise. And when they are done, we doubt that rates will start falling as quickly as the markets currently expect: we are thinking more in terms of a plateau than a peak, at least through 2023.

But if core inflation is peaking, and wage growth remains more passive than it might have been – whether because of an implicit bargain or simple workforce patience – then the chances of a significantly more aggressive monetary stance are likely falling. Central banks have to rebuild their credibility, as we have written here often, but if the inflation threat is fading, a more dramatic Volcker-style reset may not be needed.

As a result, having always felt that inflation has been the main economic risk we've faced, we are funnily enough now wondering whether – as often happens – the commentariat have swung the rhetorical pendulum too far in that direction.

FIGURE 2: INTEREST RATES: NEARLY THERE NOW?

Main policy rates and market expectations (%)



Source: Bloomberg, Rothschild & Co
Note: Derived from OIS curves (three-month tenor: USD – SOFR; GBP – SONIA; EUR – ESTR; CHF – CHF OIS)

This does not mean inflation will disappear, or return to the previous decade's norms: full employment may be an elastic concept, but we are surely closer to it than for many years. We doubt that inflation will sustainably return to target for some time to come, and see it settling in the 2–4% region in the next few years.

If prospective policy rates are indeed now in roughly the right ballpark, the impact of higher rates – when it is more fully felt – may not be large enough to cause the big economic setback so widely expected for most of the last year. As noted, supply may prove more flexible; aggregate demand may be less sensitive to nominal policy and mortgage rates than expected; and some other headwinds may turn into tailwinds (Europe's natural gas prices being an obvious candidate, figure 3).

INVESTMENT CONCLUSION: BREAKING THE GROWTH/RATES BIND

Collective investment thinking currently might be summarised as:

- What's good for growth is bad for interest rates.
- What's good for interest rates is bad for growth.

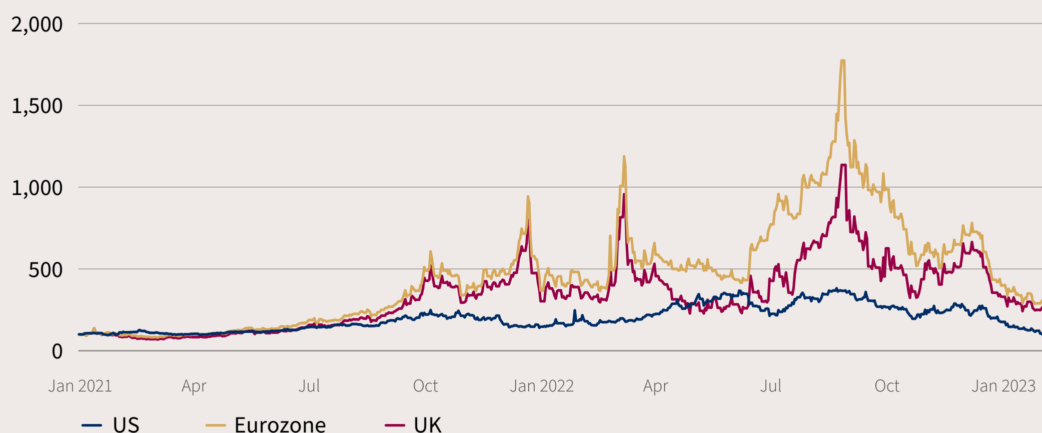
This is an either/or worldview in which it is hard to see how stock markets in particular – which require good news on both growth and rates – will make sustained progress. But there are other worlds, and in some of them a favourable growth and interest rate climate can coexist (and some in which both are bad – welcome to 2022).

Valuations are important in deciding which worldview prevails: reasonable valuations give markets more leeway. But so too is inflation – or, specifically, disinflation. Peaking nominal policy rates (arguably, plateauing real rates…) as inflation dwindled after 1981, in the context of economies which were still capable of growing, launched both bonds and stocks on lengthy bull runs. In a different context, a combination of sustained growth and low interest rates prevailed after the GFC too (see below). Something similar – on a much smaller scale we hasten to add! – is possible in the cycle ahead.

Possible, but perhaps not yet probable. Bonds are not cheap, especially in Europe (including the UK). Stocks are reasonable value, but alongside that residual interest rate (and bond yield) risk, we are not yet out of the cyclical woods for corporate profits. We still think it is too soon to be advocating a material increase in equity holdings, or a wholesale return to bonds.

But in each case the most likely question for 2023 as we see it is when to buy, not when to sell.

FIGURE 3: HEADWIND BECOMES A TAILWIND?
Wholesale natural gas prices (rebased indices, Jan 2021 = 100)



Source: Bloomberg, Rothschild & Co

POSTSCRIPT: GROWTH NEEDN'T DISAPPOINT...

