

# Quarterly market summary

Q4 2023

## Economic Overview

Inflation steadily declined in the fourth quarter of 2023, following a year dominated by tight monetary policy. In the UK, headline inflation slowed to a two-year low, falling to an annualised rate of 3.9% in November, from 6.7% in September. In the US, the Consumer Price Index rose 3.1% on an annual basis in November. The eurozone also reported a drop in inflation, with annualised inflation reaching 2.4% in November, close to the European Central Bank's (ECB) 2% target.

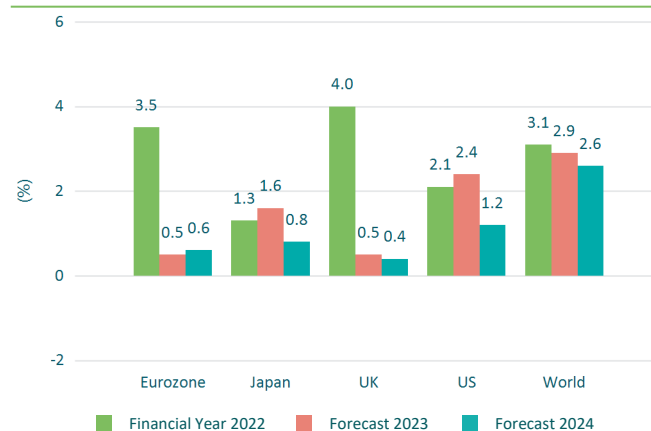
Major central banks maintained a halt on rate hikes in the quarter, which fuelled investors' expectations that the current tightening cycle was over and policymakers might ease rates in 2024. At its latest meeting, the Federal Reserve (Fed) kept rates unchanged at the current range of 5.25%-5.50%, while revealing that policymakers expected three rate cuts next year. The Bank of England (BoE) held interest rates at 5.25%, while outlining a gradual decline to 4.25% by the end of 2026. The ECB also preserved its key rate at 4%, while highlighting expectations for a "decline gradually over the course of next year".

The trajectory of economies continued to diverge in the fourth quarter. With a strong labour market supporting consumer spending, the US economy grew at its fastest pace in nearly two years of 4.9% between July and September. Over the same time period, however, both the eurozone and UK economies contracted by 0.1%, fuelling concerns over recession as consumer spending and manufacturing activity continue to stagnate. Meanwhile, Japan's economy shrank by 2.1% from the previous quarter, on an annualised basis, amid weak demand and high inflation. In emerging markets, China's economy expanded 4.9%, year on year, in the third quarter, with exports growing for the first time in six months. The figures suggest a recovery from a demand slump amid the country's struggle with an ongoing property crisis, weak spending and high youth unemployment. Overall, global economic growth, despite demonstrating resilience this year, remains subdued and is expected to weaken in the year ahead, amid an environment of tight monetary policy, inflation and geopolitical tensions.

## Market overview

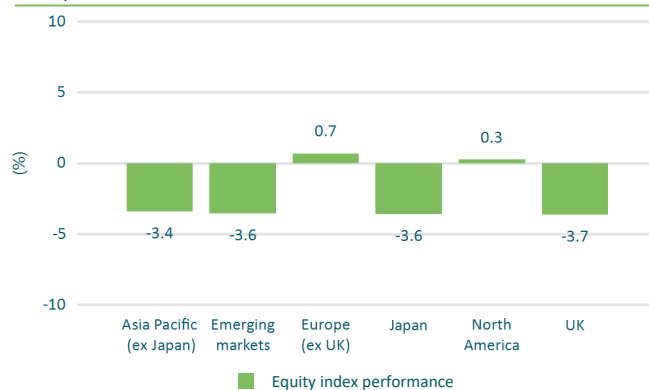
Alongside falling bond yields, equities also began to climb from late October as investor risk appetite improved. The FTSE World Index advanced 6.9% in the fourth quarter (in sterling), taking the annual return for 2023 to 17.2%. The US was one of the best-performing markets – the S&P 500 Index gained 11.7% (in US dollars) to end the year up 26.3%. European stockmarkets registered healthy gains, amid excitement about potential rate cuts. However, the UK trailed the broader global market. Share prices in Asia Pacific ex Japan and emerging markets also underperformed, mainly on account of weakness in China. From a sector perspective, real estate was one of the best performers, along with information technology, while energy stocks had the weakest performance. The US dollar weakened against major currencies including sterling after the Fed signalled it would start to cut rates this year. Oil prices fell 22% despite production cuts and concerns about potential supply disruptions resulting from the conflict in the Middle East.

