Wealth Management
Weekly Market Update

Blog - LinkedIn - Twitter
Publications - Web
Contact Us

Published 11 September 2023

Market Update

Good news was once again bad news in the US last week. This time, it was strong growth figures which caused investors to adjust their predictions on interest rate hikes and caused asset prices to fall. An unexpectedly high services PMI in the US, at 54.5 versus 52.5 expected, saw US stocks sell off in the middle of the week. Later, worse than anticipated jobless claims data saw stocks rebound somewhat, but not enough to recover their earlier drop. In Europe, markets punished poor growth numbers instead. European stocks fell by -0.6% over the week as German industrial production disappointed, and as GDP growth from Q2 of 2023 was revised downward. Japanese stocks rose by a modest +0.3% over the week, while Chinese stocks fell by -0.2% on concerns over the country's waning growth. The price of oil approached $90 over the week after Saudi Arabia announced production costs, rising by +3.3% In Sterling terms. The US Dollar gained versus the Pound over the week, resulting in better performance in Sterling terms than local terms.

UK Stocks	US Stocks	EU Stocks	Global Stocks	EM Stocks	Japan Stocks	Gilts	GBP/USD
▲ +0.2%	▼ -0.3%	▼ -0.6%	▼ -0.3%	▼ -0.2%	▲ +0.3%	▶ +0.0%	▼ -1.0%

all returns in GBP to Friday close

Macro News

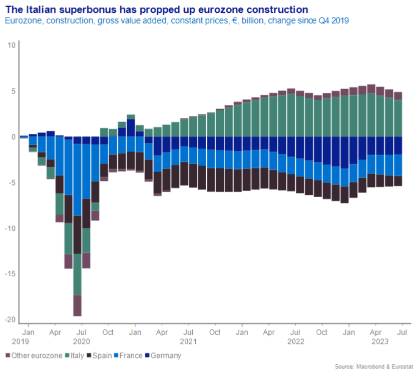
- While most commodity prices have continued to decline steadily over the last three months, oil has recently bucked the trend. Thanks to an extension to the one million barrels a day production cuts by Saudi Arabia, brent prices have surged, now approaching $90/barrel. This has raised concerns over a resurgence in supply side inflation dynamics, which have been largely kept at bay in recent months as strong demand conditions have taken over the inflation narrative. Whilst there are tentative signs that rising interest rates are beginning to have an impact on demand conditions across the developed world, they typically have little impact on supply-side inflation. A resurgence in inflation, despite a weakening in global economic conditions, would leave central banks with a quandary: cut rates and risk inflation becoming increasingly entrenched, or keep rates higher for longer, risking a deeper, longer contraction of the global economy.

The Week Ahead

- This week, investors will be looking toward the European Central Bank (ECB) interest rate decision. Uncertainty remains high among market participants, which are currently pricing in a 60% chance of no change to the deposit rate on Thursday, as a sharp contraction in German economic conditions threatens to spill over into the wider union.

Week in Charts

Geopolitics is once again playing a significant role in the global economy. A rise in the price of oil has many global leaders concerned, as it threatens a resurgence in inflation.



The European construction industry has been one of the main casualties of a rising interest rate environment, and with the removal of the Italian superbonus (a scheme that gave homeowners tax credits to cover renovation costs) this is likely to deteriorate further in the coming months, adding pressure to the ECB to refrain from further rate hikes.

View From the Desk

Going into the final stretch of the year, the one thing we can say with any level of certainty is that we now know even less than we did going into it. To be sure, our theme from the beginning of 2023 was 'prolonged disruption'. But deep down, I had hoped that I was wrong. That as the year progressed and we climbed the peak of the interest rate mountain, we would look around and gain clarity. Alas, the view keeps shifting and the landscape looks like a perma-crisis.

The pandemic, which came on the tail of a trade war and geopolitical tectonic shifts (see "India is the new China"), has upended the stable post-GFC regime and thrown the global economy into turmoil. In this environment, everyone sees what they want to see.

At one end of the spectrum, is the 'Goldilocks' crowd. They believe the economy has underlying strength, the labour market will remain strong and that consumers will only marginally curtail their spending. A shallow recession awaits if any recession at all. However, inflation will still come down enough or a financial accident will happen, either of which will force the Fed to begin cutting rates at some point in mid-2024. Presently, markets are in this camp.

At the other end of the spectrum lie the 'Stagflationists'. A decade and a half of bad news, for that crowd, can only be followed with more bad news. In this scenario, the economy slows down materially, as consumers run out of pandemic pocket money, consumption falls off a cliff and delinquencies rise quickly. The labour market loosens quickly, companies with high levels of debt find it difficult to keep bidding talent up. However, inflation remains stubbornly high due to continuing shocks to the economy, which begins to look like a replay of the 1970s.

If one can't have a clear view of what comes next, then one may opt for a clear view of smaller corners of the market, or a clear view of which funds/stocks may outperform.
We have often said, and will again reiterate, that portfolio outperformance in this market is not about getting the larger picture right. One can still do that of course, but it is a low-confidence bet. Which means that the risks to investors from this approach are significant.

Rather, it is about getting the security selection right, the industry selection right and the geography right. Asset allocation still works, make no mistake. But more certainty can be found below the top-line decisions (stocks or bonds), in the smaller and less exciting questions.

George Lagarias – Chief Economist

mazars