After the Global Financial Crisis (GFC) we read that "the future ain't what it used to be" – that the longer-term outlook for growth had changed, and that the world faced "secular stagnation".

Debt, demography, deflation and other perceived obstacles seemed to many to promise a world in which growth was no longer feasible. The eminent US economist Robert Gordon suggested that we may simply have run out of things to invent.

This was premature (as Kevin wrote in his book, *Making Sense of Markets* in 2015). Growth had been unsustainably strong in the noughties, and once the GFC itself had dropped out of the data, moving averages of GDP growth rebounded to respectable levels (figure 4), even on a per capita basis, and in Europe (including the UK) as well as the US.

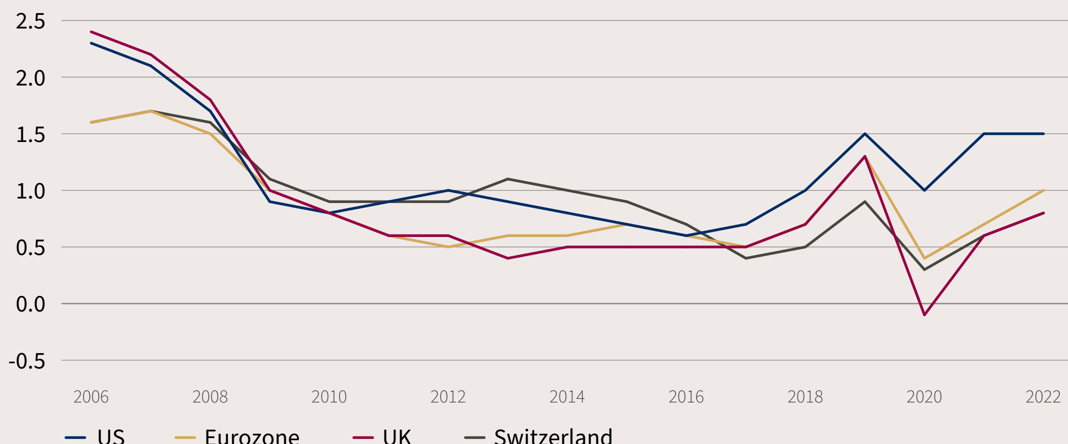
The earlier fatalism is back with a vengeance. We read not just that we face an imminent downturn, but that the chances of long-term growth are also slim.

Geopolitical risk is more visible – and troubling – than for many years, and together with climate change represents a more daunting prospect than the challenges pundits said we faced after the GFC. But neither of these necessarily means that growth must cease – not least because the global economy itself is evolving, and becoming more and more intangible as we consume more digital and service-sector content.

Growth can't continue forever. But the binding constraints on the size of what we label (and value) as economic output are elusive, and growth may be capable of lasting at least for the length of the typical investment horizon (or three).

FIGURE 4: TREND GROWTH REBOUNDED AFTER THE GFC

Real GDP per capita (10-year average, %)



Source: Refinitiv Datastream, Rothschild & Co
Note: based on annual data, with 2022 partly estimated

Inflation update: pressures fading

The inflation backdrop has continued to improve for most major economies: the US headline inflation rate has moved lower for six consecutive months, while European equivalents have also started to edge down, with the plunge in natural gas prices promising more to come. Core inflation rates – that is, excluding food and energy – are proving stickier, particularly in Europe, though there is still growing evidence that the global inflationary tide is ebbing.

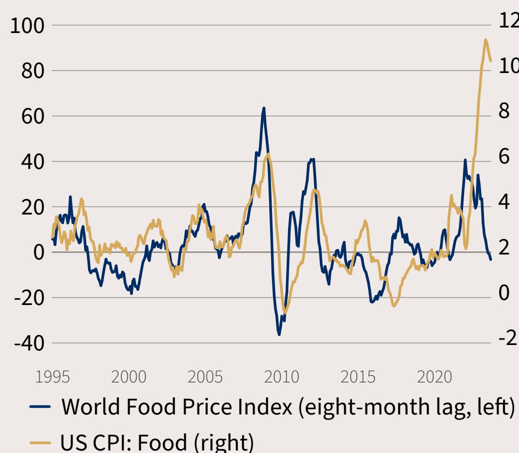
First, commodity prices have broadly moderated. Global food prices have been falling for almost a year (according to the UN FAO World Food Price Index), and the annual change in prices has been negative for a few months (figure 5). The price of food on supermarket shelves also includes processing and distribution costs, not just primary commodities – but as figure 5 shows, one would still expect individual countries' food CPI rates to also start declining towards zero in the coming months.

