NOVEMBER
MONTHLY COMMENTARY

November was a positive month for financial markets with global equities as measured by the MSCI World rising 6.8%. Better than expected inflation data was the key driver as financial markets anticipated a potentially slower pace of monetary tightening. While inflation softened, third quarter company earnings presented a mixed outlook and the US midterm election results were too close to call.

In October, US consumer price inflation slowed to 7.7% versus a prior month of 9.1%. Core inflation which strips out volatile food and energy prices also eased. On a component level vehicle price, medical care cost and airline fares declined, although rents rose. Monthly core CPI rose 0.3% from previous month below the 0.6% recorded in September.

It was a mixed bag of earnings for US companies with 69% of companies reporting earnings surprises which was at the lower end of the long-term average. Apple Inc reported better than expected numbers and positive guidance while conversely Microsoft, Alphabet, Amazon and Meta earnings disappointed. Meta and Amazon also announced labour force cuts.

US mid term elections went to the wire with the Democrats retaining control of the Senate through gaining the state of Pennsylvania from the Republicans. The Republicans as expected took control of the House meaning the pace of Biden pushing through new legislations slows. The US central bank continued to increase rates with a fourth hike of 0.75% in November to 3.75% - 4.0% range. Fed minutes later in the month pointed to a slow down in pace of tightening but the underlying message of maximum employment and price stability remain; with a subtle undertone of willingness to take the economy into a recession to curb higher prices.

Across the pond and in the UK the new Prime Minister and Chancellor binned the previous mini budget and adopted fiscal prudence. A £55bn consolidation package was announced with majority of debt coming from spending cuts and the remaining balance from tax increases. By month end the sterling had pared back some of its losses appreciating by 6% to finish around 1.20.

In Europe the same fundamentals of cooling inflation – Spain CPI down to 6.6%, Germany down to 10% continued but the likelihood of an energy priced induced recession remains high in the region. Positively the region cut gas demand by a quarter in November even as temperatures fell.

China's zero covid policy reached a crescendo with protests at the lockdown of the world's biggest iPhone factory in the Chinese city of Zhengzhou. While in southern China's industrial region Guangzhou, crowds escaped lockdowns to protest calling for the Xi Jinping's resignation. Regionally, within equities, emerging markets outperformed developed markets, Europe outperformed the United States whilesector wise most styles were up with cyclical areas of the market such as materials and industrials up 14% and 9% respectively on the back of improving economic conditions. Energy was the laggard on expected falling Chinese demand.

Within fixed income bonds the longer end of the US treasury yield curve for example - the 10yr annualised yield to borrow money, fell from 4.4% to 3.8% on falling inflation expectations. The inverse relationship between bond prices and yields meant the 10yr government bond price rallied. While the shorter dated maturities for example the 1yr rate remained steady at 4.6% with little to no price movement.

Within commodities, oil and gas prices fell on falling demand. Interestingly an unseasonably warm Autumn has helped the EU region curb demand for gas while also trying to find alternative energies. At the time of writing gas storage was 93% capacity. Wheat prices continue to trend downwards on a better-than-expected global harvest as reported by Nasa.

In terms of asset allocation, for balanced multi asset portfolios, the strategies remain well diversified with high quality bias. Within equities the core proposition is the L&C Global Star flagship product that focuses on leading global brands with resilient cash flow generation, stable business models, low debt to equity and attractive growing dividends. While fixed income is short duration with a focus on key economic sectors such as financials, utilities and global corporates that are considered well capitalised, highly cash flow generative and well covered for interest payments. Commodities is in the portfolio for inflation hedging purposes.

Please refer to the Q4 Macro Outlook for more detail.