

# NOVEMBER 2023

## MONTHLY COMMENTARY

November market performance was exuberant across both equity and bond markets, buoyed by better-than-expected economic data in the US and an increasing consensus that the Federal Reserve (Fed) will engineer a soft landing in what has been a challenging financial environment. Global equities, as measured by the MSCI World, finished strongly up 9.5%, while global bonds, as measured by the Bloomberg Global aggregate index, also rallied up 5.0% on a total return basis.

Inflation prints took centre stage. The US Consumer Price Index (CPI) for October rose 3.2% (annualised) compared to the prior month of 3.7%, while the more closely watched CPI ex Food and Energy rose 4.0%, its smallest change since September 2021. Shelter costs which make up a third of the index continue to remain elevated at 6.7% but is beginning to fall. It must be noted that US CPI peaked in June last year at 9%.

US jobs growth was lower than expected with non-farm payrolls adding 150,000 jobs last month while some prior months continue to be revised down. The unemployment rate edged higher to 3.9% and wage inflation remained elevated at 5.2%.

Furthermore, leading indicators of growth such as the manufacturing purchasing manager's (PMI) index remain below the 50-level (negative activity) while the services PMI remains above the 50 level (positive business activity but new orders fell) indicating all is not rosy for the US economy looking ahead.

Therefore, US Federal reserve kept rates unchanged at 5.25%-5.5% and were perhaps led by the CPI data ahead of its release - as the language by Chair Powell was clearly digested by the market - was on dovish side. Furthermore, their most hawkish member Christopher Woller stated they were unlikely to rise rates further and cuts were on the table if inflation continued to slow.

Bond markets reacted positively with government benchmark yields shifting down and bond prices, which are inversely proportional to yields rising. (please refer to asset class analysis) Interestingly, markets have now priced in interest cuts into the middle of 2024 which is stark in difference to two months ago - when an additional rate rise was expected followed by no cuts into the first half of 2024.

In the UK inflation fell sharply to 4.6% from 6.7% driven by falling household services, food and beverages. This came as welcome news to the prime minister who committed to halving inflation back in January. The UK housing market continues to be a source of concern although house prices registered their first monthly increase since March.

Similarly in Europe, the downward inflation trend continued with the level falling to 2.9% respectively. Sluggish German business activity and a negative Q3 Gross Domestic Product (GDP) print continue to weigh on the region.

Conversely China is experiencing deflation and downcast growth. CPI fell 0.2% year on year versus 0.1% forecast. The International Monetary Fund (IMF) have revised up their forecasts for GDP growth to 5.4% citing stronger than expected policy support. The property market continues to falter with a supply glut pushing house prices down. The sector accounts for nearly a quarter of economic growth for the second largest economy in the world. Consumption remains subdued and youth unemployment so high that the government recently cancelled publication of the data.

## ASSET CLASS PERFORMANCE

### EQUITIES

In November, excluding energy, all global sectors were up, led by technology, real estate and consumer discretionary posting double digit returns. Style wise, growth and more cyclical sectors recovered while the more defensive areas such as utilities and consumer staples lagged. This year, names such as Microsoft, Apple, Nvidia, Amazon and Google have contributed to over 70% of the S&P 500 index performance (the index is up 18.2%). The key driver has been the buzz around artificial intelligence (AI) with language learning models such as Chat GPT (part owned by Microsoft) & Bard (Google owned) the key players.

The key European index – the DAX – a measure of the largest 30 companies, outperformed its US neighbours as well up nearly 10% again driven by dovish European Central Bank (ECB) comments and ignoring the recessionary behaviour of the German economy.

### BONDS

With inflation prints surprising on the downside and the fed rhetoric shifting for even the most hawkish member, bond volatility remained elevated to the downside. Markets appeared to shift focus to the prospect of central banks reaching the end of the rate tightening cycle.

The 5-year, 10-year & 30-year US government bond yields rose dropped by 0.5% while the 2-year maturity was 0.38% lower.

### ALTERNATIVES

Within commodities, WTI Crude and Brent crude fell 6.25% and 5.25% respectively for the month weighed down by global growth concerns in the US and China.

Gold continues its rally which rising 2% for the month and up 12% for the year. The precious metal tends to perform well in low interest rate environments and currently, markets are expecting tightening to ease.

The world food price index was little changed down 1% in October on a decline in sugar, cereals and meats while dairy rebounded.

Strong moves across currencies particularly on Cable - the slang term used for the price of British pound (GBP) against the Dollar (USD). USD weakened 3.9% to 1.26 versus GBP.

While the consensus appears to be for a soft landing in the US and recessions in Europe and the UK, a few more strong inflation prints will be required for investors to take the view that the US economy has avoided a hard landing. Therefore, we maintain an overweight to fixed income and underweight to equities on balanced portfolios.

The material is provided for informational purposes only. No news or research item is a personal recommendation to trade. Nothing contained herein constitutes investment, legal, tax or other advice. Copyright © London and Capital Asset Management Limited. London and Capital Asset Management Limited is authorised and regulated by the Financial Conduct Authority of 12 Endeavour Square, London E20 1JN, with firm reference number 143286. Registered in England and Wales, Company Number 02112588. London and Capital Wealth Advisers Limited is authorised and regulated by both by the Financial Conduct Authority of 12 Endeavour Square, London E20 1JN, with firm reference number 120776 and the U.S. Securities and Exchange Commission of 100 F Street, NE Washington, DC 20549, with firm reference number 801-63787. Registered in England and Wales, Company Number 02080604. London and Capital Wealth Management Europe A.V., S.A. registered with the Commercial Registry of Barcelona at Volume 48048, Sheet 215, Page B-570650 and with Tax Identification Number (NIF) A16860488, authorised and supervised by the Comisión Nacional del Mercado de Valores (“CNMV”), and registered at CNMV’s register under number 307 (<https://www.cnmv.es/portal/home.aspx>).