

OCTOBER 2023

MONTHLY COMMENTARY

As October ushered in Halloween, it appeared as though markets themselves were haunted. Both bonds and stocks fell in October plagued by concerns over prolonged 'higher for longer' interest rates and growing geopolitical tensions. Gold and energy found themselves as benefactors of the current macro environment as energy prices rallied and investors fled to gold in search of a safe haven. The quarterly earnings season was well underway triggering significant equity volatility and markets were unforgiving to those that fell short of expectations. The war in Ukraine continued and renewed conflict sparked in the Middle East.

UK

During October the economic outlook in the UK continued to weaken. Both services and manufacturing Purchasing Managers' Index (PMI), which represent the level of economic activity, continued to decline, falling deeper into contraction territory. This was matched with concerns over the health of the UK consumer which fed into domestic exposures reflected well in the return of the FTSE 250 (-6.54%) which represents mid-cap UK equities vs the FTSE 100 (-3.76%) which has a much greater international exposure. The housing sector remained gloomy too with UK house prices reportedly falling by 5.3% in the year to September as rising interest rates squeezed the market.

The Consumer Prices Index (CPI) figures for September brought little respite for investors as the index remained unchanged at 6.7% and core inflation (stripping out the volatile food and energy impact) came in at 6.1%, higher than the consensus forecast of 6%. Persistent inflation and elevated wage growth combined with economic slowdown formed a troubling blend for investors last month.

US

Hopes that we had reached the end of the Federal Reserve's tightening cycle were dashed by strong economic data released throughout the month of October and comments from Federal Reserve chair, Jerome Powell, which did not rule out further hikes. Data released included an astonishingly strong new jobs report of 336,000 new jobs which well surpassed the expectations of 170,000. Strong retail sales data and a blowout 4.9% Gross Domestic Product (GDP) figure, which was largely attributed to a surge in personal spending, pointed to the strength of the US consumer.

Good news in terms of economic data continues to be received as bad news by markets as it allows the Fed to continue their interest rate tightening cycle and inflation data released in the month only added to this view. The CPI headline figure remained unchanged at 3.7% which disappointed markets that were expecting a continued moderation.

EUROZONE

Equities and bonds broadly declined in the Eurozone with defensive stocks, tech and energy posting small gains. The European Central Bank (ECB) decided to hold interest rates in their meeting. The unchanged rates coupled with a sharp decline in inflation to 2.9% in October from 4.3% in September spurred investors to speculate that the rate hiking cycle was complete in the eurozone.

With the backdrop of slowing global economic growth, heightened geo-political tensions, and increased scrutiny of company earnings, quality of asset holdings remains a fundamental pillar of our portfolio construction.

We continue with our underweight stance to riskier asset classes and sectors until we see signs of stabilisation in economic data and global markets.

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