### Real GDP growth



Source: LSEG Datastream, January 2024

### Equity market performance v. FTSE World Index (4th quarter 2023)



Source: LSEG Datastream

Sterling

## UK equities

The UK stockmarket ended 2023 on a positive note, with solid gains in the fourth quarter. However, the UK was one of the weaker regions globally, trailing the US and Europe, with concerns about the UK's subdued economy weighing on sentiment. The economy shrank in the third quarter, following zero growth in the second quarter. Encouragingly, inflation fell to 3.9% in November, and expectations that the Bank of England might cut interest rates in 2024 helped share prices climb from late October. Real estate and utilities, two sectors that are perceived to be sensitive to interest rates, registered healthy gains. Industrials and information technology also rallied. In contrast, defensive areas such as consumer staples and healthcare were laggards. Energy stocks fell as oil prices weakened. In terms of size, small- and mid-cap stocks outperformed their larger counterparts in the FTSE 100 Index.

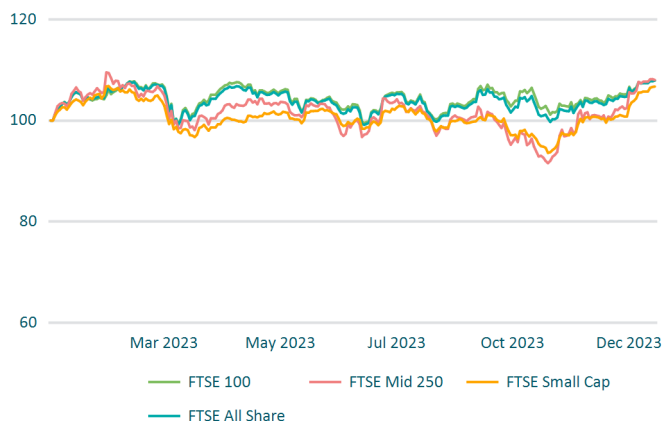
## UK bonds

UK government bonds (gilts) returned 8.1% in the fourth quarter of 2023, outperforming both US government bonds (Treasury) and German government bonds (bunds). Gilts were supported by increased expectations of interest rate cuts by the Bank of England, as annual inflation eased to 3.9% in November; the market is pricing in six cuts for 2024. Having risen in October, the yield on the benchmark 10-year gilt subsequently fell in November and December to end 2023 at 3.6%, down from 4.4% at the end of the third quarter. Amid falling yields, longer dated gilts, particularly those over 15 years, delivered significant returns. UK corporate bonds also rose, returning 7.3% in the fourth quarter.

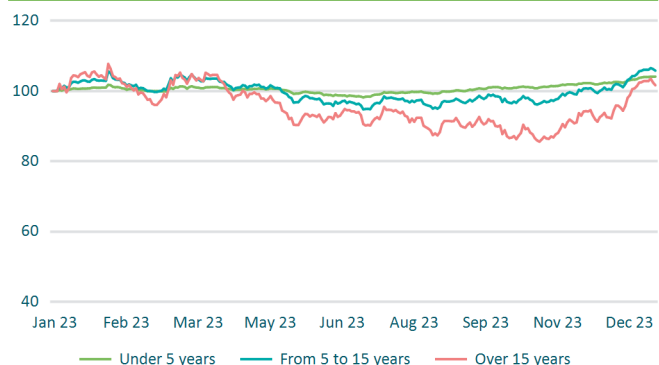
## UK property

Declines in capital values of UK commercial property accelerated in the three months to November (the latest month for which data is available). According to property consultant CBRE, prices fell by 2.0% over this period, ahead of the 1.0% decline in the previous three months to August. Performance over the period was most challenging in the Office and Retail sectors. In the Retail sector, sizeable falls in capital values were seen across each of the sub-sectors – retail warehouses, standard shops and shopping centres. Capital values in the Industrial sector were broadly flat in the three months. Rental value growth was strongest in Industrials, although some growth was seen in Offices and Retail as well. UK government bond yields have fallen sharply (and prices risen) since the end of October 2023, which may provide some support for UK commercial property values going forwards, as investors typically compare property yields with gilt yields when making investment decisions.

