Wealth Management
Weekly Market Update

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Market Update

Markets generally reacted positively to the reversal of the planned tax cuts of the UK mini-budget this week, as well as the resignation of Prime Minister Liz Truss. At the end of the week, UK stocks had gained +1.6% in total. Sterling also rose by +1.2% over the week, initially falling after the resignation, but then recovering its losses on Friday to end the week at $1.136. Gilts also performed well, returning +4.9%. The positive sentiment in the UK was shared by its European neighbours, where stocks gained +1.7% in GBP terms. US stocks posted a strong rebound of +3.8% in Sterling terms as companies posted strong earnings and as comments from Federal Reserve officials increased expectations that a slower rate of interest rate increases may be coming. Chinese stocks posted a weekly loss after it was unexpectedly announced that the publication of third quarter GDP figures would be delayed indefinitely ahead of China's Twentieth Party Congress. Japanese stocks fell by -0.7% as recessionary risks, a weakening Yen and core inflation reaching a peak of 3% year-on-year weighed on investor sentiment. Oil advanced +0.3% to end the week at $84.1 per barrel.

UK Stocks	US Stocks	EU Stocks	Global Stocks	EM Stocks	Japan Stocks	Gilts	GBP/USD
▲ +1.6%	▲ +3.8%	▲ +1.7%	▲ +2.7%	▼ -0.7%	▼ -0.7%	▲ +4.9%	▲ +1.2%

all returns in GBP to Friday close

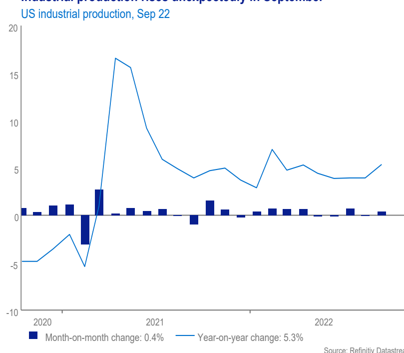
Macro News

- Industrial production in the US was reported to have increased unexpectedly in September, benefitting from the gradual easing of supply shortages that has been hampering output since the onslaught of the Covid-19 pandemic. Production was up 5.3% over the year, and 0.4% higher than in August. This result came as a welcome surprise considering the falling global demand, as inflation continues to put pressure on households to cut discretionary spending.
- Yet, its not all plain sailing for the US economy, far from it. Cracks are beginning to appear in the US housing market as interest rates continue to rise dramatically. The National Association of Home Builders (NAHB) Housing Market Index, which surveys homebuilders to produce a measure of house sales expectations for the next six months, fell to 38 in October, indicating a consensus view of weak economic conditions for the sector over the short term. In September, existing home sales were reported to be 27% down from their peak earlier in the year.

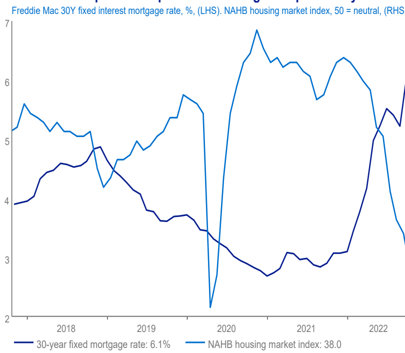
The Week Ahead

- Whilst the media remains fixated on the turmoil within the UK government, our attention will be more focused on US jobless claims, as markets look for any signs of weakness in these extraordinarily tight labour markets. In addition, any information released by central bank policymakers will be crucial in guiding market sentiment.

Week in Charts



Industrial production in the US contrasts notably to that over in Europe. Germany's manufacturing sector, the powerhouse of European production, is facing prominent headwinds due to dramatically rising input costs. Whilst there may be opportunities to take advantage of this in the short term, global demand continues to wane, creating a challenging environment for these businesses.



Consumers are becoming increasingly worried about their financial situation due to rising costs, and this is translating into weakness for 'big-ticket' purchases. In September, existing home sales were down 27% from their January peak, whilst housing starts have also fallen 18% from their February peak.

View From the Desk

The market volatility following the budget and Liz Truss's historic resignation should not be misinterpreted in the parochial context of the Conservative Party convulsions. Volatility is underpinned by severe bond market dislocations and the return of 'Bond Vigilantes'. We should thus look at the bigger picture: Can Brexit Britain deliver on its promises to both the electorate and its key economic stakeholders in a financially illiquid environment? Or is a wider course correction required to restore growth?

Ultimately, it does not matter who the Prime Minister of the United Kingdom is. They will be faced with the same question Liz Truss failed to answer effectively: a tough budget or a tough market that may lead to an economic and financial crisis? While the resolution seems plain and painful, we believe the road to an economic rebound lies far beyond 10 (or 11) Downing Street.

British economic woes, which have wrought unprecedented political instability are the direct result of quickly worsening global bond market, itself a consequence of rapid US rate tightening and China's economic slowdown.

Yet both these conditions are the result of two specific decisions: The Fed's focus on inflation fighting, and China's zero-Covid policy. As such, the problems are reversible.

Thus, for those worrying about their investments, their pensions, economic growth, inflation and economic stability, the answer will be come from the US Federal Reserve and China.

For one, we are quickly approaching the point where stabilising the bond market will become more important for the Fed than fighting inflation. Something along the lines of "we acknowledge the build-up of external risks" could be enough to signal an eventual pivot to more accommodative policy and prompt a risk asset rally.

Meanwhile, China's economic path can improve markedly if the country abandons zero-Covid. A total shift of that policy would probably be received very well by markets.

A third venue which could affect British finances, is of course the Kremlin. But the war in Ukraine seems set to persist at least throughout the winter.

However, the first two conditions for markets to stabilise, could be met within the next few months.

David Baker, CIO

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