December 2023: A summary for investors

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What's happened in December?

- Global stock markets round out 2023 in style
- Government bonds surge while yields tumble
- UK stands on the cusp of a recession
- US, UK and China keep rates unchanged

Market summary

November's rally continued throughout December, with markets ending 2023 in impressive fashion. Dovish press conferences from major central banks, falling government bonds yields and favourable economic data powered indices higher.

In the US, the Federal Open Market Committee (FOMC) left interest rates unchanged in December with the federal funds rate remaining at 5.25 – 5.5% for the third consecutive meeting. In his pre-prepared statement, Federal Reserve Chairman Jerome Powell, acknowledged easing inflation and a growing economy - essentially indicating there's no further appetite for tightening financial conditions.

Off the back of the softening rhetoric, US 10-year treasury yields fell below 4.00% by the end of the month for the first time since August. The year-on-year inflation rate in the US also slowed marginally from November to 3.1%, driven by declining energy costs. GDP growth in the US for the third quarter was revised lower to 4.9% (down from the second estimate of 5.2%), but this still marks the strongest growth since Q4 2021.

In updated projections, the FOMC expects growth to be 2.8% for the whole of 2023 - a remarkable feat considering the issues economies faced last year, including a banking crisis in March.

The disinflation story continued in the UK. The annual inflation rate for November slowed to 3.9% (down from 4.6% in October) – the lowest level since September 2021, and, to the delight of consumers was due to falling petrol prices. In its December meeting, the Bank of England (BoE) left base rate unchanged at 5.25%, striking a slightly more hawkish tone than the FOMC. The BoE will continue with their data-dependant approach and have stated that monetary policy will remain restrictive for an extended period.

How long the Monetary Policy Committee will be able to keep up this hawkish tone in the face of a potentially stagnating economy is yet to be seen, but with monthly GDP growth in October recorded at -0.3%, the doves may soon start to appear. With GDP growth having shrunk by 0.1% in the third quarter, the UK now stands at the edge of a technical recession, likely accelerating the timeline for cutting interest rates.

Despite still exceeding their 2% target, the Euro Area saw its inflation fall to 2.4% in November from October's 2.9%, marking the seventh month of declines in the headline rate. Both manufacturing and services PMI's are contracting, underscoring the impact monetary tightening is having on European businesses.

Like the US and the UK, the Chinese central bank kept its benchmark lending rates unchanged in December. This is despite pressure to ease monetary policy further as their economic recovery continues to falter. The People's Bank of China left the one- and five-year loan prime rates at 3.45% & 4.2% respectively. Chinese CPI fell by 0.5% year-on-year in November led by the falling food prices.

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