



# Markets Outlook Bulletin 16th January 2023

From the first few days in January 2022 there was a resurgence in value stocks which accelerated during the first quarter and continued throughout the year. This rotation was fuelled by global inflationary concerns, which escalated due to rising commodity and oil prices as a result of the war in Ukraine and supply chain backlogs in China. This rapid reversal in market sentiment was a severe headwind for the performance of our Advisory Portfolio Service (APS) portfolios and the benchmark during the first half of the year.

As the year progressed it became apparent that due to the war in Ukraine inflation concerns were escalating and expectations of peak inflation were pushed further out by central banks and markets. This in turn led to an acceleration in policy tightening and significant increases to interest rates.

## Growth Vs Value - Performance Comparison 2022



31/12/2021 - 30/12/2022 Data from FE fundinfo 2023

Please note that past performance is only a guide and future yields cannot be guaranteed. Unit prices can fall as well as rise, therefore the value of your portfolios and holdings shall also fall and rise.



Burley Fox Limited 20 Cathedral Road, Cardiff CF11 9LJ  
Tel: 029 2167 9770 Email: [info@burleyfox.com](mailto:info@burleyfox.com)

Burley Fox is authorised and regulated by the Financial Conduct Authority and is entered on the Financial Services Register <https://register.fca.org.uk> under reference 610482

The Financial Conduct Authority does not regulate will writing and taxation and trust advice. Not all Inheritance Tax Planning solutions are regulated by the Financial Conduct Authority. The guidance and/or advice contained within this website is subject to the UK regulatory regime, and is therefore targeted at consumers based in the UK.



Our Advisory Portfolio Service portfolios have historically held funds that invest in companies that are viewed to have strong growth prospects with sustainable earnings and healthy balance sheets. These funds will have either a quality or a growth bias or a combination of the two. Companies that are held within a fund with a quality bias tend to have strong fundamentals and strong management teams that are able to guide the company through economic highs and lows. Fund managers only look to invest into these companies at a time when they believe the value is justified and look to hold for the longer term.

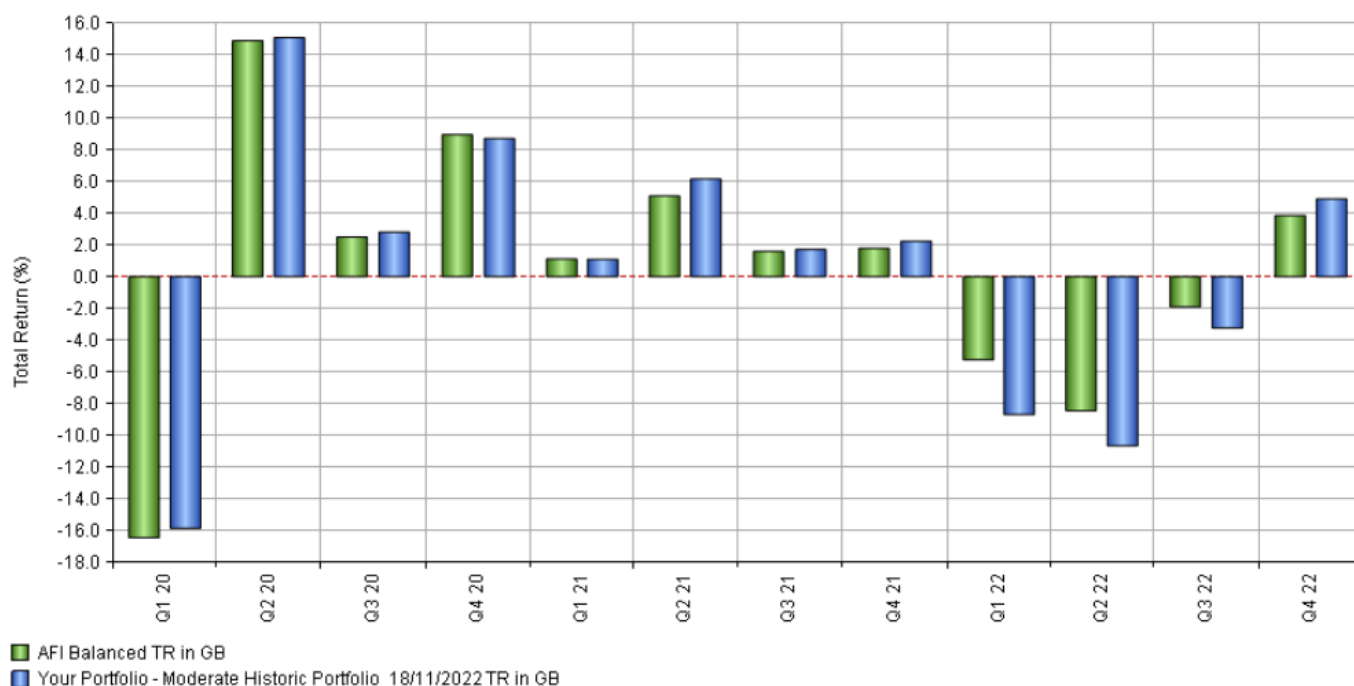
A value investor's primary reason for buying the shares of a company is the valuation. If they believe that the company is a good company and is undervalued by the market they will look to invest. Unlike a quality investor, the underlying fundamentals of a company are secondary to valuation.

