Market Brief

November's highlights

- Despite further upwards revisions to US growth expectations, for this year and next, consensus forecasts still suggest global growth will slow markedly in 2024, with the UK and eurozone particularly weak spots.
- However, flash purchasing managers' index (PMI) data suggest that while growth has slowed in Q4, it hasn't collapsed: surveys suggest very modest expansion in the US and UK, and point to tentative signs of the eurozone downturn easing.
- Year-on-year headline and core CPI inflation fell more than expected in October across the major advanced economies. Eurozone flash data also showed a larger-than-expected fall in inflation in November.
- Despite central banks' messaging that interest rates might have to stay high for an extended period, larger-than-expected falls in inflation reaffirmed investors' view that the major central banks have reached the end of their rate-hiking cycles, with increasing market expectations for interest-rate cuts in 2024.
- Expectations of easier monetary policy led sovereign bond prices to rise and yields to fall, sharply; credit spreads fell; and global equity markets enjoyed their best month in three years. Markets anticipated the positive impact on economic activity from lower interest rates, and lower bond yields eased corporate debt affordability concerns while lending valuation support to equity markets.
- Despite an OPEC+ agreement to make further production cuts, oil prices fell 7.8%. Partly due to the relatively weak economic outlook, but also due to signs of ongoing strains within the OPEC+ group.
- Expectations of interest-rate cuts, and lower real yields, saw the trade-weighted US dollar fall around 3%. All of these factors most likely contributed to a 2% rise in gold prices, which reached a 6-month high.

Market performance to end November 2023

UK	Q4 23*	Q3 23	2023	GLOBAL	Q4 23*	Q3 23	2023
EQUITIES	-1.2	1.9	3.3	**EQUITIES**	5.1	-2.2	17.4
BONDS				North America	6.9	-3.0	20.9
Conventional gilts	2.6	-0.6	-1.6	Europe ex UK	3.6	-3.3	13.7
Index-linked gilts	2.1	-4.7	-5.2	Japan	2.4	2.2	28.8
Credit	3.0	2.3	4.2	Dev. Asia ex Japan	1.1	-2.6	4.4
PROPERTY**	-0.2	-0.2	0.8	Emerging markets	2.2	-0.1	6.0
STERLING				**GOVERNMENT BONDS**	2.4	-1.6	4.0
v US dollar	3.7	-4.0	5.2	**High yield**	3.1	0.8	8.7
v Euro	0.6	-1.1	2.9	**Gold**	9.8	-3.1	12.2
v Japanese yen	2.8	-0.9	17.9	**Oil**	-15.4	28.0	-5.0

Percentage returns in local currency ($ for gold and oil). *All returns to 30/11/2023, **apart from property (31/10/2023). Source: DataStream and Bloomberg. FTSE Indices shown: All Share, All World, W North America , AW Developed Europe ex-UK, W Japan, AW Developed Asia Pacific ex-Japan, Emerging, Fixed Gilts All Stocks, Index-Linked Gilts All Maturities, iBoxx Non-Gilts, S&P GSCI Light Energy, Crude Oil BFO, ICE BofA Global High Yield, Gold Bullion LBM , MSCI UK Monthly Property and BBG Aggregate Government Total Return.

Monthly update

The global economy

- US GDP growth forecasts, for this year and next, were revised higher once more as the final Q3 growth figure came in at 1.3% quarter on quarter, 0.1% higher than preliminary estimates. Despite this, global growth in 2024 is still expected to ease to its slowest pace since the global financial crisis (GFC), excluding 2020. The 2024 growth forecast for the US stands at a below-trend 1.1%, and in the eurozone and UK, where the outlook is weaker, growth is expected to advance a very modest 0.6% and 0.2%, respectively. However, while consensus forecasts suggest global growth will slow, it isn't expected to collapse, and the base case now assumes that major advanced economies will avoid outright recessions.

- Indeed, while flash PMIs indicate global growth has slowed in Q4, they suggest it has held up at subdued levels. Surveys suggest very modest expansion in the US and UK, and point to tentative signs of the eurozone downturn easing. While the service-sector recovery has lost momentum in recent months, activity is generally still stronger than in the manufacturing sector, which data suggest has been in recession for almost a year and a half. However, there are signs the manufacturing downturn has eased in recent months, with European surveys highlighting a less severe pace of contraction in the sector in November.

- Headline CPI inflation fell more than expected across the major economies in October. A decline in energy prices and moderation in food prices were the main drivers, but core inflation, which excludes both of these, also fell more than expected. Year-on-year CPI inflation in the UK, US and eurozone fell to 4.6%, 3.2% and 2.9%, respectively, in October. Perhaps highlighting a degree of stickiness in inflation, the respective core measures are higher, at 5.7%, 4.0% and 4.2% in the UK, US and eurozone. The eurozone's flash release showed headline and core inflation eased further in November, to 2.4% and 3.6% year-on-year, respectively.