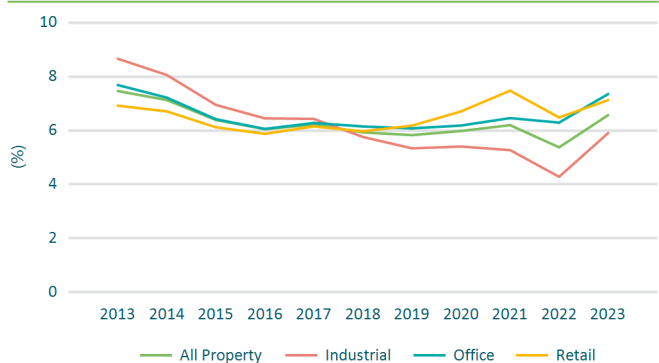
UK equity market indices (12 months to 31.12.23)



Gilt indices (12 months to 31.12.23)



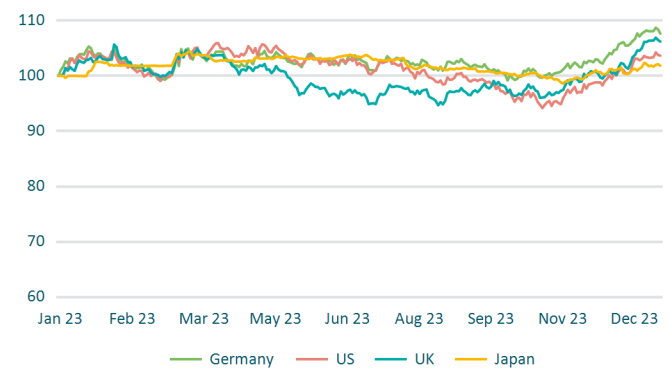
Equivalent yields (to 30.11.23)



## International Bonds

Bond markets avoided a third consecutive year of losses as the fourth quarter of 2023 saw a two-month rally in bond prices driven by increased expectations of interest rate cuts by major central banks in 2024. Bond yields fluctuated throughout the quarter – the US 10-year Treasury yield reached 5.0% in October, its highest level since 2007, before retreating on the back of falling inflation figures and the prospect of interest rate cuts. The 10-year yield ended the year at 3.87%, broadly in line with its level at the start of 2023, which translated into a return for the quarter of 6.8% (in US dollars). UK government bonds (gilts) and German government bonds (bunds) also registered healthy gains, along with corporate bonds. Emerging market (EM) bonds performed well too, supported by the prospect of interest rate cuts and a softening US dollar, which helped EM currencies experience their best year since 2017.

10-year government bond markets (12 months to 31.12.23)



Source: LSEG Datastream

Rebased to 100

## European bonds

The performance of European bond markets over the fourth quarter was positive as investors were encouraged by slowing inflation and the possibility that the European Central Bank (ECB) had finished its cycle of interest rate hikes; the market has even priced in more than 150 basis points of rate cuts by the ECB for 2024. All core European government bonds registered significant gains in the quarter. For example, German government bonds (bunds) rose 6.5%. European corporate bonds also performed well, returning 5.6% in the quarter (in euros), outperforming the Bloomberg Barclays Global Aggregate Index, which returned 3.6%. European high yield bonds registered decent gains too.

## North America

US equities rounded off the year with a powerful rally in the fourth quarter of 2023. After declines in October, share prices then soared as investors become increasingly optimistic that the Federal Reserve had ended its interest rate hiking cycle. With annual inflation falling to 3.1% in November and the economy remaining resilient, hopes of rate cuts in 2024 helped the S&P 500 Index climb towards all-time highs. Information technology was one of the best-performing sectors, adding to its gains in previous quarters. Real estate, a sector that is perceived as being sensitive to interest rates, rallied, along with financials and industrials. In contrast, energy stocks fell heavily, while more defensive areas, notably consumer staples and healthcare, lagged the broader market.

FTSE World North America Index (12 months to 31.12.23)



Source: LSEG Datastream

Rebased to 100

## Europe

European equities rallied in the fourth quarter of 2023, as hopes of interest rate cuts lifted investor sentiment. Europe was one of the best-performing regions globally and the gains helped European shares deliver an annual return of around 18% (in euro terms). The European Central Bank kept interest rates on hold during the quarter and, with the annual rate of inflation in the eurozone falling to 2.4% in November, investors became increasingly optimistic that policymakers would start to cut rates in 2024. Against a backdrop of falling bond yields, the real estate and utilities sectors rallied. Industrials, information technology and materials also outperformed the broader market. In contrast, energy, consumer staples and healthcare were notable laggards. Sweden and the Netherlands were two of the best-performing markets, whereas Norway was one of the weakest.

FTSE World Europe (ex-UK) Index (12 months to 31.12.23)



Source: LSEG Datastream

Rebased to 100

Past performance is not a guide to future performance.

