

Signatory of:



2022

End Of Year Market Review

Skybound Wealth Management

January 2023

We Always Remember It's Your Money We're Investing



SKYBOUND
WEALTH MANAGEMENT

The biggest
investment we
make isn't into
a single stock
or share, it's our
commitment
to helping you
realise the future
you always
dreamed of.

2022 Review

2022 was definitely a memorable year, however, for all the wrong reasons. No one could foretell all the events that would unfold.

The year started off with inflation on the rise which continued throughout the best part of 2022. This led to central banks raising interest rates. Only towards the end of the year could we see signs of a possible reversal in inflation. The Russia-Ukraine war unleashed geopolitical instability throughout the globe. Stubborn COVID lockdowns in China, following recent unrests, have only recently been lifted triggering a spread of COVID and numerous deaths. The UK had 3 different Prime Ministers throughout the course of 2022 bringing with it uncertainties to the economy. We witnessed worker unrest and ensuing strike/industrial action for inflation-linked wages. This has all contributed, and led to continued recession worries nearing the end of 2022.

It was a very volatile year for both the global stock market and the global bond market. Commodities was seen as somewhat a safe haven as anxious investors turned their heads this way. The table below gives a clear picture of the performance of Asset Class and Style.

2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Q4'22
Small cap: 36.6%	Global REITS: 5.6%	Global REITS: 23.0%	Small cap: 32.9%	Global REITS: 22.9%	Growth: 3.0%	Small cap: 21.3%	MSCI EM: 27.8%	Global Agg: -1.2%	Growth: 34.1%	Growth: 34.2%	Global REITS: 32.6%	Comdy: 10.1%	Value: 14.9%
Global REITS: 22.8%	Global REITS: 2.3%	MSCI EM: 18.6%	Value: 27.0%	Growth: 6.0%	Global REITS: 0.6%	Value: 12.2%	Growth: 28.0%	Global REITS: -4.0%	DM Equities: 26.4%	MSCI EM: 18.7%	Comdy: 21%	Value: -3.8%	Small cap: 10.0%
MSCI EM: 10.2%	Agg: -6.9%	Small cap: 18.1%	DM Equities: 22.4%	DM Equities: -5.5%	Small cap: 0.1%	Comdy: 11.5%	Small cap: 22.2%	Growth: -5.4%	Small cap: 26.8%	DM Equities: 16.5%	Value: 22.8%	Global Agg: -16.2%	DM Equities: 0.9%
Comdy: 16.8%	DM Equities: -8.0%	Growth: 16.6%	Growth: 22.2%	Value: 4.3%	DM Equities: +0.3%	MSCI EM: 11.6%	DM Equities: 22.1%	DM Equities: -0.2%	Global REITS: 24.4%	Small cap: 16.5%	DM Equities: 22.3%	DM Equities: -12.7%	MSCI EM: 2.8%
Growth: 14.9%	Growth: -5.9%	DM Equities: 6.5%	Global REITS: 2.3%	Small cap: 2.0%	Global Agg: -3.2%	DM Equities: 8.2%	Value: 18.0%	Value: -10.1%	Value: 22.7%	Global Agg: 9.2%	Growth: 21.4%	Small cap: -16.4%	Global REITS: 6.9%
DM Equities: 12.3%	Small cap: 8.7%	Value: 15.4%	MSCI EM: 2.3%	Global Agg: 0.0%	MSCI EM: -4.1%	Global REITS: 6.5%	Global REITS: 8.0%	Comdy: -11.2%	MSCI EM: 18.9%	Value: -0.4%	Small cap: 10.2%	MSCI EM: 19.7%	Growth: 4.8%
Value: 9.2%	Global REITS: 13.2%	Global Agg: 4.2%	Global Agg: 2.0%	MSCI EM: 1.8%	MSCI EM: 14.0%	Growth: 3.2%	Global Agg: 7.6%	Small cap: -13.0%	Comdy: 7.7%	Comdy: 3.1%	MSCI EM: 2.2%	Global REITS: 23.7%	Global Agg: 4.0%
Global Agg: 5.0%	MSCI EM: 19.2%	Comdy: 1.1%	Comdy: 9.8%	Comdy: 17.0%	Comdy: 24.7%	Global Agg: 2.7%	Comdy: 1.7%	MSCI EM: 14.2%	Global Agg: 6.8%	Global REITS: 10.4%	Global Agg: 4.7%	Growth: 29.1%	Comdy: 2.2%