- Despite central banks' messaging that interest rates may still have to stay high for an extended period, larger-than-expected falls in inflation reaffirmed investors' view that the major central banks have reached the end of their rate-hiking cycles, with market expectations increasing for interest-rate cuts in 2024. By the end of the month, markets were expecting around 1.0% pa of rate cuts from the US Federal Reserve (Fed) in 2024, while expecting the Bank of England to reduce rates 0.7% pa over the same period.

Fixed income markets

- Expectations of looser monetary policy saw bond prices rise, and yields fall, sharply, with developed market sovereign bond yields now well below the post-GFC highs reached in October. US 10-year treasury yields declined 0.6% pa, to 4.3% pa, while UK 10-year gilt yields fell 0.4% pa, to 4.2% pa. Japanese government bond yields also fell 0.3% pa, to 0.7% pa, despite a prior loosening of the Bank of Japan's yield curve control policy. 10-year German government bond yields also fell 0.4% pa, to 2.5% pa.

- UK 10-year implied inflation, as measured by the difference between conventional and inflation-linked bonds of the same maturity, fell 0.1% pa, to 3.6% pa, as nominal yields fell marginally more than real yields. Equivalent US breakeven inflation fell 0.2% pa, to 2.3% pa.

- Lower sovereign bond yields eased debt affordability concerns, with global credit spreads falling as a result. Both contributed positively to credit market returns. Global investment-grade spreads declined 0.2% pa, to 1.2% pa, while global speculative grade spreads fell 0.6% pa, to 4.2% pa. The trailing 12-month global speculative-grade default rate held at 4.5% in October, remaining above its long-term average of 4.1%, amid higher-for-longer interest rates, tightened financial conditions and elevated inflation. While Moody's forecast that the default rate will trend higher, they expect it will peak at 4.8%, only slightly above current levels.

- Hard currency debt, as measured by the JPM EMBI Global Diversified Index, returned 5.7% in dollar terms as underlying treasury yields fell, and credit spreads tightened 0.3% pa. Local currency debt, as measured by the JPM GBI-EM Global Diversified Traded Index, returned 5.3% in US dollar terms, as yields fell 0.4% pa and index currencies, in aggregate, strengthened against the US dollar.

Global equities

- The FTSE All World Total Return Index rose 8.0%, in local currency terms – the best monthly return since news of a potential Covid-19 vaccine in November 2020. Amid a plethora of lower-than-expected inflation releases, markets anticipated the positive impact on economic activity of a potential reduction in interest rates, while lower sovereign bond yields also lent support to equity valuations.
- The technology sector outperformed, rising 12.6%, on the back of healthy earnings releases and lower long-term sovereign bond yields: given they typically offer very long-term earnings growth, a lower discount rate tends to lend disproportionate valuation support to growth stocks. Consumer discretionary and industrials also outperformed, on the back of strong consumer spending and improving sentiment. Though all sectors recorded a positive return, the more defensive sectors generally underperformed: consumer staples, telecommunications, health care and utilities all underperformed, in that order. The energy sector was worst-performing sector globally, achieving only a marginally positive return, amid increasing uncertainty around OPEC+ agreeing oil supply levels for 2024 and a relatively weak economic outlook.
- Given above-average exposure to the technology sector, North American equity markets were the only regional outperformer. All regions experienced positive returns, though UK equity markets were the largest underperformer due to above-average exposure to the underperforming energy sector. Asian Pacific, emerging market, Japanese and European equities all underperformed, in that order.

Currencies, commodities, and property

- Despite an OPEC+ agreement to make further production cuts, oil prices fell 7.8%. This was partly due to the relatively weak economic outlook, but also due to signs of ongoing strains within the OPEC+ group. Natural gas prices also fell, reflecting lower demand due to the expected economic slowdown, mild weather and high storage levels in Europe. Expectations of interest-rate cuts, and lower real yields, saw the trade-weighted US dollar fall around 3%. This likely contributed to a 2% rise in gold prices, which reached a 6-month high. Trade-weighted sterling and euro rose 1.9% and 0.5%, respectively, while the equivalent yen measure fell 0.7%.
- The MSCI UK Monthly Property Total Return Index declined 0.2% in October as income was offset by capital-value declines in the office and retail sectors. On a 12-month basis, capital values are down around 20% in the office sector and around 10% in the retail and industrial sectors. The office and retail sectors continued to see the largest month-on-month declines in capital values, while the industrial sector was unchanged following six consecutive months of growth.

For and on behalf of Hymans Robertson LLP

Additional Notes

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