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APPENDIX 4

Flash stats

Q4 2018

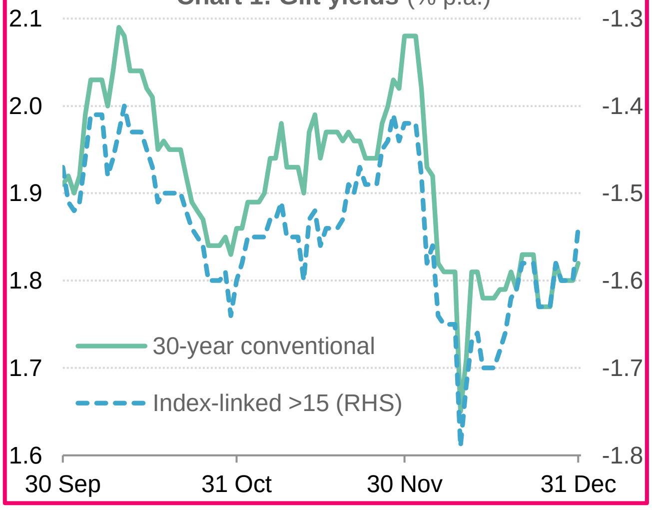
Mark Tighe

Equity markets fell heavily as US interest rates rose again and investors became more pessimistic about the outlook for global growth. Credit spreads widened in-line with equity market falls while government bond yields declined.

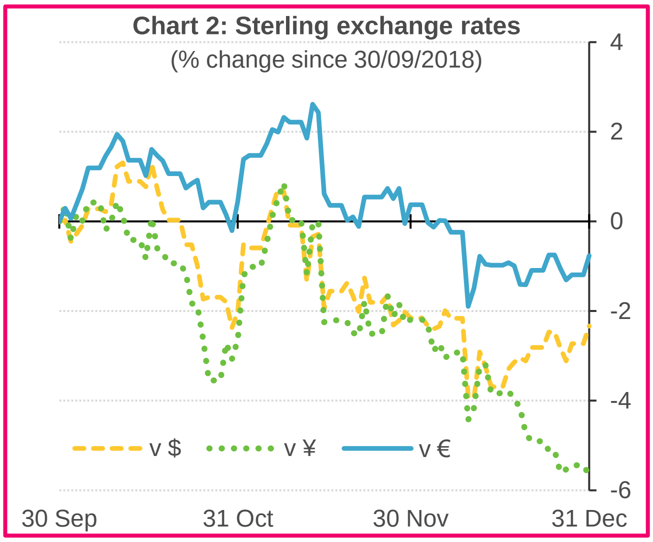
Sterling returns (%) to 31 December 2018		3 mths	12 mths			3 mths	12 mths
EQUITY INDICES				**STERLING BOND INDICES**			
Global	*FTSE All-World*	-10.5	-3.4	Gilts (All)	*FTSE*	1.9	0.6
UK	*FTSE 100*	-9.6	-8.7	Index-linked (All)	*FTSE*	1.9	-0.3
	FTSE All-Share	-10.2	-9.5	Corporates (All)	*iBoxx*	-0.2	-2.2
US	*S&P 500*	-11.5	1.6	**MODEL UK PENSION FUNDS**			
Japan	*TOPIX*	-12.7	-8.4	70% equity		-7.1	-4.5
Europe ex UK	*FTSE Dev Europe*	-11.0	-9.1	50% equity		-4.9	-3.5
Emerging	*FTSE Emerging*	-3.9	-7.6	30% equity		-2.7	-2.6

- GDP data confirmed US growth remained strong in Q3, though a little lower than Q2. Though still unspectacular, UK growth reached its fastest quarterly pace in almost 2 years while Eurozone growth slowed to 1.6% year-on-year. Japanese growth saw its sharpest quarterly contraction in several years and Chinese growth fell to 6.5% in Q3, its slowest quarterly pace in almost a decade.
- Headline inflation fell in most regions but remains above core measures in the UK, Eurozone and Japan. Core and headline inflation are now broadly in line in the US.
- As expected, the Fed raised interest rates for the fourth time this year in December. However, it pared back forecasts of rises in 2019. The ECB unanimously agreed to end its 4-year QE programme at its December meeting.
- In-line with moves in global yields, both conventional and index-linked gilt yields fell over the quarter (chart 1), with index-linked yields falling more than equivalent conventional yields at medium maturities and by less at longer maturities.
- After peaking in October, oil prices plummeted in the second half of the quarter as the US granted waivers to buyers of Iranian crude even as Russia and Saudi Arabia upped production to meet anticipated shortfall. A deal agreed between OPEC member countries and Russia in December to limit supply did little to stem falling prices.

Chart 1: Gilt yields (% p.a.)



- As uncertainty surrounding a Brexit deal continued, sterling drifted lower over the quarter but has remained fairly steady in trade weighted terms. The main feature of currency markets over the quarter has been a strengthening yen.



- Sterling investment-grade credit yield spreads rose significantly and, despite Brexit uncertainty, this was not out-of-line with moves elsewhere.
- Speculative-grade credit yield spreads rose more than investment-grade counterparts. The US high yield market was particularly hard-hit given the falling oil price and exposure to the oil and gas sector in this market.
- Global equity markets took a sharp turn lower at the start of Q4 as US government bond yields climbed to 3.2%. Declines resumed in December as tighter monetary policy and concerns over the sustainability of the pace of global growth came to the fore.
- Japan was the worst performing region as yen strength and slowing growth in Europe and China weighed heavily on exporters. North America also marginally underperformed global indices while Emerging markets were the best performing region. Returns to UK investors were less negative given renewed sterling weakness.
- Performance divergence across global sectors showed defensive stocks, such as utilities, performed strongly as markets fell while more growth orientated and cyclical sectors, such as technology and industrials, underperformed. Oil and gas was the worst performing sector as a result of declining oil prices.
- The pace of growth of the UK commercial property market continued to slow in the first two months of Q4 and capital values fell in November. Retail capital index values had fallen 3.9% in the 12-months to the end November versus a 1.9% fall for the 12-month period to the end of September. The equivalent industrial index showed capital growth slowing from 15.1% year-on-year in September to 13.6% in November.