We continue to believe that holding funds within our portfolios that invest in companies with quality and growth attributes remains essential for future returns. We did however last year increase the exposure of our portfolios to the FTSE 100, which is viewed as having a more value bias, due to the sector weightings of the index. This decision was made as it became clear that inflation was going to go higher than expected and remain a headwind for markets for longer.

The chart below gives a three year quarterly performance comparison of a typical moderate Advisory Portfolio Service portfolio to the relevant benchmark, which is the AFI Balanced Index.

This chart highlights how the change in market sentiment last year had a negative impact on the APS portfolio, particularly during the first half of the year. The final quarter was positive for both the portfolio and the benchmark, however the portfolio did underperform the benchmark for the year overall. The table overleaf provides a further comparison, breaking down the last ten years performance.

### Three Year Performance Comparison - Moderate Portfolio



Please note that past performance is only a guide and future yields cannot be guaranteed. Unit prices can fall as well as rise, therefore the value of your portfolio and holdings shall also fall and rise.

### Ten Year Performance Comparison - Moderate Portfolio

| Portfolio Benchmark | 2013   | 2014  | 2015  | 2016  | 2017   | 2018   | 2019   | 2020  | 2021   | 2022    |
|---------------------|--------|-------|-------|-------|--------|--------|--------|-------|--------|---------|
| APS Portfolio       | 16.23% | 4.40% | 6.48% | 9.24% | 14.60% | -7.09% | 17.86% | 7.18% | 11.79% | -16.56% |
| AFI Balanced        | 12.09% | 5.53% | 4.91% | 6.64% | 11.47% | -5.98% | 14.29% | 7.15% | 9.88%  | -11.76% |

Market sentiment this year shall continue to be influenced by global inflation rates and central bank responses, by way of further policy tightening or as expected later in the year the easing of monetary policy. Economies and consumers shall continue to feel the repercussions of these decisions and recessions across developed nations are predicted over the coming months.

The end of last year did however see inflation rates start to moderate and this is expected to continue as the labour market slows and economies continue to weaken. If inflation across developed nations does continue to fall back over the coming months, then this could prompt central banks to pause their policy tightening. This would then enable them to assess the impact their actions have had on economic activity and evaluate their future responses.

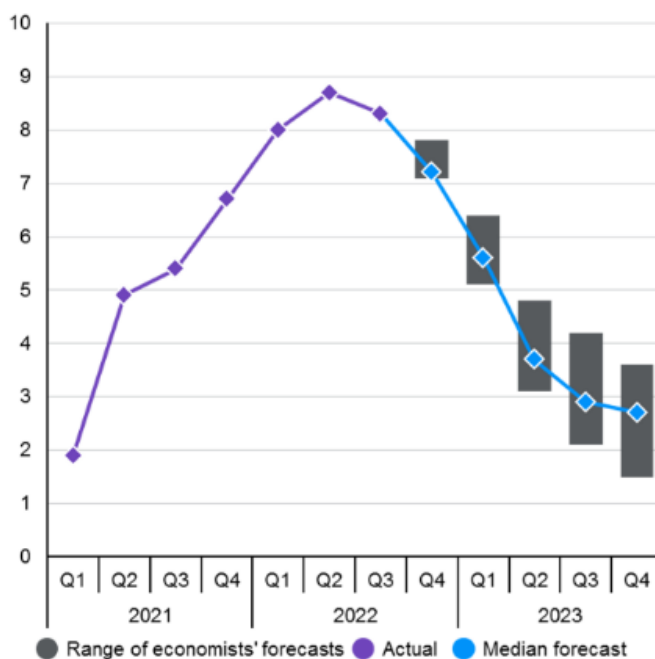
A concern is however that central banks, and in particular the Federal Reserve (Fed), are too focused on backward looking data and in particular the labour market. By the time that the U.S. labour market

shows signs of weakening, the economy could already be heading into a recession. Inflation rates are however expected to continue to moderate as the year progresses, but the level that they shall stabilise at shall be decisive for markets.

