PAPER D

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Flash stats

Q4 2019

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With the possibility of progress in US-China trade tensions, generally better than expected economic performance globally, and greater domestic political certainty, equity markets and sovereign bond yields ended the quarter higher.

Sterling returns (%) to 31 December 2019		**3 mths**	**12 mths**			**3 mths**	**12 mths**
EQUITY INDICES				**STERLING BOND INDICES**			
Global	*FTSE All-World*	1.5	22.3	Gilts (All)	*FTSE*	-3.9	6.9
UK	*FTSE 100*	2.7	17.3	Index-linked (All)	*FTSE*	-8.5	6.4
	FTSE All-Share	4.2	19.2	Corporates (All)	*iBoxx*	-0.2	11.0
US	*S&P 500*	1.5	26.4	**MODEL PORTFOLIOS**			
Japan	*TOPIX*	0.4	14.6	70% equity		1.4	17.6
Europe ex UK	*FTSE Dev Europe*	0.9	20.5	50% equity		0.5	15.2
Emerging	*FTSE Emerging*	4.0	15.9	30% equity		-0.4	12.9

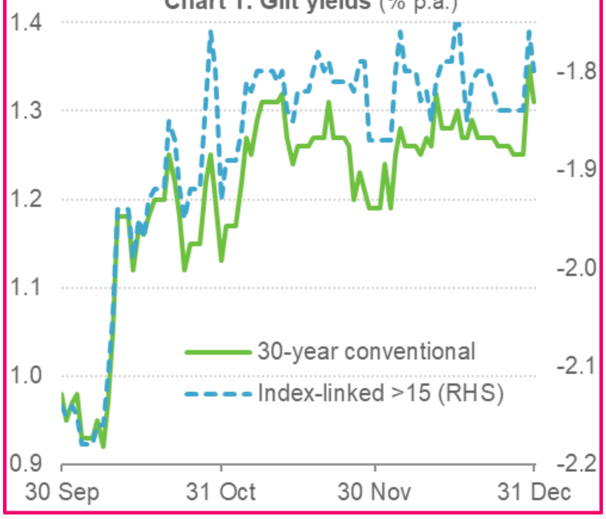
- A "phase 1" trade deal, to be signed on January 15th, between the US and China, prevented a further increase in tariffs in December and reduced the level of some existing tariffs. US GDP growth continued to outperform developed market peers and Q3 expectations but has slowed on last year's robust pace. Eurozone growth also beat Q3 expectations as Germany narrowly avoided recession.

- UK GDP growth achieved a modest recovery in Q3, following a contraction in Q2, however growth forecasts have slumped as slower global growth and Brexit uncertainty has weighed heavily on business investment.

- December's manufacturing Purchasing Managers Indices in the US, Eurozone, Japan and UK remained at a level consistent with a contraction in the manufacturing sector. However, service sector surveys in the US and Europe improved in the fourth quarter, and US jobs gains remained resilient.

- The Federal Reserve cut rates for the third time in three months in October in response to slowing global growth and weak inflation. In Europe, the ECB cut rates to -0.5% and announced the restart of QE in November.

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



- Sovereign bond yields rose across developed economies on trade progress as sentiment improved. In-line with Sterling strength, near-term UK implied inflation has fallen – UK 10-year spot gilt-implied inflation has fallen 0.21% p.a., as real yields rose greater than nominal counterparts (Chart 1).
- Investment-grade credit spreads tightened while rising underlying government bond yields weighed on returns in fixed rate markets.
- Speculative-grade markets outperformed investment-grade counterparts and high yield bonds outperformed leveraged loans, though loan spreads retraced some 2019's widening.
- A lower perceived chance of a no-deal Brexit and the Conservative election victory removed some Brexit uncertainty, and saw sterling rise 7.5% versus the dollar over the quarter - the immediate gains in the aftermath of the election have since reversed (Chart 2).

