



Investment review

Fourth quarter 2023

Global equities rallied by 9.4% in local terms. In fixed income, global government bonds rallied by 5.5% in USD terms.

Global equities rose to a fresh year-to-date high in the fourth quarter and almost retraced all the previous year's losses. The 'growth' and 'cyclical' segments of the stock market outperformed, with the technology sector leading the pack higher. Stock market participation broadened in the final two months of the year, but last year's market leadership remained one of the narrowest in recent decades¹.

Meanwhile, global government bonds delivered a positive annual return for the first time since 2020, despite another volatile quarter. The US 10-year note yield, for example, briefly rose above 5% in October – its highest yield since 2007 – before falling sharply to where it was at the start of the year, as the prospect of a 'policy pivot' moved into focus.

The geopolitical landscape remained uneasy. The tragic events in the Middle East sparked global tensions, even as the trauma in Ukraine seemed to be contained. However, the response from commodity markets was mixed. Gold rallied by over a tenth during the fourth quarter and for the year as a whole. Meanwhile, energy prices fell by a fifth during the fourth quarter, with oil prices modestly falling in 2023.

US political problems persisted, after another government shutdown was only temporarily averted and the House Speaker Kevin McCarthy was ousted. President Biden's approval ratings continued to slide – and now rank below his predecessor at this stage in his term in office. On a more positive note, diplomatic relations with Beijing improved, following a productive in-person meeting between Biden and President Xi Jinping.

Economic activity varied across regions in the latter half of the year. The world's two biggest economies, the US and China, remarkably grew at an annualised rate of around 5% in the third quarter. In contrast, European activity was softer: the euro area and UK both registered a mild contraction in the third quarter².

US economic momentum inevitably cooled in the final quarter, though activity remained robust. Europe's growth backdrop appeared inconclusive as the sluggish hard output data persisted, but the timelier survey data – the Purchasing Managers' Indices (PMIs) – suggested an uptick in economic activity. However, the labour market remained notably strong on both sides of the Atlantic.

More decisively, headline inflation rates continued to fall and by year-end were relatively close to central banks' 2% inflation target in the US (3.1%), euro area (2.4%) and the UK (3.9%). Meanwhile, headline inflation was muted in Switzerland (1.4%).

The major central banks left their respective policy rates unchanged and tentatively signalled policy easing ahead. The US Federal Reserve – which has paused its tightening cycle for three consecutive meetings – suggested that the next move would likely be lower, not higher. Policymakers at the European Central Bank and Bank of England struck a more hawkish tone, but money markets concluded their respective tightening cycles were also over. Interest rate expectations point to easing across the major economies from the first half of 2024.

¹ The 'Magnificent Seven' stocks – Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia and Tesla – accounted for most of the S&P 500's 26% annual return.

² GDP figures are usually published one month after the end of the quarter.

Market review

Data as of 29 December 2023 (%)

	EQUITIES	Quarterly returns	Annual returns
Regions	Global	9.4	21.6
	Developed markets	9.8	23.1
	US	11.8	26.5
	Eurozone	7.8	18.8
	UK	2.3	7.7
	Switzerland	1.3	5.3
	Japan	2.2	28.6
	Emerging markets	5.6	9.9
	EM Asia	4.4	8.4
	China	-4.8	-10.7
	Latin America	14.3	20.8
	EM EMEA	6.8	11.9
Sectors	Comm. Services	10.0	45.7
	Cons. Discretionary	9.5	34.9
	Con. Staples	3.2	0.8
	Energy	-5.5	1.2
	Financials	11.2	15.2
	Healthcare	4.2	2.8
	Industrials	11.4	22.9
	Materials	9.5	13.2
	Real Estate	-3.2	-8.0
	Technology	16.9	53.3
	Utilities	8.8	-0.8

FIXED INCOME	Quarterly returns	Annual returns	Yield
Global Gov.	5.5	6.7	2.9
US 10Y	6.6	3.6	3.9
UK 10Y	7.7	5.6	3.5
German 10Y	7.0	7.0	2.0
Italy 10Y	9.3	12.2	3.7
Switzerland 10Y	3.1	8.0	0.7
Japan 10Y	1.6	0.7	0.6
Global Inv. Grade	7.5	9.1	4.7
Global High Yield	7.8	13.7	8.2

FX	Quarterly returns	Annual returns
USD	-3.0	-0.9
EUR	1.1	4.3
GBP	0.5	5.2
CHF	5.3	8.2
JPY	2.4	-6.1
CNY	-0.2	-2.3

COMMODITIES	Quarterly returns	Annual returns
Brent Crude oil	-19.2	-10.3
Natural gas	-22.7	-57.6
Gold	11.6	13.1
Copper	3.1	1.2
Wheat (CBT)	16.0	-20.7

All equity returns are MSCI indices in local currency terms. Sector indices are based on MSCI World index. Government bond returns are in local currency terms, apart from the global series which are in USD, hedged terms. FX returns are on a nominal trade-weighted basis. Commodity returns are all in USD terms, except natural gas which is in EUR (Endex TTF futures).

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