A painful year for balanced funds

2022 and Q4 review

Passively managed balanced funds blending stocks and government bonds performed strongly in 2020 during the initial deflationary Covid shock, but were hit hard in its inflationary aftermath with both asset classes dropping sharply over 2022. Our more diversified mix, with inflation hedges like commodities and a lower fixed income exposure, proved more resilient (Table 1).

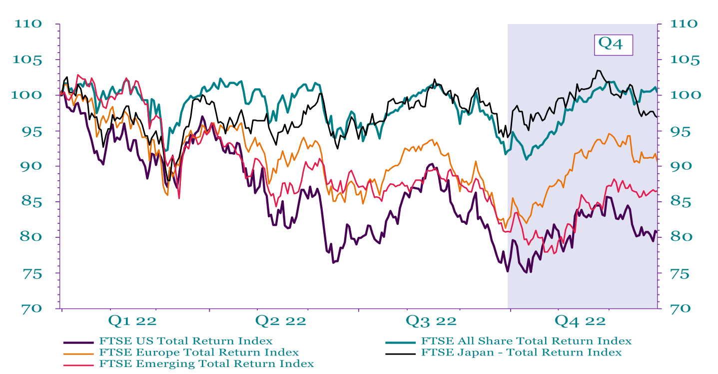
Stocks and bonds started 2022 egregiously overvalued, with cyclically adjusted US price earnings multiples at their highest level since the dot com bubble and government bonds offering negative real yields. Both markets plunged as central banks belatedly moved to tighten policy to counter surging inflation. A rally in Q4 didn't prevent equity markets registering their worst annual returns since 2008, with interest rate sensitive growth stocks leading the declines. Bond markets crashed with UK gilts down over 20%, their worst outturn since 1974, and US bonds suffering their worst yearly loss in local market terms since 1926.

The return of structural inflation risks and a very pronounced business cycle underline our commitment to a broadly diversified strategic asset mix and to tactical asset allocation. This added value over the year through underweight positions in government bonds versus commodities, a cautious view on stocks, and a large overweight to UK equities which outperformed on the back of sterling weakness and a high allocation to resource sectors (Chart 2). Please see the Investment Clock blog for our latest views.

Chart 1: Both stocks and bonds lost value in 2022

Source: Refinitiv DataStream as at 03/01/2023. Indices in local currency.

Chart 2: UK and Japan proved resilient in 2022



Source: Refinitiv Datastream as at 03/01/2023. Indices in local currency.

Table 1: Sterling-based annual returns from major asset classes 2016-2022

Year	2016	2017	2018	2019	2020	2021	2022
1	EM Stocks +35.4%	EM Stocks +21.1%	Property +7.5%	Global Stocks +22.6%	Global Stocks +14.3%	Commodities +28.3%	Commodities +30.7%
2	Commodities +33.3%	Global Stocks +14.0%	Cash +0.6%	UK Stocks +19.2%	EM Stocks +11.9%	Global Stocks +20.0%	Cash +1.0%
3	Global Stocks +30.3%	UK Stocks +13.1%	Gilts +0.6%	EM Stocks +15.9%	Gilts +8.3%	Property +19.9%	UK Stocks +0.3%
4	UK Stocks +16.8%	Property +11.2%	**Multi Asset -1.6%**	**Multi Asset +9.2%**	**Multi Asset +3.4%**	UK Stocks +18.3%	**Multi Asset -4.6%**
5	**Multi Asset +12.8%**	**Multi Asset +6.3%**	Global Stocks -3.1%	Gilts +6.9%	Cash +0.3%	**Multi Asset +9.2%**	EM Stocks -6.4%
6	Gilts +10.1%	Gilts +1.8%	Commodities -5.7%	Commodities +3.5%	Property -1.0%	EM Stocks +1.0%	Property -7.0%
7	Property +2.6%	Cash +0.3%	EM Stocks -7.6%	Property +2.1%	Commodities -6.1%	Cash +0.0%	Global Stocks -7.8%
8	Cash +0.4%	Commodities -7.1%	UK Stocks -9.5%	Cash +0.7%	UK Stocks -9.8%	Gilts -5.2%	Gilts -23.8%

