



Despite multiple headwinds, the global economy continues to show remarkable resilience, ending 2022 on a positive note. In the US, a robust labour market, excess savings from the pandemic and sustained wage growth are keeping consumer propensity to spend at a high level, with service activities continuing to benefit from a catch-up effect. Thanks in part to rising prices, corporate revenues and profits also remain robust, supporting investment spending. In the euro area, the outcome whether growth was positive or negative in the fourth quarter is less obvious. Domestic consumption might also prove sufficiently robust to offset the moderation in industrial activity. In China, the cessation of the zero-covid policy triggered a sharp increase in coronavirus infections, leading to a sharp slowdown in activity at the end of the year. However, the gradual normalisation of the health situation should ensure a cyclical recovery from the second quarter at the latest. In Japan, weakening external demand could slow export growth, the country's main economic driver.

In the United States, inflation recorded its fifth consecutive month of slowdown after peaking at 9.1% in June. The headline inflation rate fell from 7.7% in October to 7.1% in November. Excluding energy and food, inflation fell from 6.3% to 6.0%. The PCE (personal consumption expenditure) core price index, which is the Federal Reserve's favourite price indicator, fell from 5.0% to 4.7%. In the euro area, inflation slowed for the second time in a row after 16 consecutive months of increases. From November to December, headline inflation fell from 10.1% to 9.2%. Excluding energy and food, it rose, however, from 5.0% to 5.2%.

In line with expectations, the US Federal Reserve's Monetary Committee continued to tighten monetary policy in December. The increase in the target range for the federal funds rate was not 75 basis points as in the previous four meetings, but, as pre-announced, 50 basis points. As a result, the effective federal funds rate is currently 4.25% to 4.50%. For 2023, the Monetary Committee expects further tightening of 75 basis points in successive 0.25% increments. In Europe, the Governing Council of the Central Bank also raised its key interest rates by 50 basis points, bringing its deposit rate to 2% and its refinancing rate to 2.5%. President Christine Lagarde struck a particularly hawkish tone, suggesting continued upward movements in 0.5% increments and announcing the start of quantitative tightening from March. In Japan, the central bank adjusted the upper limit of the 10-year rate from 0.25% to 0.50% as part of its yield curve control policy. According to President Kuroda, this move is not the beginning of a tightening cycle, but it results from the need to remedy the dysfunction observed in the government bond market.

Continued monetary tightening by central banks led to a rise in long term interest rates. As a result, the 10-year government bond yield in the US rose from 3.61% to 3.87%. The rise in bond yields was particularly pronounced in Europe due to the prospect of additional key



interest rate hikes in 50 basis point increments by the ECB. The benchmark 10-year rate rose from 1.93% to 2.57% in Germany, from 2.40% to 3.11% in France, from 3.87% to 4.70% in Italy and from 2.94% to 3.65% in Spain. For the full year 2022, the JP Morgan EMU Government Bond Index was down a sharp 17.9%.

In December, equity markets weakened significantly, leading most stock market indices to record significant losses for the full year. The decline in stock prices is the result of the monetary tightening by central banks, which led to a reduction in valuation multiples, primarily affecting so-called growth stocks in almost all regions. Thus, the MSCI All Country World Index Net Total Return expressed in euro fell by 7.3% over the month and by 13.0% over the full year 2022. The year-on-year decline in the index would have been even larger had it not been mitigated by the strength of the dollar against the European currency. At the regional level, the S&P 500 in the US fell by 5.9% (in USD) over the month, the Stoxx 600 in Europe by 3.4% (in EUR), the Topix in Japan by 4.7% (in JPY) and the MSCI Emerging Markets Index by 1.6% (in USD). At the sector level, utilities, healthcare and consumer staples held up best during the month, while communication services, consumer discretionary and technology declined the most. For the full year 2022, energy was the only sector (according to the GICS sector classification) to post a big positive performance, while all other sectors were down on the year.

Boosted by the hawkish comments of European monetary policymakers, the euro continued to rebound against the dollar, rising from 1.04 to 1.07 during the month. The dollar's decline in December had a positive impact on precious metal prices. The price of an ounce of gold rose for the second consecutive month, from USD 1769 to USD 1824, an increase of 3.1%. The price of an ounce of silver rose from USD 22.2 to USD 24.0, an increase of 7.9%.



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