The energy price shock has also been abating. Oil prices (in US dollar terms) are down over the past 12 months; UK and eurozone natural gas benchmarks are both roughly 80% lower than their respective summer highs. On the latter, European governments have seemingly managed to adapt and substitute away from Russian supply: gas storage levels, for instance, are high for this time of the year (figure 6).

Europe may face a trickier backdrop next winter: it has admittedly been warmer than expected this year and gas imports from Russia are almost at a standstill. But on the longer timescale, substitution becomes more likely. Meanwhile, favourable base effects are likely to prevent a further blowout in energy CPI inflation, even if prices bounce.

FIGURE 5: GLOBAL FOOD PRICES HAVE CONTINUED TO FALL

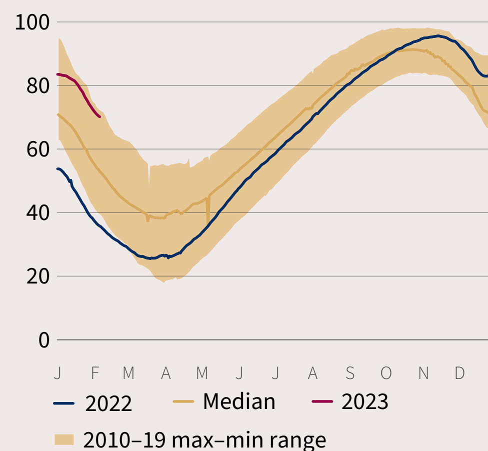
Year-on-year change (%)



Source: Food and Agriculture Organization of the United Nations, US Bureau of Labor Statistics, Refinitiv Datastream, Rothschild & Co

FIGURE 6: EUROPEAN GAS STORAGE LEVELS REMAIN HEALTHY

% of total capacity



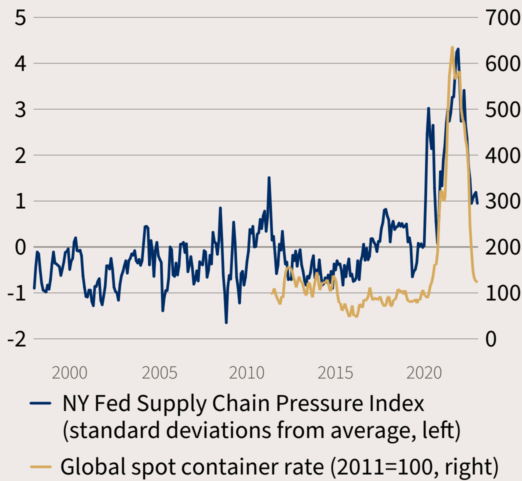
Source: Gas Infrastructure Europe – AGSI, Bloomberg, Rothschild & Co

Second, supply chain disruptions have continued to ease. Global container shipping costs have now returned to pre-pandemic territory, as demand has cooled off and supply has come back online (figure 7). The New York Fed's Global Supply Chain Pressure Index is also well below its peak, though remained above 'average' – likely a consequence of China's COVID-related restrictions.

China has reopened since then, which should provide more support to the supply-side of the world economy – it accounted for almost 15% of global goods exports in 2020, almost double the US (figure 8). Certain commodity prices, such as industrial metals, may also rise on the back of this reopening. Yet, the moves have been limited so far: the Bloomberg Industrial Metals Index has increased by less than 5% since December. Moreover, China's resurgent demand may not disrupt the *global* supply network too much, given that many consumer goods are produced there. The net effect from China reopening could ultimately be reduced goods-related CPI inflation in the US and in Europe.

FIGURE 7: SUPPLY CHAIN STRESSES ARE STILL EASING

Various metrics



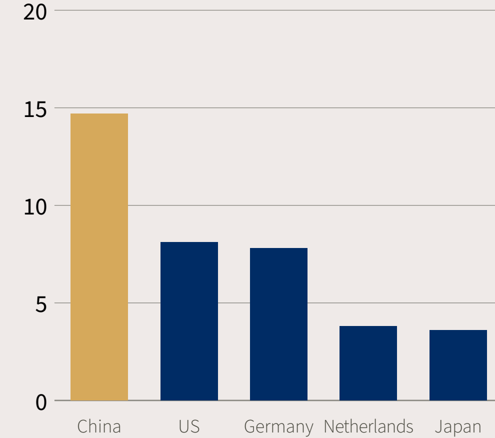
— NY Fed Supply Chain Pressure Index (standard deviations from average, left)

— Global spot container rate (2011=100, right)

