Wealth Management
Weekly Market Update

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Market Update

Equities in most major markets posted losses last week with global stocks down -0.4% in Sterling terms, as inflation concerns, supply chain issues and rising coronavirus cases dampened investor sentiment. US stocks were up +0.1% with growth stocks exhibiting solid gains, outweighing the losses in more cyclical firms. European stocks were down -1.8%, as countries within the region started imposing restrictions to curb rising Covid-19 cases. UK stocks were down -1.6% amid CPI inflation figures hitting a ten-year high, while EM equities fell by -1.7%. The US 10Y Treasury yield was down 2.2bps finishing the week at 1.548%, while the UK 10Y yield was down 3.5bps reaching 0.880%. In US Dollar terms gold lost some of its previous weeks' gains, down -1.3%, while oil was heavily down -6.2% to $76 per barrel.

UK Stocks	US Stocks	EU Stocks	Global Stocks	EM Stocks	Japan Stocks	Gilts	GBP/USD
▼ -1.6%	▲ +0.1%	▼ -1.8%	▼ -0.4%	▼ -1.7%	▼ -0.2%	▲ +0.5%	▲ +0.3%

all returns in GBP to Friday close

Macro News

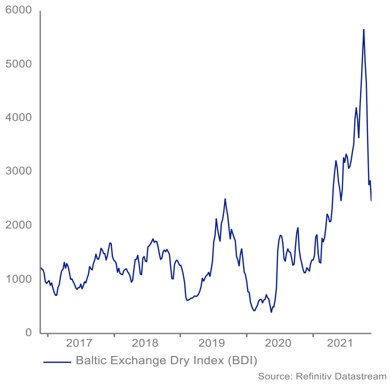
- UK CPI inflation in October rose by 4.2% up from 3.1% in September and higher than the 3.9% forecast by the Bank of England (BoE), faring at a 10-year high. The rate was largely driven by higher utility prices and rising energy and fuel costs. Excluding the more volatile parts of the index core inflation stood at 3.4% up from 2.9% last month.
- US industrial production rebounded in October, rising by 1.2% month-on-month. The rise was partly driven by a sharp increase in motor vehicle production while it partly reflected the fading impact of Hurricane Ida which had depressed previous months' figures.
- New home sales in China have fallen for a seventh straight month faring at 20% below March 2021 levels. In response, policymakers have urged banks to step up mortgage lending while they relaxed the caps on bank mortgage lending introduced in January.
- The Turkish central bank has cut interest rates by another 100 basis points to 15% on Thursday, hammering the Lira to record lows. This increases the likelihood of a balance of payment crisis while it raises a question on how much does the currency have to fall against the US Dollar for monetary policy to be reversed.

The Week Ahead

- Investors will be keeping an eye on the interest rate decision by the PBoC in China, flash November PMI releases for major developed countries as well as GDP figures for Germany.

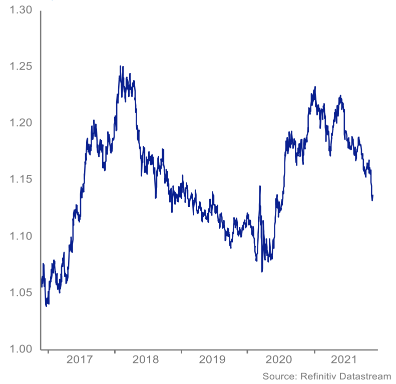
Week in Charts

Baltic Exchange Dry Index tumbles
Thousand Points



The Baltic Dry Index has dropped further since earlier in October, reaching a 5-month low. Although hard to conclude with certainty it could be a sign that the pace of some supply chain pressures is starting to gradually ease.

EURUSD exchange rate
Spot rate



The Euro has continued to weaken against the US Dollar after having reached a 16-month low last week. The market seems to be betting that the ECB will remain dovish while the Fed will raise rates faster.

View From the Desk

In the past few days reports have been surfacing that supply chain pressures are easing. These reports cite lower commodity prices and lower costs to transport dry bulk cargo. Indeed, iron ore and the volatile Dry Bulk Index have shown signs of easing over the past two months. However, crude oil and copper prices remain elevated.

While some easing is welcome, lower dry bulk and iron ore prices constitute only part of the supply-related pressures. A broader look, however, at supply chain related indices suggests that many of the components are considerably elevated. In fact, an equally weighted average of these indices does not even suggest improvement over time.

This is where we must make a significant distinction. Some commodity prices, which trade in futures and always entail a speculative element, might ease in the near future. With them, some inflation pressures may recede.

This is mostly important from a portfolio perspective. A loose monetary policy regime which has lasted more than ten years has conditioned markets to depend on asset purchases. While most central banks are now reducing asset purchases, they are still reticent to raise interest rates. Nevertheless, as recent experience with the Bank of England indicates, inflationary pressures might cause communication confusion for a central bank, which might want to influence inflation expectations and prove they can still influence the real economy without necessarily raising interest rates. Two about-faces from the UK central bank in the last two months have raised eyebrows, and investors are now more vigilant against similar behaviours from much more consequential institutions, like the Fed or the European Central Bank.

Persistent supply inflation could trigger mixed messages from policymakers, some of which believe that inflation is only a monetary phenomenon. Conversely, lower supply inflation may keep portfolio managers happy, as it would allow central banks to convincingly support their dovish stance, for which there has never really been an alternative since September 2008. Iron ore and Dry Bulk prices suggest that we may (that is 'may') be at the beginning of some easing.

David Baker, CIO

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