## Japan

In common with other markets around the world, the Japanese stockmarket rallied strongly from late October onwards, on the back of hopes that interest rates in other major economies had peaked and would begin falling in 2024. Over the quarter as a whole, however, Japan lagged other markets, in sterling terms. Interest rates remain very low, with the Bank of Japan (BoJ) holding overnight interest rates at -0.1% and managing 10-year government bond yields, through its so-called “yield curve control policy”. During the quarter, data released showed business confidence improving, but the whole economy contracted more than expected in the third quarter. In early November, the Japanese government announced a package of measures aimed at stimulating the economy which included cuts in income and residential taxes and support for low-earning households.

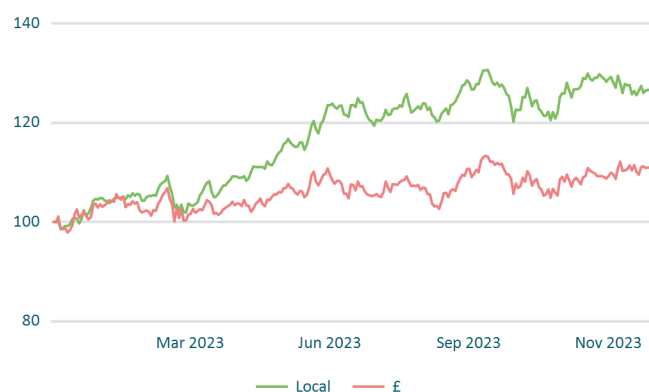
## Pacific Basin Ex-Japan

Asia Pacific ex Japan lagged the global equity market in the fourth quarter, not helped by the weak performance of China and Hong Kong, which together represent a sizeable weight of the regional index in market capitalisation terms. Some investors continue to be concerned by the lacklustre growth of the Chinese economy and problems in its property sector. Sentiment was also hurt by a cut in the country’s credit outlook to negative, by ratings agency Moody’s. Other markets that lagged the regional index included Singapore, Thailand and the Philippines. Better-performing markets included India, South Korea and Taiwan. India’s stockmarket has benefited from significant interest from investors attracted by the robust economic growth of the world’s most populous country. Taiwan and South Korea benefited from strength in the technology sector, which represents a significant proportion of both markets.

## Emerging markets

Overall, emerging markets lagged the broad global equity market in the fourth quarter, largely held back by the performance of China. Some investors continue to be concerned by the lacklustre growth of the Chinese economy and problems in its property sector. Eastern European markets were well supported, with Poland the standout performer. Shares in Poland responded positively to the victory of pro-European opposition parties in the parliamentary election. Meanwhile, Middle Eastern markets were generally laggards, on the back of a weaker oil price, which slipped during the quarter, despite production cutbacks by OPEC+. Stockmarkets in Latin America shone, with Argentina, Peru, Mexico and Brazil being the pick of the region. Shares in Argentina responded positively to the election of Javier Milei as president, whilst Brazil’s stockmarket hit a record high after its central bank cut interest rates and flagged that they had further to fall.

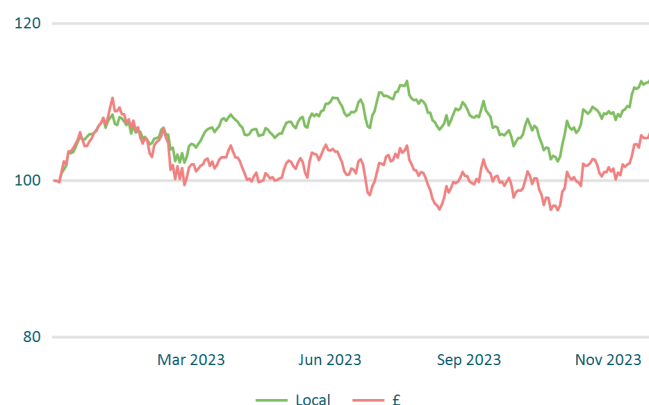
FTSE World Japan Index (12 months to 31.12.23)



Source: LSEG Datastream

Rebased to 100

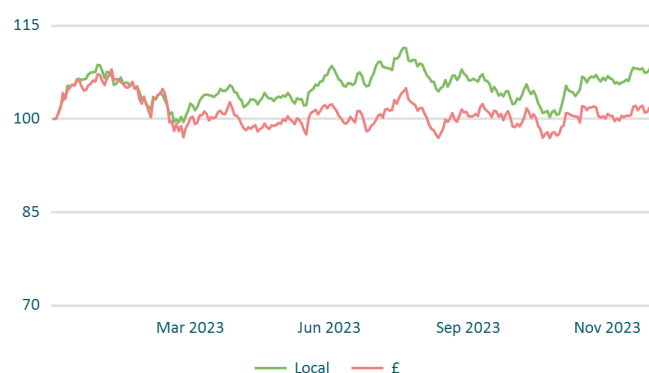
FTSE All World Asia Pacific ex Japan Index (12 months to 31.12.23)