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

FIGURE 8: CHINA DOMINATES GLOBAL TRADE

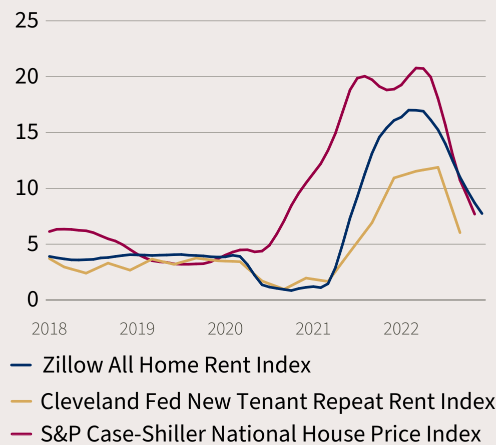
Share of global exports of goods (%, 2020)



Source: UNCTAD, Rothschild & Co

FIGURE 9: US RENT AND HOUSE PRICE GROWTH IS ROLLING OVER

Year-on-year change (%)



— Zillow All Home Rent Index

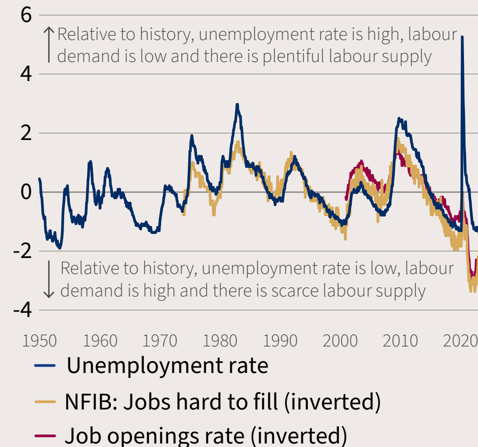
— Cleveland Fed New Tenant Repeat Rent Index

— S&P Case-Shiller National House Price Index

Source: Zillow, Federal Reserve Bank of Cleveland, S&P/Case-Shiller, Bloomberg, Rothschild & Co

FIGURE 10: ONLY TENTATIVE SIGNS OF US LABOUR MARKET SLACKNESS

Normalised z-scores



— Unemployment rate

— NFIB: Jobs hard to fill (inverted)

— Job openings rate (inverted)

Source: US Bureau of Labor Statistics, US NFIB, Bloomberg, Rothschild & Co

Third, in the US specifically, the impact of higher housing costs is set to fade. ‘Shelter’ prices – which account for roughly one-third of the entire US inflation basket – could finally ease as rent-related inflation rolls over further. Various metrics, including the retreat in mortgage rates (figure 9), will start to filter through. Measurement issues mean it can take some time for these observations to be reflected in the data (shelter CPI captures the *average* cost across the entire housing stock, rather than the *marginal* cost of someone moving house or renewing their lease).

Finally, tight labour markets arguably remain as the most unsettling part of the inflation equation. Unemployment rates are at historical lows in the US and Europe, while measures of labour demand and supply are only hinting at tentative signs of slackness (figure 10). Still, wage growth remains negative in real (inflation-adjusted) terms across most parts of the world, and nominal wage growth has even been turning lower in the US: as we note above, perhaps the western workforce is implicitly accepting more passive pay growth in exchange for more jobs?

Labour markets have experienced many structural changes over the years: unionisation rates are far lower, especially in the private (price-setting) sector; employers are better managers; the legal framework governing strikes is more restrictive; globalisation has boosted the pool of labour; the composition of output has changed hugely; and most recently, remote working has impacted working practices.

In summary, several global inflationary pressures have continued to subside, reinforcing our view that headline and core inflation rates should move lower over the course of this year. It is probably too soon to expect even a brief return to the widely targeted 2% in 2023 – particularly for the more sluggish core rates – but the direction of travel should be one of improvement, nonetheless.

A change of leadership?

The US-led business cycle – and the hegemony of its stock market – has been a feature of the global economy for much of the past three decades. We often note that it is the US cycle that matters most to global portfolios: it is the largest economy (in US dollar terms), and it has the most investable and largest capital markets – which continue to attract capital and inward investment (figure 11). It also provides, to its benefit, the global reserve currency, and the actions of the US Federal Reserve help set global risk-free interest rates.

Yet, that financial supremacy seemed to fade in late 2022, as market leadership rotated elsewhere. Is this poised to continue?

Over the past half century there have been large turning points in the relative stock market fortunes of non-US businesses, in much of the 1970s and 1980s, and in the noughties (figure 12). Much of the US' disappointing performance in these two periods reflects Japan's bubble-like ascent towards the end of the '80s (Japanese stocks subsequently fell 80% peak-to-trough and have still not recovered in price terms) and the unravelling of the frothy 'tech bubble' in the early noughties.

