Wealth Management
Weekly Market Update

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Market Update

Equities in most major markets posted gains last week with global stocks up +1.4% in Sterling terms, amid stronger investor sentiment. US stocks were up +1.7% as positive earnings surprises continued for a second week in a row. EU stocks were up +1.2% despite heightened concerns that a rate hike could come sooner than expected, while UK stocks were down -0.4% as the latest inflation readings remained above the BoE's 2% target. Globally, most sectors posted gains with healthcare and utilities being the best performing, while materials and telecoms underperformed. The US 10Y Treasury yield was up 6.2bps finishing the week at 1.632%, while the UK 10Y yield was up 3.9bps reaching 1.145%. Sterling remained flat against the US Dollar. In US Dollar terms gold was up +1.4%, while oil was up +2.9% reaching $84 per barrel.

UK Stocks	US Stocks	EU Stocks	Global Stocks	EM Stocks	Japan Stocks	Gilts	GBP/USD
▼ -0.4%	▲ +1.7%	▲ +1.2%	▲ +1.4%	▲ +0.8%	▼ -0.3%	▼ -0.3%	▶ +0.0%

all returns in GBP to Friday close

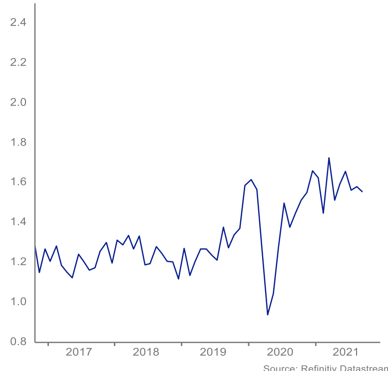
Macro News

- US industrial production in September fell by 1.3% m/m, far below the consensus estimate of a 0.2% increase. The fall was partly influenced by Hurricane Ida that severely hit the mining and chemicals sectors, while a sizeable part of the decrease was driven by the persistent semiconductor shortages.
- UK CPI inflation stood at 3.1% in September, 0.1% lower than the August rate but still slightly higher than the Bank of England's forecast of 3.0%. Inflation in restaurants/cafes was down to 3.9% from 7.9% which more than offset higher prices in second hand cars, games/toys/hobbies and road transport. Core inflation was also down by 0.2% to 2.9%.
- GDP in China during Q3 grew by 4.9% faring below the 5.2% expansion that analysts had expected. The rate was lower than expected partly because the real estate sector experienced a slowdown while the manufacturing industry was significantly hit by factories having to shut down production due to energy shortages.
- Prices of new homes across China's biggest cities fell in September, marking the first decline on a month on month level since April 2015, reflecting a weaker housing demand.

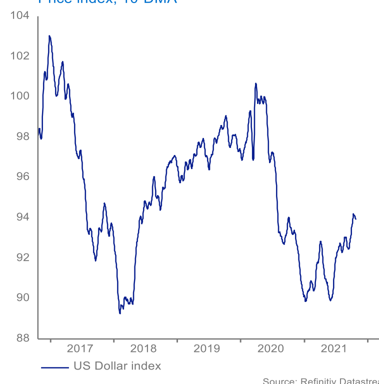
The Week Ahead

- Earnings will continue to be in the spotlight as many companies will report during the week. Investors will also be keeping an eye on macroeconomic data published by Germany, France, Spain and Italy as well as US employment figures.

Week in Charts



US housing starts fell by 1.6% in September faring well below expectations. Indicators are providing mixed signals for the US housing market which seems to have weakened during the last few months.



The US Dollar has rallied recently amid expectations that the Federal Reserve will reduce the pace of its stimulus. Based on the price index above, the US Dollar has reached its highest levels since October 2020.

View From the Desk

Global equities are back up again near all-time highs, on the back of another very strong US earnings season. With nearly a quarter of US equities having reported, more than four out of five companies in the world's leading economy have beaten analyst profit estimates. From a technical perspective things are looking auspicious for another 'Santa Rally' which traditionally takes place in November or December.

So why do we retain our equal weight in equities? Because, beyond the next few months, risks appear fairly elevated.

For one, we think that a fair amount of fiscal easing is priced in and politics may disappoint. Intransigence persists in Washington and there's no certainty that Joe Biden's $3.5tn plan will pass in full, or even that Democrats will retain their razor-thin majority vote in the Senate after December. Fiscal easing is not a given even across the Atlantic. This week's UK budget is rumoured to include tax hikes. In Germany, the incoming coalition leader, Olaf Scholz, is now faced with fiscal concessions to acquire a working majority.

Second, we are at the final legs of this round of Quantitative Easing, and accommodation going forward may not be as easy as in the past . The existence of inflation makes ultra-accommodation at the push of a button a more difficult proposition, as beating inflation and underwriting risk could be seen as competing targets. Should the Fed opt to fight inflation, the 'Fed Put' could be compromised. Should it persist with accommodation in the face of spiking prices, it's perceived ability to adhere to its inflation mandate could be undermined. This tells us that the last twelve years' paradigm, at the very least, is at risk.

Third, while earnings look good (this proposition will be put to the test this week), as supply chain pressures persist, future earnings become more precarious. This holds especially true for mid and smaller caps, as well as many non-listed high-street firms which are exposed to supply chain disruption but don't have the gravitas to pull ahead of the queue or the pricing power to withstand margin pressures.

History tells us that as long as Quantitative Easing remains in effect, being underweight risk is not a good idea. We feel, however, that at this particular juncture, risks are elevated enough to merit a more cautious medium-term approach.

David Baker, CIO

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