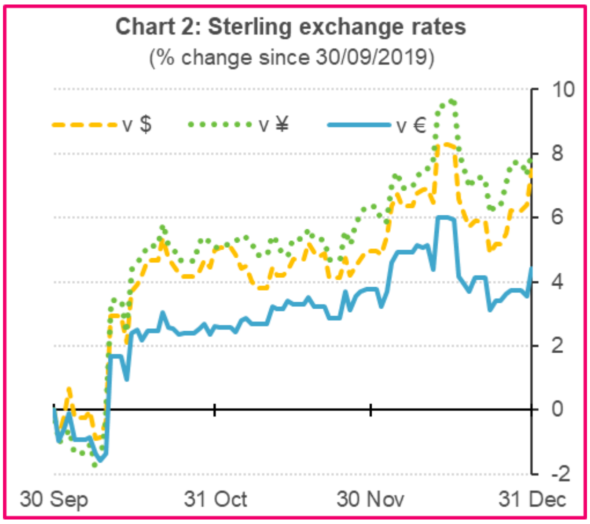


Chart 2: Sterling exchange rates
(% change since 30/09/2019)

- Global equity markets rose, following indications of progress in the global trade disputes, some improvements in economic data across various regions, and corporate earnings reports, which came in ahead of (albeit downgraded) consensus forecasts. A strong Q4 saw global equities deliver returns of 27% for 2019. The Q4 rebound in sterling negatively impacted unhedged overseas equity returns for sterling-based investors, resulting in a 22% sterling return for 2019 (Chart 3).
- Emerging markets was the best performing region in Q4, boosted by positive developments in global trade disputes and improving economic data. The UK was the laggard in local currency terms as the sharp rebound in Sterling weighed on the market's larger cap globally-exposed companies.
- On a sector basis, typically growth-oriented sectors such as health care and technology outperformed their more value-oriented counterparts, such as telecoms and utilities. The technology sector was the clear leader, as the easing global trade tensions helped to alleviate some of the sector's supply-chain concerns. (Chart 4).
- UK commercial property market returns continue to slow on a rolling annual basis, returning 2.3% over the year to 30 November 2019, reflecting a sharp drop in comparison to recent years.

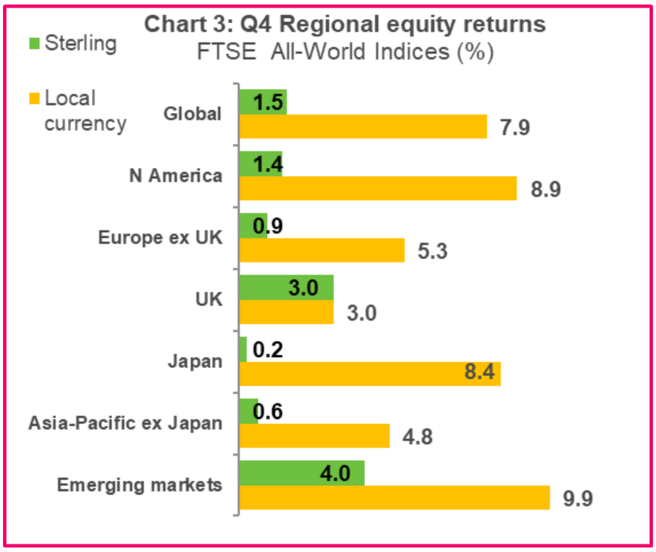


Chart 3: Q4 Regional equity returns
FTSE All-World Indices (%)

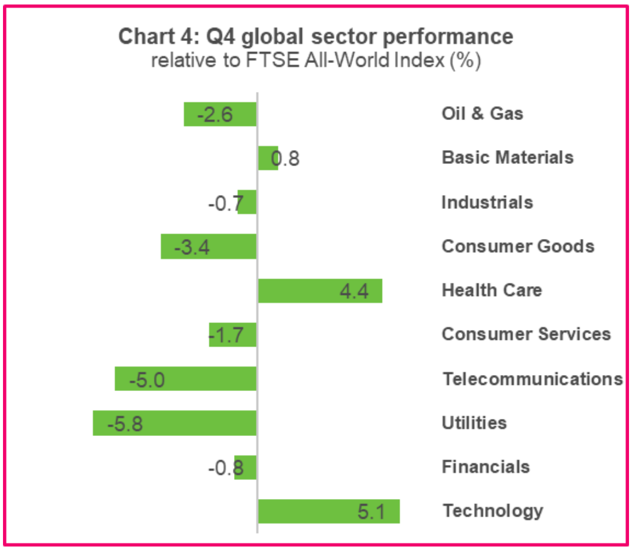


Chart 4: Q4 global sector performance
relative to FTSE All-World Index (%)