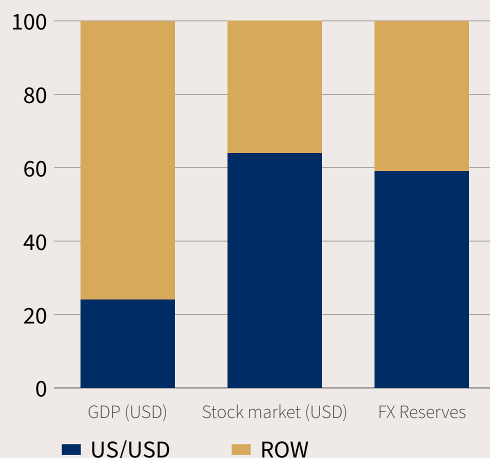
Comparing the US more narrowly against Europe, for example, suggested that the trend was more decidedly one way. As an investor, you tilted away from the US at your peril.

But if relative growth prospects are shifting and global risk appetite is building, and if we are poised to see a plateau-like 'higher for longer' interest rate regime, we might well see a shift away from the US – and its large weighting in 'Big Tech' and growth stocks – towards other international markets, at least cyclically if not secularly.

One potential beneficiary is the continental European market. Economic growth in the bloc still tends to lag the US, but forecasts for 2023 are being revised upwards and talk of a recession is fading, and more so than in the US of late. And if global growth reaccelerates – particularly if China's revival gathers pace – then Europe's internationally integrated and exporting businesses, and its cyclically tilted stock market, may stand to benefit most.

FIGURE 11: THE US'S DOMINANT GLOBAL POSITION

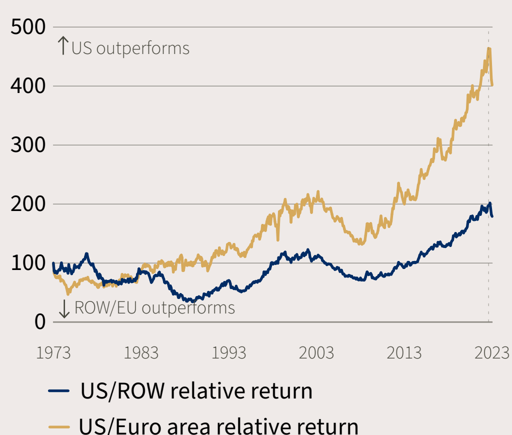
US relative to the rest of the world (%)



Source: Bloomberg, IMF, MSCI, Rothschild & Co

FIGURE 12: RELATIVE STOCK RETURNS (US VS REST OF THE WORLD)

Total return in USD, indexed (1973 = 100)



Source: Refinitiv Datastream, Bloomberg, Rothschild & Co

Valuations may encourage such a shift. The US is usually the more expensive market, reflecting its better long-term growth and profitability (trend return on equity is almost two-thirds as high in the US). The valuation gap has been unusually wide in recent years, though it has narrowed of late. Tactically, European corporate profits look resilient and forward estimates appear to be turning higher, while US earnings expectations appear to be plateauing (figure 13).

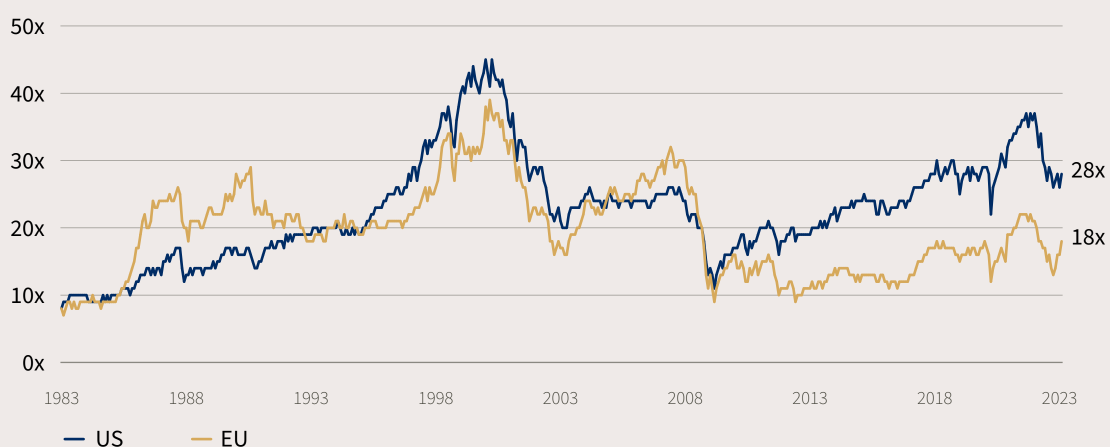
Though, as noted here often, valuation on its own is not a good short-term market timing tool. However, if markets are mean reverting, those wider than usual relative returns and relative valuations suggest Europe may have further to go.

Many of the factors driving relative stock market appeal also drive currencies, and sentiment towards the US dollar has turned down in recent months: the dollar's attraction is lowest when global risk appetite is stable and US growth seems mediocre – and the Fed may now be set to deliver fewer rate increases than the ECB. The euro's earlier weakness had made local businesses more competitive, reinforcing the idea that some shift in future growth prospects is underway.

