MONTHLY UPDATE

Latest views from the investment team

Pause for breath

- New PM for the UK brings some calm
- Earnings season in full swing
- Xi Jinping secures unprecedented third term as President in China

New PM for the UK

October brought more change at the top of the UK Government with Rishi Sunak taking the place of Liz Truss as Prime Minister after 44 days in office – the shortest term of any PM. The decision to pursue un-costed and debt funded fiscal expansion during a period of high inflation and tightening monetary policy ultimately proved to be fatal. The incoming PM and new chancellor quickly reversed almost all of the predecessor's policies, restoring some investor confidence and bringing gilt yields down from their end of September high.

Earnings season in full

October also saw the beginning of the US Q3 earnings season. The first week, as always, started with US banks reporting their results. This proved to be somewhat underwhelming as banks reported broadly in line with expectations. The end of the month, however, saw almost $1tn wiped off the value of the biggest US tech companies as disappointing reports were met with sharp selloffs in the so-called FAANG stocks. Notably, Meta Platforms (formally Facebook) fell by over 25% in a session taking the YTD decline over 70%. Facebook, Amazon, Netflix and Google combined are now down 50% from their peak.

Xi Jinping secure unprecedented third term as President in China

The Chinese Communist Party (CCP) held their 20th National Congress last month. Xi Jinping secured his unprecedented third term as President and moved closer to cementing his position as ruler for life. He used his platform as an opportunity to consolidate power, crack down on opposition, and spook investors with his comments around lockdowns, and Taiwan. The CCP are emphasizing national security at the expense of the economy. This comes amid rising geopolitical tensions between China and the West which has coincided with a 35% YTD decrease in the MSCI China Index. We also saw a new leader in Brazil as former President Lula defeated the outgoing Jair Bolsonaro by a slim margin. The increased likelihood of a peaceful handover should be received positively by markets.

Month by numbers

Change in various markets over the month:

Asset		Change/ Value
Equities		
UK	↑	**2.80%**
Europe	↑	**6.59%**
US	↑	**7.91%**
Emerging Markets	↓	**-2.63%**
Japan	↑	**5.73%**
Bonds/Rates *Absolute change (%)		
UK Base Rates	-	**0.00%**
		2.25%
Fed Funds Rate	-	**0.00%**
		3.25%
UK 10-Year Yield	↓	**-0.56%**
		3.53%
US 10-Year Yield	↑	**0.27%**
		4.08%
Currencies		
GBP/USD	↑	**3.08%**
		115.25
GBP/EUR	↑	**2.16%**
		117.00
DXY (USD Index)	↓	**-0.53%**
		1.11
Commodities		
Gold	↓	**-1.64%**
		$1633
Oil (Brent)	↑	**7.50%**
		$95.83
Note worthy		
Sunflower Oil	↑	**12.00%**
Met (Facebook)	↓	**-35.00%**

November

As of 31st October 2022

What does this mean for investors?

Global stocks climbed by around 6% over October, following a 10% drop in September. This rise, unsurprisingly, arose from the Federal Reserve which sent a signal that early discussions had begun about a "policy pivot". However, last month the US saw another interest rate hike, higher than expected inflation, and a tight labour market. In short, the inflationary environment remains stubborn and unchanged – cementing our view that the Fed is likely to remain "hawkish" and continue its tightening of monetary conditions in order to bring inflation down.

With this and our previous discussions in mind, we believe downside risks remain for risky assets in the short term and accordingly we have increased our defensive exposure across our portfolio range, with attractive opportunities now available in fixed income assets, notably short dated, high quality corporate bonds, yielding 6-6.5%.

Q&A

What's on your mind?

What is happening to European natural gas prices?

October brought unseasonal warmth to Europe and with it came lower demand (and therefore prices) for natural gas. The lower demand has provided the opportunity for governments to fill natural gas storage to the brim and now there is nowhere to store the LNG arriving at European ports. Remarkably, it is estimated that 10% of the world's LNG vessels are anchored around Europe acting as floating storage. This supply glut is amplified by lower-than-expected demand for gas in Asia. In late August European prices soared above €340, now they sit around €120.

What impact is the war in Ukraine having on commodity prices?

The war in Ukraine raged on through October, causing further disruption across the commodity spectrum and there has been a significant impact on our food supplies. Ukraine – "the Breadbasket of Europe" – provides 10% of global wheat supply. Late October brought an end to the Black Sea grain corridor following Russia's withdrawal from the pact and resulting supply uncertainty led to grain prices rising over 6% with the true scale of the disruption on global grain and food prices still to be seen.

Is there any positive company news from earnings season?

The energy sector remains highly profitable, buoyed by elevated prices. Oil & gas majors in Europe and the US recorded bumper profits at the end of October. US giant Exxon Mobil smashed analyst expectations with a nearly $20bn quarterly profit, breaking the previous record for the company and driving share prices up 75% this year. Despite this, questions remain over the future of the sector against the backdrop of the energy transition and the threat of windfall tax on these supernormal profits.

For more information, please contact your adviser.