Source: Bloomberg Barclays, FTSE, MSCI, Refinitiv Datastream, J.P. Morgan Asset Management. - Market Review, December and Q4 2022

What is worth highlighting is the rebound in performance during Q4 - and all this on the back of a turnaround in the inflation rate! Furthermore, this has led quite swiftly to Central Bankers announcing a more of a “wait-and-see” or “let’s-see-how-it-goes” approach regarding interest rates. In other words, most economies are reporting they are near/close to their neutral rates. 2008 was about as bad as it got for markets and performance was even worse than 2022. I don’t believe we are headed anywhere close to that. Markets are reacting negatively to external events (China’s COVID easing, spikes in the Russia-Ukraine crisis) and positively to economic developments (inflation easing, rate hike easing and more recently, better-than-expected GDP data).

Here are 2022's Biggest Winners and Losers

Commodities and Energy lead the way

There's no way to sugar-coat the year we have had, it was terrible. Both equities and bonds suffered. There was, however, a shining light as investors became increasingly anxious and turned their heads to commodities.

Broader commodities had a good year, beating equities and finishing the year delivering a return of 16.1%. Energy, which makes up a significant part of the commodities market, played a big part in this and delivered 33.1% returns. High oil and gas prices fuelled by tight supply helped drive up commodity prices, as did inflationary pressures given commodities are viewed by some investors as a good way to protect against inflation.

Gold had a fairly calm year in relative terms and finished 2022 close to where it started, gaining 0.4%. Gold, however, shouldn't really be seen as a driver of returns, but more of an insurance policy. It tends to do well when markets are at their most volatile and given the year we had, gold was able to offer some protection against market drops.

This emphasises the importance of a well-diversified portfolio. In a year where both equities and bonds were volatile, commodities performed well and helped reduce the effects of such volatility. It is important to remember that we don't look at commodities as a main driver of investment returns and so allocate a portion of this asset class to lower risk, all weather portfolios.

A dismal year for equities

Overall, it was a very disappointing year for equity investors. During 2022 the global stock market fell 18.4%. All regions that make up the global stock market fell during the year, led by the US which makes up over 60% of the total global market, falling 19.5%. The volatility came from all angles in 2022 including inflation, geopolitical instability, supply chain issues and COVID restrictions throughout China all contributing.

From a sector perspective, there was only one sector to deliver positive returns. The energy sector finished the year with a 33.1% gain. Driven by tight supply and Russia's invasion of Ukraine further affecting supply throughout Europe saw energy prices rise sharply.

On the opposite end of the spectrum, the worst performing sector, consumer discretionary fell 33.8% over 2022. Inflationary pressures mounted and energy prices soared, luxury items became less and less desirable as the cost-of-living crisis ensued.



The Tech Sector specifically had a bit of a reality check over the past year, falling 33.1% as inflation and rising interest rates continued to mount over the course of the year.

We consider equities as the main driver of investment returns. The stock market is volatile by nature and so expect market downturns to occur. While the past year has been somewhat unnerving to investors, history has proven no matter how far markets fall, they have always shown resilience and recovered.

Bonds also suffer

In an attempt to deal with inflationary pressures, we saw some of the most drastic interest rate hikes in years. Central banks were left no choice but to increase rates which subsequently had a damaging effect on the bond market. The global bond market fell by 16.3% in 2022.

There really was no place to hide for bond funds given their inverse relationship with interest rates. The coupons (income)



fixed-income bonds generate are, as their name suggests, fixed. Therefore, they become less attractive to investors if inflation picks up or if interest rates begin to rise.

Of the major bond types, it was the short-dated and inflation-linked bond funds which held up the best. Short-dated bonds or bonds with a shorter maturity are less sensitive to interest rate changes therefore interest rate hikes had a more damaging effect on the longer dated bonds. As for inflation linked bonds, they differ from conventional 'nominal' bonds as their principal payment (what investors get back when the bond matures) and semi-annual coupon payments rise with inflation – usually measured by the Consumer Price Index (CPI). Therefore, while they aren't

immune from the effects of increasing interest rates, they held up better than conventional bonds as inflation rose.

