Wealth Management
Weekly Market Update

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Market Update

Last week, the rout in global equities continued, with markets down -2.6%, as risks remain elevated. An escalation of the conflict in the Middle East over the week, in combination with escalating long-term US government bond yields, contributed to the -2.5% decline in US stocks. Consumer discretionary and homebuilding stocks underperformed the rest of the market, as rates on the average 30-year fixed rate US mortgage rose above 8%. Meanwhile, energy stocks were supported by higher oil prices. Government bonds also experienced a sharp selloff, with the US 10Y yield briefly rising above 5%, before falling back to 4.91% by the end of the week. UK equities fell -2.6%, as services inflation was reported to have re-accelerated to 6.9% in September, emphasising the need to keep monetary conditions tight, as wage pressures and a tight labour market encourage inflation to become increasingly embedded. With government bonds yields rising, other traditional safe haven assets have proven attractive as investors look towards stores of value. Gold prices rose +2.4% to end the week at $1975.7/oz.

UK Stocks	US Stocks	EU Stocks	Global Stocks	EM Stocks	Japan Stocks	Gilts	GBP/USD
▼ -2.6%	▼ -2.5%	▼ -2.9%	▼ -2.6%	▼ -2.8%	▼ -2.6%	▼ -2.0%	▲ +0.2%

all returns in GBP to Friday close

Macro News

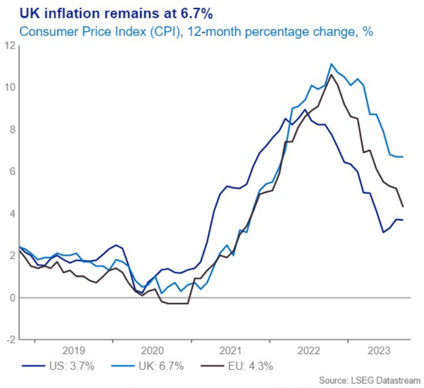
- The bear steepening of the US yield curve continued this week as the yields on 10-year and 30-year Treasury yields reached 5%, to move closer to shorter-term yields, where the 2-year Treasury note sits at 5.12%. This movement has been caused by resilient economic data, sticky inflation and a large fiscal deficit. Such high yields have not been seen since 2007, some 16 years ago.
- UK headline annual inflation remained at 6.7% in September, slightly above consensus estimates of 6.6%. Core inflation, which excludes volatile elements such as food and energy, advanced by 6.1% year-on-year, slightly above a consensus of 6.0%. Services inflation remains a bottleneck for UK inflation as a tight labour market and rising wages contributed to year-on-year services inflation accelerating from 6.8% to 6.9%.
- US retail sales rose by 0.7%, above expectations for a 0.3% rise, pointing to enduring US consumer strength in spite of higher prices.

The Week Ahead

- Markets will be paying attention to US Q3 GDP figures, which will be released this week. Markets are expecting a robust figure of 4.2% annualised as strong data releases have caused markets to re-rate growth expectations. PMI data will also be released this week for many major economies.

Week in Charts

The yield on the 10-year US Treasury note reached 4.99% intraday this week, while the 30-year yield peaked at 5.14%. Such high yields have not been seen since 2007, more than 16 years ago.



UK headline inflation remained at 6.7% in September, as services inflation remained sticky. The UK still lags the US and EU in terms of falling inflation rates, which have reached 3.7% and 4.3% respectively.

View From the Desk

Since September, there have been two issues dominating markets: high yields and geopolitics. In the past few weeks, all angles of analysis have been covered. As far as the Middle East is concerned, we acknowledge that all outcomes are possible at this stage, from further escalation to de-escalation. The fact that markets haven't reacted, to me, signals that they recognise risk is binary: either the conflict escalates (with obvious repercussions for risk assets) or it doesn't. And since we haven't seen a sell-off, it means that markets are calculating that the status quo is still the most likely event.

Markets are already beginning to price in geopolitical entropy and are requiring higher risk premia. Not a great time either for stocks with high valuations or for those waiting for markets to notice their value. Predictable quality is the name of the game these days.

However, this week we turn our attention to the wealth management industry. Typically, wealth managers don't manage their own funds, or they have a separate service line. Wealth managers, like everyone else, have suffered from sub-par returns over the past few years. But the value they add is much more visible:

• Asset Allocation: Since the end of 2019, global equity markets have diverged. Correct investment decisions on where to invest assets, not offered by simple ETFs, can make a difference.

• Tax advice: In a rapidly shifting geopolitical environment, governments change quickly. In the western world, most of these governments have high debt levels and are facing a high-yield environment. A significant amount of output growth is lost on interest payments. To finance themselves, governments may increasingly seek higher taxation, especially on businesses and high-net-worth individuals. Wealth managers with sage tax advice will quickly find themselves in demand.

• Financial planning: As a discipline, financial planning is superior to what private banks generally offer. Apart from the obvious synergies with tax planning, financial planners are active managers of a client's total wealth. In a world with such powerful centrifugal forces, total wealth management, which comes in the guise of financial planning, can significantly add value to portfolio holders.

• Discipline: Having a dedicated planner helps keep portfolio holders focused on the longer term and allows clients to benefit from the best gift capitalism has to offer, long-term returns and compounding. The best portfolios are the ones that manage to harvest long-term returns, for it is in short-term opportunism that most value is lost.

George Lagarias – Chief Economist

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