

# OCTOBER

## MONTHLY COMMENTARY

Although volatility remained elevated, developed equities rebounded this month returning 7.2%. The same can't be said for other markets: emerging market equities fell 3% over the month and bond yields globally continued to climb with 10year yields in the US reaching 4.2% before settling a little lower at month end. Global bond markets as a whole were down 0.7% for October. Gold - a dollar-denominated metal – also drifted lower by 1.6%, weighed down by persistent US dollar strength.

The escalating tensions between Russia and Ukraine in October heightened geopolitical concerns which have plagued the markets throughout 2022. However, good news for investors came in the form of easing supply chain issues which led to growing optimism towards the end of the month that central bank rate hiking schedules may slow. The UK found itself with a new Prime Minister and Chancellor of the Exchequer which helped to unwind the economic turmoil it was thrown into at the end of September, and Europe made considerable steps towards reducing the effect of the energy crisis. The tough global economic outlook and geopolitical tensions remain sources of strength for the US dollar.

Investors continued to be bogged down by high inflation data which, coupled with the unwavering strength of the labour markets, support persistent hawkish activity from central banks. A milestone hike of 0.75% was made by the ECB (European Central Bank) on the 27th October and the Fed (Federal Reserve) and BoE (Bank of England) is expected to mirror this action early November.

### UK

New leaders in the UK helped to re-establish credibility with investors by reassuring goals to ultimately reduce government borrowing by rolling back tax cuts released in the mini budget. Yields on UK government bonds came down to the pre mini budget level with prices rallying 3% and sterling strengthened. This retracement of gilt yields calmed the problems facing pensions funds and their stretched LDI (Liability-Driven Investing) strategies. The Bank of England is expected to increase rates by at least 0.50% in the November MPC (Monetary Policy Committee) meeting.

### US

Higher and swifter rate hikes in the US have started to weigh heavy on the housing market. Mortgage rates in the US have grown to the astonishing level of 7.16% for an average 30yr fixed mortgage which is creating a slowdown in the US housing sector. Furthermore, the Purchasing Managers Indices (PMIs) data released in October showed economic contractions gathering in both manufacturing and services signalling a rise in recession risk.

Inflation figures remained stubbornly high with core prices (ex volatile food and energy) increasing 0.6% from August, pushing the annual increase from 6.3% to 6.6%, a new 40-year high. These high figures are pushed up by the surging prices in rent and medical care (services). This CPI (Consumer Price Index) report keeps the pressure on the Fed to bring inflation into

check as they battle to prevent high inflation becoming entrenched in the economy using rate hikes as their key weapon. Most economists believe that the Fed are unlikely to be dissuaded from another rate hike of 0.75% in early November. However, rising recessionary risks and abating supply chains issues have led to speculation of a policy pivot.

## EUROPE

A new package of extreme measures to help combat the energy crisis is being thrashed out. Measures included are a proposed EU-wide price cap to rein in surging gas prices and volatility, joint purchases (stronger together), established solidarity rules and the redirection up to €40 billion in financial support for households and businesses from unused funding. Germany launched their own fiscal package of €200 billion of financial support which was met with some criticism over its independent, rather than co-ordinated, approach with the rest of Europe. With gas storage tanks 94.8% filled and the remarkably warm autumn thus far, gas prices have been allowed to sink further.

Inflation figures rose to 10.7%, with core inflation posting 5% y-o-y. Purchasing Managers Indices (PMIs) data released demonstrated a slowdown in economic activity that is in line with a recession. Despite the gloomy economic outlook, the ECB delivered the 0.75% increase in interest rates.

## CHINA

President Xi was reappointed at China's 20th Party Congress. Changes in leadership in the party caused a stir with the retirement of major technocrats that had helped to bolster China's economy in the 21st century heading the recent deleveraging policies. The Chinese stock markets tumbled on the reshuffle with the major indexes posting weekly losses of: Hang Seng -8.9%, CSI 300 -5.4% and the Shanghai Composite -4%.

However, Real GDP growth rebounded to 3.9% year on year, which outpaced market expectations. The recovery was largely led by the manufacturing sector as services continued to be affected by sporadic lockdowns in response to COVID and the latest Omicron wave. Inflation in China contradicts the high figures we have seen elsewhere globally, coming in at 2.8% which gives the central bank more flexibility to pursue a more accommodative monetary policy.

However, a weakening currency in the face of the strong dollar is a constraint.

As we look ahead at the upcoming events likely to stir markets in November, topping the list are the US elections, key Fed and BoE meetings (where interest rates are expected to rise) and the remainder of company earnings releases which have already got off to a bumpy start.

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