Wealth Management
Weekly Market Update

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Market Update

Global stocks fell by -1.9% last week as investors weighted varying signals from corporate earnings, central banks and economic growth data. In the US, good news was viewed as bad news by stocks, as strong tech earnings were viewed as not strong enough, and blowout GDP and durable goods figures were seen as signs that interest rates would have to remain high. Stocks also appeared to have a negative reaction to consumption data released on Friday, which showed that Core PCE, the Federal Reserve's preferred measure of inflation, increased on a month-on-month basis, but fell on a yearly basis. Bonds were seen as a refuge, as 10-year Treasury yields fell to 4.8% by the end of the week, after briefly breaching the 5% level on Monday. European stocks fell by -0.6% while the European Central Bank kept interest rates steady for the first time in 10 meetings. UK stocks fell by -1.5% on weak PMI data. Oil fell by -3.4% to $84.4 per barrel, so far remaining unfazed by geopolitical events.

UK Stocks	US Stocks	EU Stocks	Global Stocks	EM Stocks	Japan Stocks	Gilts	GBP/USD
▼ -1.5%	▼ -2.3%	▼ -0.6%	▼ -1.9%	▼ -0.4%	▲ +0.3%	▲ +1.0%	▼ -0.3%

all returns in GBP to Friday close

Macro News

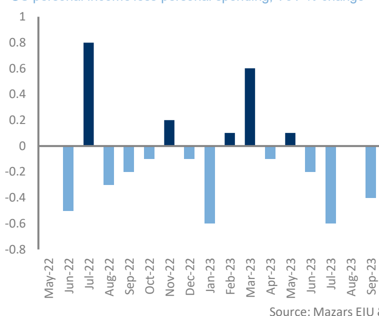
- Corporate earnings have remained robust this year, as evidenced by the Q3 2023 earnings season, where ~78% of US large cap companies have reported positive earnings surprises, while 62% have reported positive revenue surprises according to Factset. However, forward earnings guidance has sparked concern among analysts as two-thirds of companies that have delivered their Q3 financial results reported negative earnings revisions, due to expected weakening of demand moving forward. This, in conjunction with heightened geopolitical uncertainty and a 'higher for longer rates' narrative, has contributed to a sell-off in global equities.
- US GDP was reported to have risen by 4.9% quarter-on-quarter in Q3. Private consumption was the primary contributor to GDP, as US consumer activity remains resilient despite a significant decline in excess US consumer savings.
- Core PCE, a favoured metric used by the Federal Reserve when assessing embedded inflation, softened slightly to 3.7% year-on-year.

The Week Ahead

- The Bank of Japan, the Federal Reserve and the Bank of England will all be delivering policy rate decisions this week. In addition, key insights into US unemployment figures via the JOLTS and the non-farm payrolls report will provide investors with a critical understanding of current labour market conditions.

Week in Charts

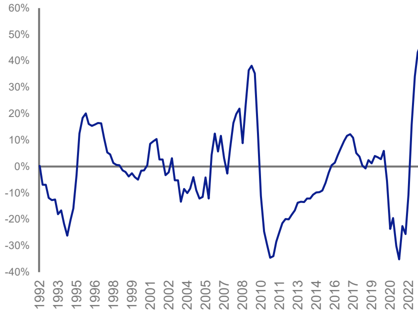
Consumers are spending money they don't have
US personal income less personal spending, YoY % change



Source: Mazars EIU &

Despite concerns over a slowdown in US consumer activity, reported consumption figures have been remarkably resilient. However, comparing US consumer spending to income reveals the consumer's increasing reliance on savings and borrowed funds over the last few months, an unsustainable trend.

Credit card delinquencies rising at the fastest pace on record
US Delinquency Rates For All Banks Credit Cards, YoY Δ



Source: Mazars EIU & Bloomberg

We are also beginning to see the impact of unsustainable borrowing in the data. Credit card delinquency (the act of failing to make a payment by the due date) rates in the US are accelerating at the fastest pace on record, fuelling concerns that banks will be left on the hook for significant loan losses.

View From the Desk

Last week was one of the worst weeks this year for equities, with many companies (Alphabet, Meta, Standard Chartered) losing value following below-expected forward earnings projections. Investors found refuge in bonds, with the US 10Y yield coming off the 5% watermark. Meanwhile, US large caps are now in correction (-10%) territory.

On the face of it, the pullback doesn't make much sense. US inflation is mending, with core PCE remaining stable at 3.7%, despite strong Q3 growth figures in the US. The Fed has all but confirmed that they are in pause mode. And geopolitical tensions didn't escalate nearly as quickly as they might have. The reasons for last week's sell-off lie beyond the headline numbers:
for one, the US might be growing at a faster pace than everyone else, but it's borrowing heavily to do so. Presently, it's running a 6%+ deficit, roughly double that of Europe. It's debt to GDP is projected by the IMF to reach 137% by 2028.

Second, earnings are problematic. While earnings announcements so far haven't been that bad (78% of companies are beating projections), the violent market reactions to the results of Alphabet, Standard Chartered, Meta and Morgan Stanley suggest that investors are nervous about earnings growth going forward, and probably for good reasons. After all, while earnings from operations went up, bottom line earnings growth remained flat, suggesting that a growing proportion of earnings is going towards making interest payments. If that's happening in the world's largest companies, businesses with smaller capitalisations are bound to have bigger problems.

Third, geopolitical uncertainty remains at the forefront of market participants' thinking. Oil prices might have fallen back to within a range (West Texas Crude $84 at the time of writing), but there are currently two wars raging, both of which have global implications for commodity prices.

Fourth, we remain in quantitative tightening mode. While easily forgotten, especially as we enter a rate hike hiatus, the Fed is reducing the amount of money in the markets. It's hard enough to have a proper rebound year when rates remain above 5%; things are more likely to get worse while the Fed is actively reducing liquidity.

Fifth, larger risks remain. Early in the year, markets got a scare when several US peripheral banks went under. Presently, the US banking system alone has more than $650bn of unrealised losses on bonds, a record amount. Any sort of alarm that could cause depositors to pull away money could force banks to liquidate assets, not only having to realising losses, but also dumping more bonds into an already saturated market. This is a really long way of saying that 'geopolitics and high interest rates at these levels of debt continue to weigh on financial markets'.

So, there are plenty of fundamental reasons for investors to be worried and not entirely buy the headline story, i.e. stronger growth and lower inflation. With Quantitative Tightening remaining in effect, it's hard to have a proper bullish rebound.

George Lagarias – Chief Economist

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