This chart highlights the differing opinion of economists regarding how U.S. inflation shall moderate in 2023. The target inflation rate in the U.S. is 2%, which some predict shall be breached during the fourth quarter, however others are of the opinion that at that time it shall be closer to 3.5%.

Assuming headline inflation and wage inflation are easing, U.S. interest rates are predicted to peak at around 4.5% - 5.0% during the first quarter of this year. The ECB is similarly expected to pause at 2.5% - 3.0% in the first quarter. The Bank of England may take slightly longer to reach a peak, given that inflation is predicted to remain higher for longer. A peak of 4.0% - 4.5% is however expected in the second quarter.

### U.S. Headline CPI Forecasts



Bloomberg, BLS, J.P.Morgan Asset Management. Data as at 31/12/2022



Burley Fox Limited 20 Cathedral Road, Cardiff CF11 9LJ  
Tel: 029 2167 9770 Email: [info@burleyfox.com](mailto:info@burleyfox.com)

Burley Fox is authorised and regulated by the Financial Conduct Authority and is entered on the Financial Services Register <https://register.fca.org.uk> under reference 610482

The Financial Conduct Authority does not regulate will writing and taxation and trust advice. Not all Inheritance Tax Planning solutions are regulated by the Financial Conduct Authority. The guidance and/or advice contained within this website is subject to the UK regulatory regime, and is therefore targeted at consumers based in the UK.



The general consensus is that global markets have already priced in much of the negative economic news that is expected this year, so the year ahead could be less of a headwind for markets than 2022. There is however a concern that markets have only priced in a moderate recession and that inflation could be more persistent and volatile leading to a deeper recession or a major growth slump.

A global recession is likely to lead to further downgrades in company earnings expectations, however as stated this will have to a degree already been priced in by markets. This could spark further volatility in global markets but this could be limited due to the significant downturn last year. Throughout last year we increased our portfolio exposure to UK Income funds, which should be beneficial for portfolios this year as the dividends they shall provide should prove to be more resilient than company earnings. The chart below compares the performance of the main UK Equity Income funds that we hold in our portfolios during last year to that of the FTSE 100 and the FTSE 250.

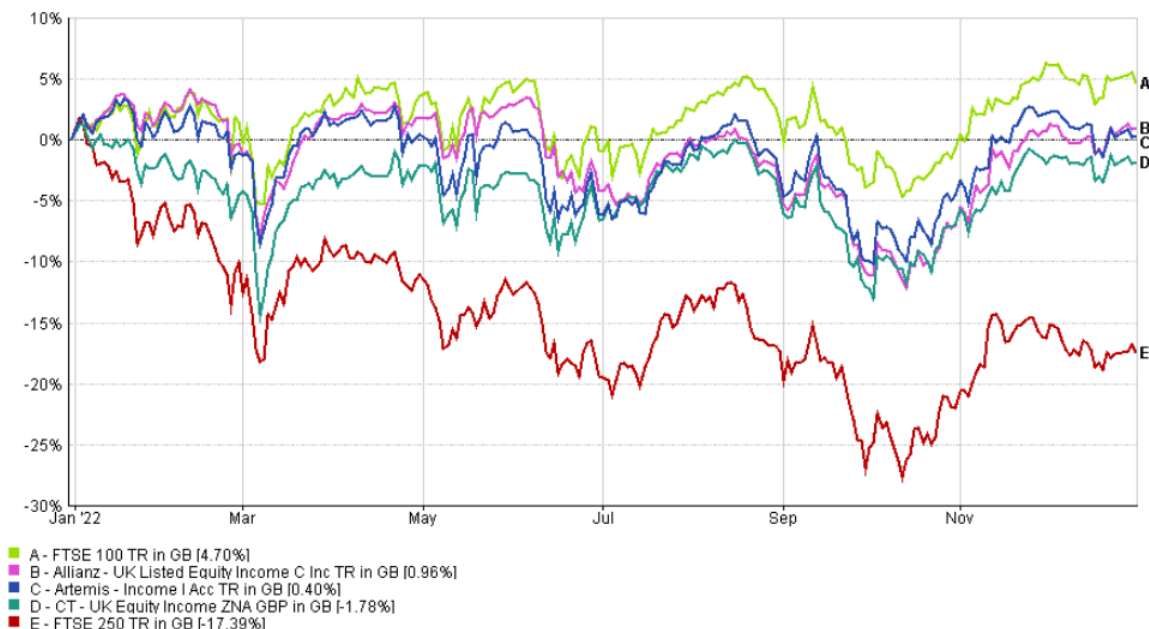
Last year not only saw a downturn in equity markets but also a painful correction in global bond markets, which saw their worst drawdown in over a century. Investors became concerned over persistently high inflation and aggressive tightening in monetary policy. This pushed government bond yields, the return received for an investment, to their highest levels in over a decade. Bonds are now seen to have discounted all of the bad news about inflation and are set to benefit from falling inflation and gradual central bank policy reversal.

