Wealth Management
Weekly Market Update

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Market Update

Last week, markets were subdued following several weeks of sizeable gains. US equities fell -1.0% over the week in Sterling terms despite strong October retail sales, an indicator that consumer spending in the US remains robust. Nevertheless, the easing of producer price inflation in the US will be welcomed by market participants, currently searching for a softening of the hawkish stance currently adopted by the Federal Reserve. Meanwhile in the UK, the Autumn Statement delivered by Jeremy Hunt, consisting of a mixture of tax hikes and spending cuts, appears to have calmed markets following the turmoil in September. UK stocks rose +1.0% on the week, whilst Sterling appreciated versus the Dollar (GBP/USD up +0.4%). Global stocks fell -1.0%, whilst Japanese equities declined -2.1% as pressure continues to build on the Bank of Japan to U-turn on their current stance of loose monetary policy. Gold prices eased marginally, down -1.0%, whilst oil and metal prices saw dramatic declines, falling -10.6% and -4.5% respectively, as the global demand picture continues to worsen amid increasing recession worries.

UK Stocks	US Stocks	EU Stocks	Global Stocks	EM Stocks	Japan Stocks	Gilts	GBP/USD
▲ +1.0%	▼ -1.0%	▼ -0.3%	▼ -1.0%	▼ -0.5%	▼ -2.1%	▲ +1.1%	▲ +0.4%

all returns in GBP to Friday close

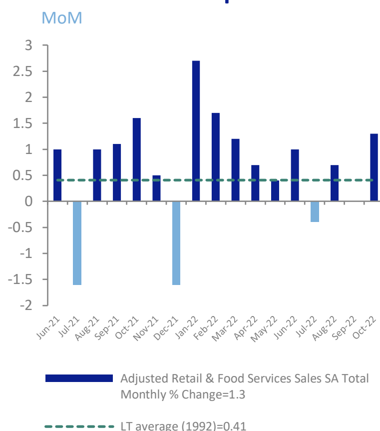
Macro News

- Retail sales in the US rose by a solid 1.3% in October showing that consumer spending has remained resilient in the face of rising prices. A price-related 4.1% rise in gasoline station sales contributed to the increase, but spending on furniture, cars and groceries also increased. It can be seen that American consumers are increasingly turning to debt in order to fund their purchases as the level of US revolving credit (which includes credit cards) rose by 12.9% in the third quarter.
- The US manufacturing sector on the other hand has been slowing as output rose by only 0.1% in October, while industrial production fell by 0.1%.
- The US producer price index (PPI), which measures prices paid for goods before they reach consumers, came in lower than expected, registering at 8% year-on-year, when a rate of 8.3% was expected. The figures offer further hope that inflation may be easing after last week's lower than expected inflation reading.
- Inflation in the EU remains at a high of 10.6% year-on-year. However, a fall in German PPI by 4.2% has offered a ray of hope that price pressures may be easing.

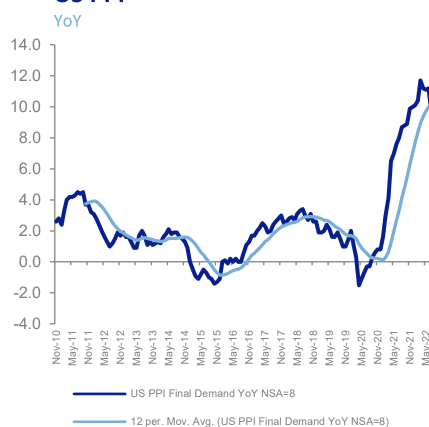
The Week Ahead

- All eyes will remain on the Fed this week as investors will be on the lookout for any clues that the recent inflation data may cause the Fed to slow down the rate of its rate increases. Flash PMI data will also be in focus for the US, UK and EU.

Week in Charts



US Retail sales rose by 1.3% in October, driven by a 4.1% increase in gasoline station sales. Control group sales, which are used in the calculation of personal consumption expenditures (the Fed's preferred inflation measure) rose by 0.7%.



US producer price inflation rose by less than expected in October, coming in at 8%, while a rate of 8.4% was expected, and falling from 8.4% in September. The month on month rate was also below expectations, at 0.2% when a rate of 0.4% was expected.

View From the Desk

It's bad news for our 'pivoting' camp, a word that in the past few months has been grossly and infuriatingly overused. Not only is the Fed speeding up the rate of Quantitative Tightening, but it is also showing no signs that it is ready to change its aggressive tightening policy. This is bad news for investors, but also bad for the Fed. The US economy is slipping into a seemingly mild recession. However, the pace of slowdown could accelerate, as external economic conditions deteriorate, the housing market is clearly suffering, manufacturing is contracting, and consumers spend their savings and rack up - expensive - credit card debt to which a divided Congress will be of little help.

We believe that the pivot, orderly (which is our base case) or disorderly (in case of an accident) will come. The question is at what cost to the global economy?

Meanwhile, last week, pundits cheered Jeremy Hunt's new budget. The deferment of some key tax obligations for the period closer to (or after) the general election was seen as a masterstroke to calm markets and at the same time avoid putting too much extra stress on consumption. "We must be very careful not to assign to this deliverance the attributes of a victory", Sir Winston Churchill might have warned us.

Avoiding a market panic is a very low hurdle to defining a 'good' budget. For one, it does little to alleviate current consumer pains. Economists see more than 90% probability of a recession for the next year. More importantly, the government failed to convince international investors to return to British risk assets, which they have, by and large, shunned after the referendum.

Investment managers should not fail to acknowledge the lack of visibility in a bad environment. Instead, they should be open about it, and protect what can be protected. Seasoned asset managers are planning ahead, keeping market 'bets' to a minimum, either by holding cash or by being neutral in their asset allocation. It is exactly because of the higher probability of further financial distress that we believe the pivot could come sooner rather than later. The very high level of cash suggests that institutional investors are waiting on the sidelines for an abrupt US policy reversal.

David Baker, CIO

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