It is too soon to say whether the eurozone will assume leadership of the next cycle, but the long-standing assumption that the US market has to drive stocks higher might be neutralised for the time being at least.

FIGURE 13: STOCK MARKET VALUATIONS

Cyclically adjusted price earnings (CAPE) ratios



Source: Refinitiv Datastream, Rothschild & Co

Foreign exchange and multi-asset portfolios: a macro view

EXCHANGE RATE RISK CAN ABSORB A LOT OF PORTFOLIO MANAGERS' TIME AND INGENUITY, OFTEN TO SEEMINGLY LITTLE END. HERE'S AN ATTEMPT TO CLARIFY THE TOP-DOWN ISSUES.

First, currencies are not distinct assets, but characteristics that assets have. To have exposure to them, we have to specify in what form we will hold them. We can't own 'sterling' any more than we can own 'blue'.

Whether currency exposures make assets more or less attractive depends on how we think they affect our portfolio's prospective home currency returns and volatility (the latter being a proxy for risk).

Most assets are denominated in a single currency, but their prices are nonetheless often influenced by others. The local prices of many stocks are indirectly affected by exchange rate-driven effects on import costs, foreign competitors' prices, overseas investments and so forth. To stretch the above analogy: there may be few primary colours in portfolios.

The exact currency exposure of stocks (that is, the bulk of a typical multi-asset portfolio) is unknown and unknowable. The reporting of sales and costs by geography, and of any forward (hedging) transactions in sales/purchases of foreign currency costs and receivables, is not mandatory. Even if it were, it would not help us much. Complete hedging of all relevant currencies would be a complex and expensive operation – and the influence of exchange rates on revenues and profits extends beyond the translation of invoices and into un-modellable changes in customer and supplier behaviour.

MEASURING THE IMPACT OF CURRENCY IS A CHALLENGE

If currency exposure cannot be precisely measured ex ante by even the most careful analysis of the underlying asset, nor can it be convincingly measured by ex post observation of how our portfolio correlates with specified exchange rates. Such correlations reflect things like global risk appetite, and perceptions of some currencies as being 'safer' than others – and these change over time, often unpredictably. The yen used to be seen as a safe haven.

Because it is an additional characteristic – to be considered alongside others such as security, duration and liquidity – the presumption is that currency exposure adds meaningfully to portfolio volatility. This is not always the case however: different assets have different levels of volatility to begin with, and/or are affected differently by exchange rates.

Any additional volatility introduced by assets denominated in foreign currency might offset some of the volatility in the initial portfolio. That additional volatility might itself be smaller than exchange rate movements alone might suggest.

US stock prices in dollars, for example, can be affected by changes in the value of the dollar (often, a stronger dollar will lead to lower US stock prices – and so result in smaller movements in US stock prices in sterling or euro terms, say, than in the respective exchange rates). It is even possible for initial local currency volatility to be reduced by exchange rate volatility.

FOREIGN EXCHANGE RATES CAN BE VOLATILE

Considered in isolation, exchange rates are 'usually' more volatile than local currency bonds (and cash and term deposits), but much less volatile than stocks. They are very visible, and highly newsworthy, though their lasting importance – to economies as well as portfolios – is often overstated. Currency movements are themselves more often effect than cause, being driven by the things that really matter to underlying performance.

Holdings of bonds and cash are perhaps closest to pure single-currency (primary colour) instruments, though some indirect effects exist even there – when import costs affect the inflation rates which drive monetary policy and bond yields, for example.

If we own such assets – bonds and cash – primarily for their stability, then owning them as foreign currency assets may make little sense. The overseas asset may yield more, but even if it is no more intrinsically risky than the home asset, it may carry additional currency risk. As noted, that risk may not always materialise – 'carry' was a successful strategy for managed foreign exchange funds in the noughties – but it is real.

The risk can be hedged, but only by paying away some of the extra yield in the futures markets (or by buying costly options). If the foreign asset yields less, hedging will itself generate additional return, bringing the yield closer to that on the home asset – but then why bother to begin with? This suggests the default position for bonds and deposits should usually be to hold them in the home currency.

Currency markets are liquid and transparent, and highly 'efficient' in the technical sense. Investment advisers cannot credibly claim to be able consistently to add value by taking views on the direction of exchange rates. As inflation and interest rates have converged, conviction has become scarcer still.

EVEN TAKING ADVANTAGE OF LONG-TERM TRENDS IS DIFFICULT

Trends can occur, as do occasional extremes of valuation. To successfully exploit the former requires expertise in high-frequency trading, and the absence of strongly held views about (among other things) valuation. To take advantage of the latter can require a commercially prohibitive amount of patience and an indifference to momentum.