While bonds had a tough time this year, over the long term, we consider them an important asset class to have in our portfolios helping reduce risk and volatility.

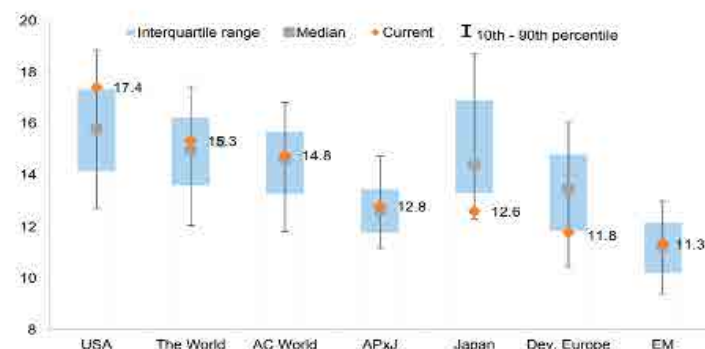
RE: 2023 Outlook

So what can we expect of 2023? There are three components to this:

1. Valuations
2. Earnings
3. Growth

The chart below shows how valuations, (MSCI Regions, 10 year History) stack up as of 19th December, 2022). The price to earnings allows an investor to determine the value of a stock compared to the company's earnings. A lower PE ratio may indicate cheaper valuations. As the 'current' level on the chart shows, there's good value out there and valuations are looking cheap.

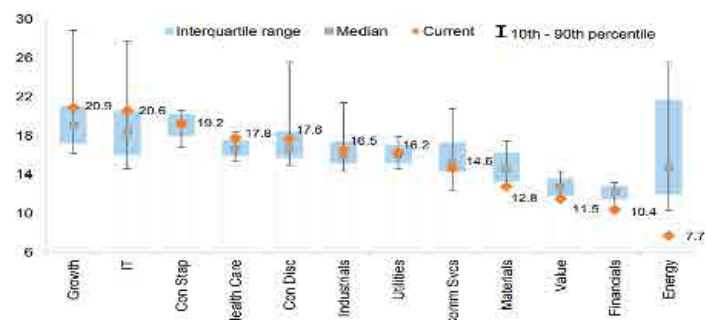
12-month forward price to earnings multiple



Source: FactSet, Goldman Sachs Global Investment Research

If you look at the same breakdown but this time by sector/style, it's more revealing:

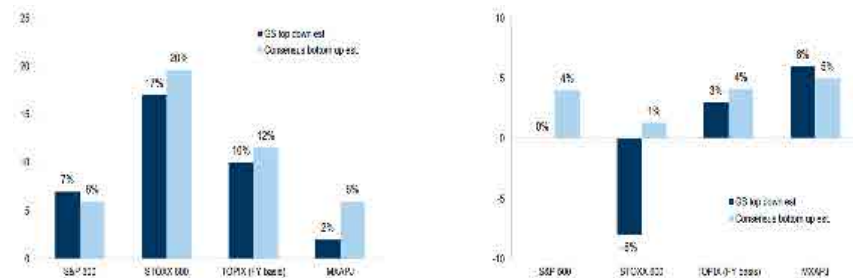
12-month forward P/Es relative to the last 10 years



Source: FactSet, Goldman Sachs Global Investment Research

The rise in the 12month forward Price to earnings of Growth and IT has come about in Q4 while Value, Financials and Energy are lingering well below their low-end range. Valuations are not extreme – and it improves as you look at the economy-sensitive sectors.

What about Earnings? The two charts below compare the earnings growth forecasts by Goldman Sachs vs Consensus for both 2022 (left hand side) and 2023 (right hand side):



Source: I/B/E/S, Toyo Keizai, STOXX, MSCI, Goldman Sachs Global Investment Research

The US, Europe and Japan are the primary reasons driving an overall earnings decline comparing 2022 vs 2023. At the moment, earnings forecasts are on the lower end of the scale, and this may be as a result of what we experienced in 2022. However, any improvements on the forecasts will be very positive for 2023.

