Wealth Management
Weekly Market Update

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Market Update

Last week, equities fell despite US core PCE, a critical inflation measure used by the Federal Reserve to assess inflation, unexpectedly declining to 3.9% in August. Global stocks fell -0.6%, with US stocks falling -0.4%. Energy was the only sector to deliver positive returns, up +1.1%, while utilities significantly underperformed, down -5.7%. Meanwhile in Europe, Italian bonds surged as concerns grow over the government's need for further debt issuance. This, in combination with some more hawkish remarks from ECB officials, caused further climbs in bond yields, with UK and German 10-year government bond yields rising by 20bps and 10bps respectively. UK stocks fell -1.1%, while Sterling weakened by -0.3% versus the US Dollar. Japanese equities were the greatest regional underperformers last week, falling -1.8%. Japan is heavily dependent on crude oil imports, as there is little domestic production. As such rapidly rising oil prices, now at $90.72/barrel, are beginning to threaten economic activity. Meanwhile gold prices suffered last week, falling -3.7% to $1848.31/oz.

UK Stocks	US Stocks	EU Stocks	Global Stocks	EM Stocks	Japan Stocks	Gilts	GBP/USD
▼ -0.9%	▼ -0.4%	▼ -1.1%	▼ -0.6%	▼ -0.7%	▼ -1.8%	▼ -1.4%	▼ -0.3%

all returns in GBP to Friday close

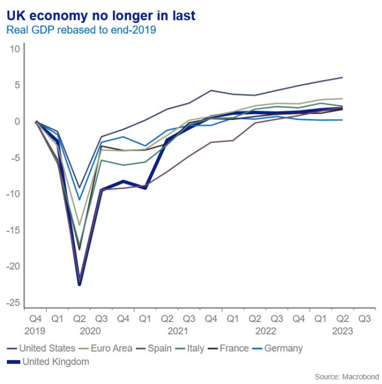
Macro News

- The United Kingdom's economic performance since the start of the Covid-19 pandemic was better than previously thought, according to revisions to the official data by the Office of National Statistics (ONS). The new figures show that the UK economy expanded by 1.8% since the end of 2019, a large increase from the previous estimate of a 0.2% fall. The improvement was purportedly due to stronger performance for professional and scientific businesses due to improved data sources.
- Headline eurozone inflation fell to a two year low of 4.3% in September. Core inflation, which includes volatile elements such as food and energy, also declined to 4.5% from 5.3%. The figures are good news for the European Central Bank and has raised hopes that it may have reached the end of its hiking cycle.
- New orders for US durable goods unexpectedly rose in August, increasing by 0.2% and beating market expectations of a 0.5% decline.

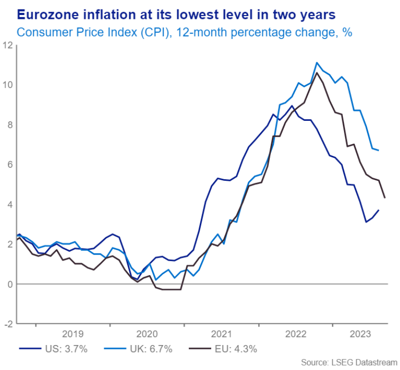
The Week Ahead

- The US labour market will be in focus this week, as the Job Openings and Labor Turnover Survey (JOLTS) and non-farm payroll data will be released. PMI data will also be released for the US, UK, and European countries.

Week in Charts



The UK's economic recovery from the pandemic no longer appears so poor after revisions to the official data by the ONS. UK growth since 2019 now ranks above France and Germany, but still lags behind the US.



Eurozone inflation fell to 4.3% in September, falling below economist expectations of 4.5%. There remains a gap between the UK and eurozone, with UK inflation at 6.7%.

View From the Desk

This inflation cycle is nearing its completion. In the US, core Personal Consumption Expenditure, the Fed's favourite inflation gauge, fell below 4% for the first time since June 2021. If this Friday's employment figures are weak, it is possible that the Fed could focus on impending economic weakness and put an end to rate hikes altogether. As the world loses the benefit of an H1 Chinese resurgence, the economy is slowing down. And while a 'soft landing' is the base case scenario for many investment firms, the level of confidence is low.

For all their proclamations of a soft landing, after all, policymakers know that predicting a recession, let alone its depth, is a fool's errand. Since 1995, there have been six separate occasions at which 'Soft Landing' became a keyword. In two of these cases (2000, 2007) the landing proved pretty hard. In two others, 1995 and 2011, the economy didn't land at all.

The x-factor, however, is not the trajectory of the economy. Rather, it is persistent geopolitical instability. The geopolitical instability which started with China's great leap forward away from being the world's manufacturing hub, continued with the trade wars that started in 2017. The pandemic further widened geopolitical rifts, while the war between Russia and Ukraine forced the world to take sides, officially ending decades of post-Soviet co-operation.

As oil prices continue to hover near $90, investors are worried whether a new cycle of inflation will play out, mirroring the 1970s-style up-and-down inflation. And while a rumoured deal between the US, Saudi Arabia and Israel could potentially ease oil pressures for now, it is worth understanding that it takes years to stabilise an unbalanced world. Markets, which hate instability, are finally realising that the era of geopolitical convergence is over, and in that respect, the world now resembles the 1970s. While it will probably not be as bad, the inflation and growth backdrop is much more uncertain than before the pandemic.

In our recent Investment Committee, we decided to remain underweight duration, bucking the market trend of buying long bonds in anticipation of lower rates. In this environment of uncertainty, at peak (or near peak) rates and with the yield curve still inverted, it makes sense that long yields could remain near present levels or even rise, even as short yields fall to normalise the yield curve. Our equity allocation remained close to the benchmark, meanwhile, reflecting the economic uncertainty and how it will play out in earnings, especially in the tech sector where valuations seem to be somewhat optimistic if one considers recent earnings trends.

George Lagarias – Chief Economist

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