Market Update – December 2022

December 2022 saw the closing of one of the worst years on record both for equity and bonds. This negative performance was mainly resulting from the hawkish shift of central banks in an effort to tame inflation that spread throughout US, UK and Europe ending more than a decade of low interest rates and dovishness from central banks, and the result of the energy shock caused by the Russian invasion of Ukraine.

During the month of December, we saw all major central banks (Fed, ECB and BoE) increase their base rate by 50 basis points. With the fed reducing the pace slightly from the 75 bps that characterized numerous FOMC meetings for 2022. The base rates for the banks now stand at 4.5% for the Federal Reserve, 3.5% for Bank of England and 2.5% for the European Central Bank.

For the past year everyone's main concern was the white-hot inflation that started unravelling in 2022, December finally started to show some convincing easing both on headline and core CPI, giving some hope for a less inflationary 2023. Nonetheless, employment still remains high, and this could mean more tightening from central banks will be required. The US yield curve remains inverted with yields spiking across all major markets in the second half of the month.