Source: LSEG Datastream

Rebased to 100

MSCI Emerging Markets Index (12 months to 31.12.23)



Source: LSEG Datastream

Rebased to 100

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## Market Data

	4th Quarter 2023%		12 months to 31.12.23%	
	Local	Sterling	Local	Sterling
<b>Equity index total returns*</b>				
FTSE World	9.8	6.9	23.6	17.2
FTSE All World ex UK	9.6	6.5	22.7	16.0
FTSE All-Share	3.2	3.2	7.9	7.9
FTSE 100	2.3	2.3	7.9	7.9
FTSE Mid 250	8.6	8.6	8.0	8.0
FTSE Small Cap	6.3	6.3	6.7	6.7
FTSE World Europe (ex UK)	6.7	7.6	17.7	15.7
FTSE World France	5.7	5.6	18.4	15.7
FTSE World Germany	8.5	8.4	20.6	17.7
FTSE World Italy	8.4	8.3	34.1	31.0
FTSE World Spain	8.0	7.9	27.9	24.9
FTSE World North America	11.8	7.1	26.5	19.4
S&P 500 Composite Index	11.7	6.9	26.3	19.2
FTSE World Japan	1.9	3.3	28.3	13.3
Nikkei 225	5.0	6.5	28.2	13.3
FTSE All World Asia Pac (ex Jp)	5.3	3.5	8.6	2.3
FTSE Australia	8.4	9.8	12.9	7.2
FTSE China (All Cap)	-4.5	-8.3	-12.0	-17.0
FTSE Hong Kong	3.4	-0.7	-12.7	-17.6
FTSE Korea	10.3	10.6	26.2	16.9
FTSE Singapore	2.6	1.6	6.7	2.4
FTSE Thailand	-2.1	0.0	-10.3	-14.1
MSCI Emerging Markets	5.6	3.3	10.3	4.0
MSCI Brazil	14.6	13.0	22.7	25.9
MSCI Argentina	35.8	30.0	66.1	56.7
MSCI Mexico	15.8	13.8	23.0	33.5
MSCI South Africa	9.4	7.9	9.3	-4.0

\*Returns include income

Source: LSEG Datastream.

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For definitions of the investment terminology used within this document please see the glossary at:  
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		4th Quarter 2023%		12 months to 31.12.23%	
		Local	Sterling	Local	Sterling
<b>Bond index total returns*</b>					
FTSE Actuaries UK Conventional Gilts All Stocks Index		8.1	8.1	3.7	3.7
UK gilts under 5 years		3.1	3.1	4.1	4.1
UK gilts 5 - 15 years		8.2	8.2	5.8	5.8
UK gilts over 15 years		14.4	14.4	1.7	1.7
FTSE Actuaries UK Index-Linked Gilts All Stocks Index		8.7	8.7	0.9	0.9
iBoxx £ Non-Gilts Index		7.3	7.3	8.6	8.6
Salomon World Govt Bond Index		8.1	3.5	5.2	-0.7
<b>10-yr benchmark bond returns*</b>		<b>Yield as at 31.12.23 (%)</b>			
UK	3.6	8.9	8.9	6.2	6.2
US	3.9	6.8	2.2	3.6	-2.2
Japan	0.6	1.5	2.9	1.8	-10.1
Germany	2.0	7.4	7.3	7.6	5.1
France	2.5	8.1	8.0	8.4	5.8
<b>Currency changes vs sterling</b>		<b>Exchange rate as at 31.12.23</b>	<b>Q-Q chg %</b>	<b>Y-Y chg %</b>	
Dollar	1.2748	-4.3	–	-5.6	–
Euro	1.15405	-0.1	–	-2.3	–
Yen	179.7213	1.3	–	-11.7	–
<b>Interest rates</b>		<b>Rates as at 31.12.23 (%)</b>			
UK base rate	5.25	0.0		1.8	
US Fed Funds rate	5.50	0.0		1.0	
ECB base rate	4.50	0.0		2.0	
<b>Commodities</b>		<b>Price level as at 31.12.23</b>			
Oil (Brent crude) US\$ per barrel	77.7	-18.6	-22.0	-8.5	-13.7
Gold bullion US\$/troy oz	2,065.5	11.2	6.5	13.8	7.3
Comm Research Bureau Index		NA	NA	NA	NA

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