Past performance is not a guide to future performance. Source: RLAM, DataStream as at January 2023; property as at December 2022. 'Multi Asset' returns are based on the benchmark weights of Royal London Global Multi Asset Portfolio (GMAP) Balanced Fund / Governed Portfolio 6. Indices used are FTSE All Share, FTSE World, MSCI Emerging Markets ESG Leaders, MSCI/AREF UK All Balanced Quarterly Property Fund, Bloomberg Commodity Index, BoAML BB-B Global Non-Financial High Yield Constrained Index, iBoxx Sterling Non-Gilt Index, FTSE Actuaries UK Index Linked Gilts, Bloomberg Barclays UK Government Inflation Linked Bond 1-10 year Index, Bloomberg Barclays World Government Inflation Linked Bond (ex UK) 1-10 year, FTSE Actuaries UK Conventional Gilts Index, FTSE Actuaries UK Conventional Gilts up to 5 Years Index, SONIA. Total returns in sterling terms.

Markets: Challenging year for interest rate sensitives

- Global equities posted their worst annual performance since 2008, although UK investors were partially insulated by the weak pound raising overseas values.
- UK stocks proved most resilient, ending the year with a small positive return; US stocks did worst, led downwards by interest rate sensitive growth stocks.
- Bond markets suffered very steep losses as central banks raised rates to combat high levels of inflation, with yields surging from historically low levels.
- Commodities ended 2022 as the strongest asset class, especially in sterling terms. Property dropped sharply in Q4, reversing earlier gains.
- Sterling weakened against most G10 peers while the US dollar outperformed. The yen ended the year as the main underperformer, despite strengthening significantly in Q4.

FX	1 GBP buys	%chg Q4 (vs GBP)	%chg 2022
USD	1.21	-7.6	12.0
EUR	1.13	0.8	5.3
CHF	1.12	-1.5	10.2
JPY	158.5	2.0	-1.7
AUD	1.77	-1.6	5.1
CAD	1.64	-5.7	4.3

CB rates	Rate (%)	chg in Q4 (%)	chg 2022 (%)
Fed	4.50	1.25	4.25
BoE	3.50	1.25	3.25
ECB	2.00	1.25	2.50
BoJ	-0.02	0.05	0.00

Bond Yield	Yield (%)	chg in Q4 (bps)	chg 2022 (bps)
US 10 Year	3.87	5	236
UK 10 Year	3.67	-42	270
EU 10 Year	2.57	46	275
JP 10 Year	0.42	17	35

	Local Currency		GBP	
Multi Asset	Q4	2022	Q4	2022
UK Stocks	8.9	0.3	8.9	0.3
Global ex UK Stocks	7.5	-16.0	1.8	-7.8
Gilts	1.7	-23.8	1.7	-23.8
UK Cash	0.5	1.0	0.5	1.0
UK Property	-11.6	-7.0	-11.6	-7.0
Commodities	2.2	16.1	-5.1	30.7

	Local Currency		GBP	
Equity Regions	Q4	2022	Q4	2022
UK	8.9	0.3	8.9	0.3
North America	7.2	-18.7	-0.5	-8.8
Europe ex UK	11.6	-12.2	12.1	-7.0
Japan	3.0	-3.1	4.8	-4.8
Pacific ex Japan	8.1	-10.5	6.6	-5.3
Emerging Markets	7.0	-13.5	0.8	-6.5

Global	Local Currency		GBP	
Equity Sectors	Q4	2022	Q4	2022
Consumer Discretionary	-3.0	-29.9	-7.8	-22.9
Industrials	13.8	-8.8	9.1	-1.6
Financials	11.7	-5.8	6.2	2.2
Consumer Staples	8.3	-2.7	3.3	5.8
Utilities	7.9	-1.2	2.5	8.2
Healthcare	11.0	-3.7	5.1	6.2
Energy	15.7	41.3	9.5	51.4
Materials	12.2	-6.5	7.9	0.1
Communication Services	4.4	-4.8	0.7	2.3
Technology	4.4	-29.6	-1.8	-22.2