The managers of the bond funds that we hold within our portfolios are very optimistic regarding bond markets, as the yield that can now be received from a bond investment is now competitive to the income that can be received from other asset classes, namely equities. They understand that the repricing of the asset class that occurred last year was painful, but the sector has now become a much more attractive place to invest. We are already seeing a strong recovery across various fixed interest sectors since their lows in October last year and this is shown in the chart overleaf.

Last year the Chinese economy was faced with an entirely different set of challenges to that of the developed world with widespread Covid lockdowns remaining in place. Early December however saw a sudden turnaround in policy, as it became apparent how damaging the zero Covid policy and the measures that were being enforced were being to the economy.

The final quarter of 2022 saw both exports and imports contracting significantly, as global demand faded, and lockdowns impacted domestic demand. The view is that global demand shall continue to weaken as a result of global aggressive monetary policy and high inflation. By relaxing restrictions, the government is attempting to stimulate the domestic economy as global demand wanes.

### UK Equity Income - 2022 Performance



31/12/2021 - 30/12/2022 Data from FE fundinfo 2023

Please note that past performance is only a guide and future yields cannot be guaranteed. Unit prices can fall as well as rise, therefore the value of your portfolio and holdings shall also fall and rise.



Burley Fox Limited 20 Cathedral Road, Cardiff CF11 9LJ  
Tel: 029 2167 9770 Email: [info@burleyfox.com](mailto:info@burleyfox.com)

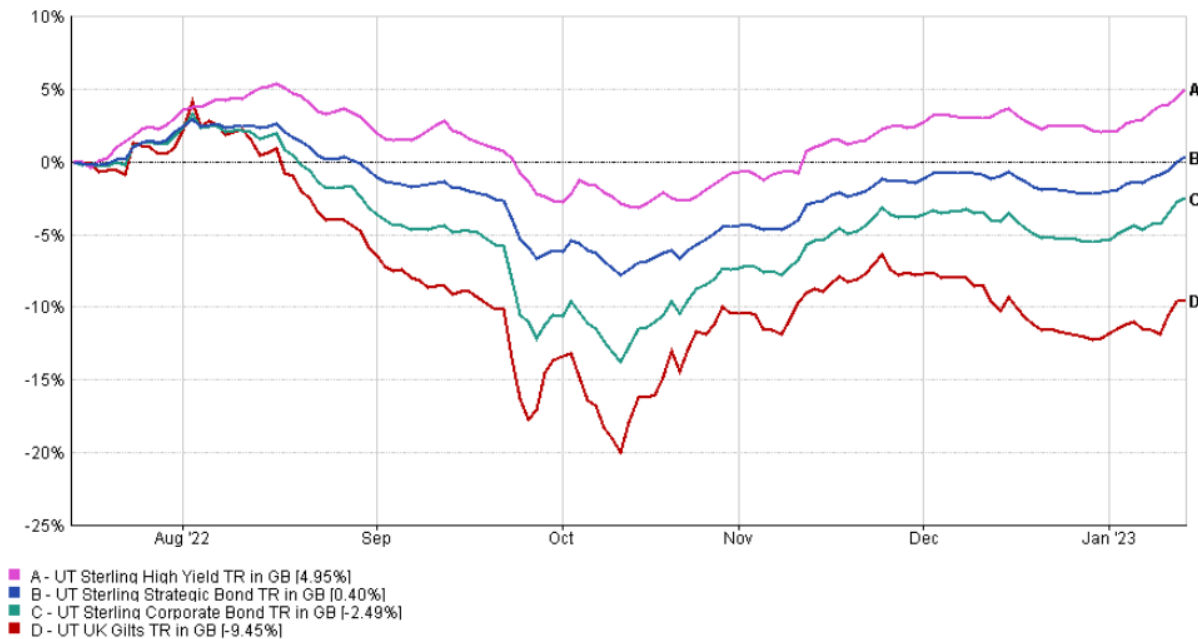
Burley Fox is authorised and regulated by the Financial Conduct Authority and is entered on the Financial Services Register <https://register.fca.org.uk> under reference 610482