The question for portfolios in the last half century has mostly been how best to position for some long-standing but episodic (that is, unpredictable in timing) directional tendencies – such as that of the pound to decline, and that of the franc to rise. For UK investors in global stocks, returns in sterling terms were bigger than those in overseas currency terms, while for Swiss investors, returns in francs were lower than in overseas currencies. This suggests that the systematic selling ('hedging') of foreign currency would have been costly to UK investors, but beneficial to Swiss investors.

In practice, however, because the gap between UK and overseas interest rates more or less matched the decline in the pound, hedging generated positive 'carry', and hedged returns in sterling were little different to unhedged returns. For Swiss investors, hedging would have helped, but the impact would again have been muted by relatively low Swiss interest rates, which made it an expensive strategy.

In recent years, the convergence of inflation and interest rates has reduced the cost of hedging in the futures markets, but also reduced directional tendencies in exchange rates. But as we saw in 2022, the direct costs of hedging are not the only consideration: hedging an appreciating currency can lead to regret (and to cash calls on futures positions). The evidence on the impact of hedging on volatility, as opposed to its effect on returns, has been less equivocal: more often than not, for most big currencies, hedging has reduced volatility modestly.

CONCLUSION

In typical multi-asset portfolios, currency exposure can only be approximated. On the diversifying side of the portfolio, deposits and bonds are arguably best held as local currency assets only. On the return assets side, forward sales of overseas currency may help reduce volatility, and currency related portfolio 'noise', and/or boost nervous investors' comfort, but they are not certain to do so.

The extent of such sales might reflect the scale of their estimated impact on portfolio volatility, some more fundamental consideration such as the openness of the investor's home economy, or wider macroeconomic considerations (such as extreme valuations). But there is no 'right' amount, and there can be significant costs (opportunity and direct). In an increasingly integrated global economy – with few assets affected only by a single currency – doing nothing at all can also be a credible strategy, particularly for investors with high risk tolerance.

The choice will depend on the risk appetite of investors and their portfolio managers, and on perceived market conditions and correlations. A default setting might be a pragmatic approach in which currency exposure is near an estimated mid-point between fully unhedged and fully hedged.

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, %

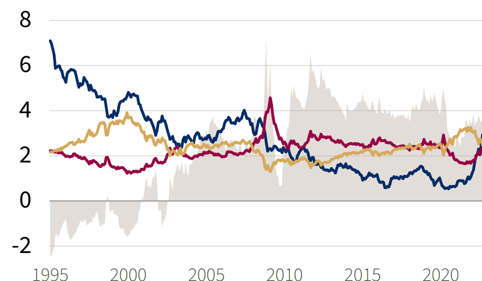
— Headline — Core

Source: OECD, Bloomberg, Rothschild & Co

STOCKS/BONDS — RELATIVE RETURN INDEX (%)

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

STOCKS/BONDS — RELATIVE VALUATIONS



— Government bonds: redemption yield (%)
— Developed stocks: price/book ratio
— Developed stocks: dividend yield (%)
Developed stocks: earnings yield – bond yield

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	-9.8	-9.9
10-yr UK Gilt	3.3	-10.9	-15.8
10-yr German bund	2.4	-14.3	-18.7
10-yr Swiss Govt. bond	1.4	-6.4	-13.5
10-yr Japanese Govt. bond	0.5	-2.0	-3.2
Global credit: investment grade (USD)	3.5	-6.8	-7.2
Global credit: high yield (USD)	8.6	-4.7	-0.7
Emerging (USD)	7.1	-9.7	-10.4

Source: Bloomberg, Rothschild & Co

SELECTED STOCK MARKETS

Dividend yields, recent local currency returns (MSCI indices)

	YIELD (%)	1YR (%)	3YR (%)
World: all countries	2.2	-5.8	21.7
Developed	2.1	-5.3	23.8
Emerging	3.0	-9.3	7.3
US	1.6	-8.6	27.5
Eurozone	3.1	1.1	14.9
UK	3.7	9.5	18.7
Switzerland	2.9	-6.1	5.8
Japan	2.6	4.2	22.7

Source: Bloomberg, Rothschild & Co

SELECTED EXCHANGE RATES

Trade-weighted indices, nominal (2000 = 100)

	LEVEL	1YR (%)	3YR (%)
US Dollar (USD)	114	5.1	3.8
Euro (EUR)	130	1.5	6.3
Yen (JPY)	79	-7.7	-16.1
Pound Sterling (GBP)	78	-5.9	-2.2
Swiss Franc (CHF)	182	7.1	11.6
Chinese Yuan (CNY)	143	-1.4	9.7

Source: Bloomberg, Rothschild & Co

COMMODITIES AND VOLATILITY

	LEVEL	1YR (%)	3YR (%)
CRB spot index (1994 = 100)	271	4.4	59.3
Brent crude oil ($/b)	85	-6.3	56.2
Gold ($/oz.)	1,875	2.7	19.4
Industrial metals (1991 = 100)	365	-6.5	61.9
Implied stock volatility: VIX (%)	20	-8.4	26.9
Implied bond volatility: MOVE (bps)	101	21.8	53.6

Source: Bloomberg, Rothschild & Co

Data correct as of 8 February 2023.