	Local Currency		GBP	
Bonds	Q4	2022	Q4	2022
Conventional Gilts	1.7	-23.8	1.7	-23.8
Index Linked Gilts	-6.0	-33.6	-6.0	-33.6
GBP Credit	5.7	-17.7	5.7	-17.7
Global High Yield	5.3	-11.6	5.0	-12.4

	Local Currency		GBP	
Commodities	Q4	2022	Q4	2022
Energy	-9.1	36.2	-15.6	53.4
Agriculture	2.4	15.5	-5.0	30.1
Industrial Metals	16.4	-2.4	8.1	9.9
Precious Metals	13.3	0.1	5.2	12.7

Note: Standard indices sourced from DataStream and Bloomberg as at January 2023; Property data as at December 2022.

Investment risks – RL GMAP fund range

Investment risk: The value of investments and any income from them may go down as well as up and is not guaranteed. Investors may not get back the amount invested

Credit risk: Should the issuer of a fixed income security become unable to make income or capital payments, or their rating is downgraded, the value of that investment will fall. Fixed income securities that have a lower credit rating can pay a higher level of income and have an increased risk of default.

Derivative risk: Derivatives are highly sensitive to changes in the value of the underlying asset which can increase both fund losses and gains. The impact to the fund can be greater where they are used in an extensive or complex manner, where the fund could lose significantly more than the amount invested in derivatives.

EPM Techniques: The fund may engage in EPM techniques including holdings of derivative instruments. Whilst intended to reduce risk, the use of these instruments may expose the fund to increased price volatility.

Exchange Rate risk: Changes in currency exchange rates may affect the value of your investment.

Interest Rate risk: Fixed interest securities are particularly affected by trends in interest rates and inflation. If interest rates go up, the value of capital may fall, and vice versa. Inflation will also decrease the real value of capital.

Emerging Markets risk: Investing in emerging markets may provide the potential for greater rewards but carries greater risk due to the possibility of high volatility, low liquidity, currency fluctuations, the adverse effect of social, political and economic instability, weak supervisory structures and accounting standards.

Counterparty risk: The insolvency of any institutions providing services such as safekeeping of assets or acting as counterparty to derivatives or other instruments, may expose the fund to financial loss.

Fund investing in Funds risk: The fund is valued using the latest available price for each underlying investment, however it may not fully reflect changing stockmarket conditions and the fund may apply a 'fair value price' to all or part of its portfolio to mitigate this risk. In extreme liquidity conditions, redemptions in the underlying investments, and/or the fund itself, may be deferred or suspended.

Liquidity and Dealing risk: The fund invests indirectly in assets that may at times be difficult to value, harder to sell, or sell at a fair price. This means that there may be occasions when you experience a delay in being able to deal in the fund, or receive less than may otherwise be expected when selling your investment.

Past performance is not a guide to future performance. The views expressed are those of the author at the date of publication unless otherwise indicated, which are subject to change, and is not investment advice. Unless otherwise noted, the information in this document has been derived from sources believed to be accurate as of January 2023. Information derived from sources other than Royal London Asset Management is believed to be reliable; however, we do not independently verify or guarantee its accuracy or validity.

This is a financial promotion and is not investment advice.

The Funds are a sub-funds of Royal London Multi-Asset Funds ICVC, an open-ended investment company with variable capital with segregated liability between sub-funds, incorporated in England and Wales under registered number IC001058. The Company is a non-UCITS retail scheme. The Authorised Corporate Director (ACD) is Royal London Unit Trust Managers Limited, authorised and regulated by the Financial Conduct Authority, with firm reference number 144037. For more information on the funds or the risks of investing, please refer to the Prospectus or Non-UCITS retail scheme Key Investor Information Document (NURS KII Document), available via the relevant Fund Information page on www.rlam.com.

Issued in January 2023 by Royal London Asset Management Limited, Gracechurch Street, London, WEC3V 0RL. Authorised and regulated by the Financial Conduct Authority, firm reference number 141665. A subsidiary of The Royal London Mutual Insurance Society Limited.

Our ref: PDF RLAM W 0022