

# Monthly Market Summary



February 2023



## Summary: 'Higher for longer' prompts market rout in February

Capital markets experienced a difficult month, as renewed interest rate risk moved into focus: global equities fell by 2.9% (MSCI ACWI in USD terms) and government bonds declined by 3.5% (USD, unhedged terms). Key themes in February included:

- Global economic activity remains resilient as inflation slowly abates;
- Major central banks continue to raise interest rates with further tightening ahead;
- Kazuo Ueda revealed as the new Bank of Japan Governor.

Geopolitical developments were in focus during February. US-China tensions re-escalated after a suspected Chinese 'spy balloon' incurred into US airspace, prompting a pause in diplomatic talks. Elsewhere, Russia pulled out of the New START nuclear treaty, just days before the one-year anniversary of the invasion of Ukraine. Commodity prices moved lower last month: the European natural gas benchmark fell to its lowest level since August 2021; gold fell by over 5% (in USD terms), after the US dollar appreciated in February. A disappointing fourth-quarter US reporting season saw corporate earnings decline by 4.8%.

### US: Consumer strength; Inflation fading; Fed hikes by 25bps

US consumer spending was remarkably strong in January: retail sales rose by 3% – rebounding from weakness in December – and 'real' personal consumption expenditures grew by over 1%. The ISM Manufacturing PMI also moved up to 47.7 in February. Real-time first-quarter GDP estimates are tracking at a trend-like 2.8% (q/q, annualised). Labour market tightness persisted, with the unemployment rate falling to 3.4%, its lowest reading since 1969, but average hourly earnings growth remained negative in 'real' terms. Headline and core CPI rates continued to edge lower to 6.4% (y/y) and 5.6% (respectively), though the Fed's preferred inflation measure, the PCE deflator, crept (marginally) higher in January. The Fed raised its target rate range by 25bps to 4.5-4.75%, with policymakers signalling further tightening to come.

### Europe: Robust activity; ECB & BoE hike by 50bps; Windsor Framework

European economic activity tilted higher: the eurozone and UK Composite PMIs expanded at a faster pace in February (mostly driven by service sector activity). This year's recession forecasts continued to be revised away: the European Commission raised the EU's 2023 growth forecast to 0.8%. The UK stagnated in the fourth quarter, in turn narrowly avoiding a year-end recession. Headline inflation rates moved lower again in the eurozone (8.6% y/y) and UK (10.1%) in January, though euro area core inflation edged up to a record high of 5.3%. The ECB raised its deposit rate by 50bps to 2.5% in February, with Lagarde signalling a similar-sized hike at the next meeting. The Bank of England increased its base rate by 50bps to 4% and upgraded its economic projections. The UK also struck a new post-Brexit deal with the EU over trade arrangements with Northern Ireland.

### ROW: China PMIs rebound; Turkey earthquake; New BoJ Governor

Despite Chinese equities underperforming in February, economic indicators continued to rebound: the NBS manufacturing PMI rose to 52.6, while the non-manufacturing equivalent increased to 56.3. Multiple major earthquakes hit Turkey, where the mounting human and economic toll have yet to be discerned. Elsewhere, Japan's headline inflation rate rose to 4.3% (y/y), its highest reading since 1981. Kazuo Ueda, a former member of the BoJ Board, was announced as the next Governor – his tenure should begin in April.

Performance figures (as of 28/02/2023 in local currency)

Fixed Income	Yield	1M %	YTD %
US 10 Yr	3.92%	-3.2%	-0.1%
UK 10 Yr	3.82%	-2.7%	0.1%
Swiss 10 Yr	1.47%	-1.3%	1.3%
German 10 Yr	2.65%	-2.7%	-0.3%
Global IG (hdg \$)	5.23%	-2.4%	1.0%
Global HY (hdg \$)	9.14%	-1.4%	2.4%

Equity Index	Level	1M %	YTD %
MSCI World (\$)	8,345	-2.4%	4.5%
S&P 500	3,970	-2.4%	3.7%
MSCI UK	14,661	1.9%	6.1%
SMI	11,098	-1.7%	3.4%
Euro Stoxx 50	4,238	1.9%	12.1%
DAX	15,365	1.6%	10.4%
CAC	7,268	2.6%	12.4%
Hang Seng	19,786	-9.4%	0.0%
MSCI EM (\$)	490	-6.5%	0.9%

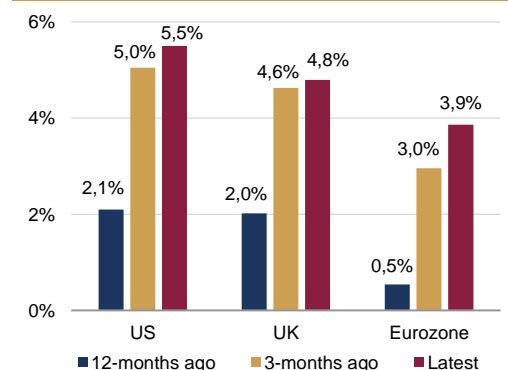
Currencies (trade-weighted)	1M %	YTD %
US Dollar	2.1%	0.0%
Euro	-0.3%	0.6%
Yen	-2.6%	-3.0%
Pound Sterling	0.4%	0.4%
Swiss Franc	0.7%	-0.8%
Chinese Yuan	0.0%	-0.2%

Commodities	Level	1M %	YTD %
Gold (\$/oz)	1,827	-5.3%	0.2%
Brent (\$/bl)	83.89	-0.7%	-2.4%
Copper (\$/t)	8,951	-2.7%	7.0%

Source: Bloomberg, Rothschild & Co

### Implied terminal policy rates

2023 peak rate estimates derived from OIS curves (%)



Footnote: three-month tenor; USD – SOFR; GBP – SONIA; EUR – ESTR  
 Figures refer to highest point estimate during 2023  
 Source: Bloomberg, Rothschild & Co., 01.01.2022 – 28.02.2023



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