The perceived pressure on earnings (above) together with tighter affordability/cost of living standards, results in weaker GDP Growth projections. The chart below shows the Goldman Sachs GDP growth vs Consensus projections:


Percent Change yoy	Real GDP Growth					
	2022		2023		2024	
	GS	Cons*	GS	Cons*	GS	Cons*
USA	2.0	1.8	1.3	0.4	1.6	1.4
Japan	1.2	1.4	1.4	1.3	1.4	1.0
Euro area	3.3	3.2	-0.1	-0.1	1.4	1.4
Germany	1.8	1.7	-0.6	-0.6	1.4	1.3
France	2.5	2.5	0.1	0.2	1.3	1.1
Italy	3.8	3.7	-0.1	-0.1	1.3	1.0
Spain	4.6	4.5	0.6	1.0	2.1	1.9
UK	4.4	4.3	-1.2	-1.0	0.9	0.9
China	2.6	3.0	5.2	4.9	5.2	5.0
Developed Markets	2.5	2.6	0.8	0.5	1.5	1.5
Emerging Markets	3.4	3.1	3.6	4.0	4.4	4.4
World	2.9	3.0	2.0	2.2	2.8	2.9

Source: Bloomberg, Goldman Sachs Global Investment Research

So what is our economic outlook for 2023?



1. China's COVID easing. This is really going to test Beijing's resolve – there are growing calls for President Xi to go. If he fails, he's out. I believe China will pull through, but China will endure a stressful period.
2. Labour markets, driven by tight labour conditions, will see wages rise further. Eventually, they will be on par with inflation. Meanwhile, more and more workers who left the workforce will have to start returning (there are signs of this already) as inflation eats into their retirement income. All this helps buoy consumer spending.
3. Weather – the milder the winter, the lower the gas prices. This is happening already and has been since Q4 (despite the sharp winter spell in December).
4. Inflation comes down quicker than expected □ Interest rates remain steady, even come down a little. Remember, if interest rates come down (or stay the same) while inflation falls, that's still monetary tightening without the appearance of monetary tightening.
5. A decline in the Russia-Ukraine conflict. Putin needs a way out – the recent rocket attacks by the Ukrainians is a major blow for the Kremlin. Only the West can bring the Ukrainian forces to the table.
6. Energy prices will decline further helping to give growth (demand) a boost. Prices at petrol stations have already come off significantly. Eventually, energy prices will find a new equilibrium in terms of supply/demand. That equilibrium will likely be higher than where spot prices are now but are unlikely to reach dizzy heights that it chokes off a recovery. The latter is not in OPEC's or OPEC+'s interests.
7. The USD will continue to give back gains (a weakening USD is not a weak USD) while non-USD FX will rise in value – so helping to ease inflation burdens elsewhere (e.g. Japan).
8. Recessions will be avoided.



As always, you can't really draw many conclusions from 12 months of returns, as they're unlikely to have much bearing on future performance. So rather than react to recent short-term gains and losses, we think it's best to stay focused on your long-term investment plan. That of course should involve a well-diversified portfolio, giving your wealth the best chance to weather whatever market conditions are in store for 2023 and beyond.



We thank you for your continued support. Please do not hesitate to contact us should you require any further insights into our thoughts and processes.



Nikita Maxwell & Lucas Wood

Investment Team

Nikita holds a bachelor's degree specializing in portfolio management. She also holds a master's degree in Finance from the University of St Andrews and a CISI Level 3 qualification in International Certificate in Wealth and Investment Management. She joined Skybound Wealth in February 2021 and works out of the UAE office.



Based out of the Sheffield office, Lucas provides vital support to the investment team and advisers across the Skybound Group. He is Level 4 qualified after passing the Investment Management Certificate (IMC) from CFA UK.



Jabir Sardharwalla

Skybound Group Chief Investment Strategist

Jabir uses his decades of experience to provide economic and market insights and views, as well as general investment guidance. Prior to joining Skybound, he worked for Hasma Capital Advisors and Punter Southall Financial Management as Chief Investment Officer. Jabir is a graduate of the Warwick Business School and holds a degree in Accounting and an MBA.



Securing Your Future.

Wherever You Are Today.

We exist to educate and guide you through the important decisions required today, to ensure you benefit from the freedom of tomorrow.

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