The Financial Conduct Authority does not regulate will writing and taxation and trust advice. Not all Inheritance Tax Planning solutions are regulated by the Financial Conduct Authority. The guidance and/or advice contained within this website is subject to the UK regulatory regime, and is therefore targeted at consumers based in the UK.





## Six Month Bond Sector Performance



13/07/2022 - 13/01/2023 Data from FE fundinfo 2023

China has low vaccination levels, particularly among the elderly and a weaker hospital network when compared to the west. For these reasons Chinese authorities have been reluctant to move to a 'living with Covid' policy. Limited information has been released by the authorities regarding the repercussions of the relaxation of restrictions. Daily statistics have however been stopped and there are reports of hospitals becoming crowded with Covid patients. Cases are expected to surge as millions of Chinese travel ahead of the lunar new year on 23rd January and the current wave of infections is expected to last two to three months.

The normalisation of the Chinese economy should further ease supply chain disruptions that have contributed to inflation. Markets shall however be watching for a rebound in growth in China, as this could further boost demand for global commodities and see prices rise again. In addition, U.S. - China tensions are expected to continue with further U.S. technology curbs in a bid to restrict China's access to its technology and the continued tightening of relations between the U.S. and Taiwan.

As stated a moderate global recession is expected this year, however the consequences of this recession are viewed as largely being priced into markets and inflation is starting to fall back. The pace of interest rate rises is also starting to slow, as the impact of central bank policies starts to materialise. If these market conditions continue, 2023 should be a more positive year for bonds and stocks. Having said that, there are risks both economic and geopolitical that could bring further instability to markets during the year and in turn cause further bouts of market volatility.

We shall continue to keep you informed of details regarding market performance and factors affecting the global economy via our Market Bulletins. Copies of these can be found in the documents section of your Personal Finance Portal (PFP).

Should you have any queries or concerns, please do not hesitate to contact your Investment Director.

Kevin Hunt Dip PFS, Cert PFS (DM)  
Investment Manager  
Technical Team





## Risks & Disclosures

- Past performance is no guarantee of comparable future results. Unit prices can fall as well as rise.
- Diversification does not guarantee investment returns and does not eliminate the risk of loss.
- The projected results and statements contained within this document that are not historic facts are based on current expectations.
- Any statements made speak only as of the date of this document and involve risks, uncertainties and other factors that may cause actual results, performance or actions to be materially different from any future results, performance or actions.
- Assumptions and projections made involve judgments with respect to, among other things, future economic, competitive and market conditions and future business decisions, all of which are impossible to predict accurately and are beyond the control of Burley Fox Limited.
- Burley Fox Limited does believe that any assumptions made for projected results or forward looking statements are reasonable as at the date of this document. Any of the assumptions made could be inaccurate and, therefore, there can be no assurance that the projected results or forward looking statements made will prove to be accurate.
- In light of the significant uncertainties inherent in the projected results and forward looking statements within this document, the inclusion of such information should not be regarded as a representation as to future results or that any forward looking statements shall be achieved.

The General Data Protection Regulations (GDPR) became effective in the UK from the 25 May 2018. Burley Fox Limited has published a new Privacy Policy so you understand how we use and protect your data. A copy of this document can be found on our website here.

<https://www.burleyfox.com/documents/BFL-Privacy-Notice-2018-V1.pdf>