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

This document is produced by Rothschild & Co Wealth Management UK Limited for information and marketing purposes only and for the sole use of the recipient. Save as specifically agreed in writing by Rothschild & Co Wealth Management UK Limited, this document must not be copied, reproduced, distributed or passed, in whole or part, to any other person. This document does not constitute a personal recommendation or an offer or invitation to buy or sell securities or any other banking or investment product. Nothing in this document constitutes legal, accounting or tax advice.

The value of investments, and the income from them, can go down as well as up, and you may not recover the amount of your original investment. Past performance should not be taken as a guide to future performance. Investing for return involves the acceptance of risk: performance aspirations are not and cannot be guaranteed. Should you change your outlook concerning your investment objectives and/or your risk and return tolerance(s), please contact your client adviser. Where an investment involves exposure to a foreign currency, changes in rates of exchange may cause the value of the investment, and the income from it, to go up or down. Income may be produced at the expense of capital returns. Portfolio returns will be considered on a “total return” basis meaning returns are derived from both capital appreciation or depreciation as reflected in the prices of your portfolio’s investments and from income received from them by way of dividends and coupons. Holdings in example or real discretionary portfolios shown herein are detailed for illustrative purposes only and are subject to change without notice. As with the rest of this document, they must not be considered as a solicitation or recommendation for separate investment.

Although the information and data herein are obtained from sources believed to be reliable, no representation or warranty, expressed or implied, is or will be made and, save in the case of fraud, no responsibility or liability is or will be accepted by Rothschild & Co Wealth Management UK Limited as to or in relation to the fairness, accuracy or completeness of this document or the information forming the basis of this document or for any reliance placed on this document by any person whatsoever. In particular, no representation or warranty is given as to the achievement or reasonableness of any future projections, targets, estimates or forecasts contained in this document. Furthermore, all opinions and data used in this document are subject to change without prior notice.

Where data in this presentation are source: MSCI, we are required as a condition of usage to advise you that: “Neither MSCI nor any other party involved in or related to compiling, computing or creating the MSCI data makes any express or implied warranties or representations with respect to such data (or the results to be obtained by the use thereof), and all such parties hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability or fitness for a particular purpose with respect to any of such data. Without limiting any of the foregoing, in no event shall MSCI, any of its affiliates or any third party involved in or related to compiling, computing or creating the data have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages. No further distribution or dissemination of the MSCI data is permitted without MSCI’s express written consent.”

This document is distributed in the UK by Rothschild & Co Wealth Management UK Limited and in Switzerland by Rothschild & Co Bank AG. Law or other regulation may restrict the distribution of this document in certain jurisdictions. Accordingly, recipients of this document should inform themselves about and observe all applicable legal and regulatory requirements. For the avoidance of doubt, neither this document nor any copy thereof may be sent to or taken into the United States or distributed in the United States or to a US person. References in this document to Rothschild & Co are to any of the various companies in the Rothschild & Co Continuation Holdings AG group operating/trading under the name “Rothschild & Co” and not necessarily to any specific Rothschild & Co company. None of the Rothschild & Co companies outside the UK are authorised under the UK Financial Services and Markets Act 2000 and accordingly, in the event that services are provided by any of these companies, the protections provided by the UK regulatory system for private customers will not apply, nor will compensation be available under the UK Financial Services Compensation Scheme. If you have any questions on this document, your portfolio or any elements of our services, please contact your client adviser.

The Rothschild & Co group includes the following wealth management businesses (amongst others): Rothschild & Co Wealth Management UK Limited. Registered in England No 04416252. Registered office: New Court, St Swithin’s Lane, London, EC4N 8AL. Authorised and regulated by the Financial Conduct Authority. Rothschild & Co Bank International Limited. Registered office: St Julian’s Court, St Julian’s Avenue, St Peter Port, Guernsey, GY1 3BP. Licensed and regulated by the Guernsey Financial Services Commission for the provision of Banking and Investment Services. Rothschild & Co Bank AG. Registered office: Zollikerstrasse 181, 8034 Zurich, Switzerland. Authorised and regulated by the Swiss Financial Market Supervisory Authority (FINMA).