Wealth Management
Weekly Market Update

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Market Update

US equities had their best week of 2023 so far, rising by +5.9% in USD terms (+3.7% in GBP) last week, as statements made by the Federal Reserve were viewed as dovish. While the Fed kept interest rates steady at its policy meeting on Wednesday, markets were encouraged by the acknowledgement that the recent rise in longer-term bond yields had served to advance some of the Fed's goals in tightening financial conditions. Macroeconomic factors, including cooling employment and PMI data, added fuel to the rally as investors were reassured that the end of rate hikes had come. Stocks in other regions joined in the upswing, with global equities rising by +3.4% and positive returns seen in UK, EU, Japan and emerging markets indices. Bonds performed well over the week in the UK and US, with yields falling around 25 bps each. Meanwhile in Japan, long bond yields spiked to ten-year highs after the Bank of Japan modified its yield curve control policy, no longer capping 10-year bonds at 1.0%. Subsequently the yield on the 10-year bond peaked at 0.97% on Wednesday.

UK Stocks	US Stocks	EU Stocks	Global Stocks	EM Stocks	Japan Stocks	Gilts	GBP/USD
▲ +1.7%	▲ +3.7%	▲ +3.0%	▲ +3.4%	▲ +1.0%	▲ +1.9%	▲ +2.0%	▲ +2.1%

all returns in GBP to Friday close

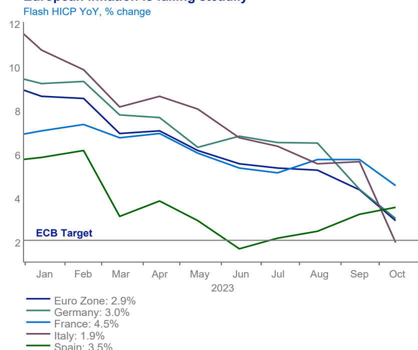
Macro News

- US non-farm payrolls, a key measure of the tightness of the US labour market, were reported to have increased by 150,000 in October. This was lower than analyst expectations and significantly less than the 297,000 jobs added in September. This, in conjunction with a slight rise in unemployment to 3.9%, indicates that interest rate hikes are beginning to have their desired impact – slowing down economic activity. Businesses are growing more cautious on new hires as economic uncertainty hits their operations. Wage pressures in the US are also easing, with US average hourly earnings rising +4.1% on a year-on-year basis in October, down from +4.3% in September.
- Meanwhile, European economic activity is decelerating rapidly. The HCOB Eurozone Composite PMI Output Index fell to 46.5 in October, as both the manufacturing and services sectors contracted due to a worsening demand picture. Headline EU inflation also fell to 2.9% in October, driven primarily by a sharp fall in energy costs.

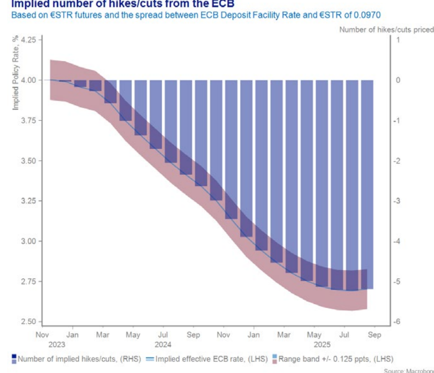
The Week Ahead

- Official estimates for UK GDP growth in Q3 will be released on Friday this week. Analysts are anticipating a mild contraction of 0.1% for the UK economy on a quarter-on-quarter basis. Meanwhile, US initial jobless claims, released on Thursday, will be a useful indicator of US labour market activity.

Week in Charts



Inflation has fallen markedly across Europe since the highs seen at the beginning of the year, now approaching the European Central Bank's (ECB) official inflation target. However, European consumers continue to wrestle with inflation rates of 7.5% on food prices and 4.6% for services.



Markets reacted strongly to perceived economic weakness last week, bringing forward their expectations for when the ECB will begin to cut interest rates. Markets are currently implying that the first rate cut will be made in May 2024. But with prices continuing to rise despite economic weakness in a textbook example of stagflation, can the ECB afford to cut rates so early next year?

View From the Desk

Last Monday we said: "Stocks have somewhat corrected, and futures traders have very short positions in bonds. There are now many scenarios in which one (or both) of these asset classes stage a rebound… we should not write off 2023 just yet. September and October are historically the worst months of the year by far. This means that regardless of the view we currently hold, there remains a likelihood that this is the worst this year has to offer. Can the balanced portfolio rise again before the year's out? The answer is yes, we can still get our customary Santa Rally."

Last week was one of the best on recent record for both stocks and bonds. The US large-cap equities gained nearly +6%, erasing more than half of its correction (-11%), while the US 10Y Treasury gained +2% and the 30Y gained +4%, now trading at yields of 4.6% and 4.7% respectively. The ostensible catalyst was the Fed's second-in-a-row rate pause, accompanied by a commentary which led markets to believe that the US central bank is done with rate hikes for this cycle – and that we could possibly see rate cuts at some point mid-next year.

A slightly-below-expectations labour market number on Friday helped further fuel those hopes. Additionally, bond futures had a lot of short positions, which allowed for a short squeeze (traders giving up on their bets against bonds).

However, the last week of October is also the last week of trading in the financial year for hedge funds and other investment vehicles. As such, many move to crystallise losses. Following November 1, managers wipe the slate and are free to trade again.

Unlike the real Santa, who brings his gifts late in the year, the Financial Santa, tends to begin a couple of months earlier. Historically, this has been very well documented. In the last 52 years, for US large-caps:

- 75% of returns after Nov 1 and until the end of the year have been positive.
- When returns are positive, the last two months count for more than 30% of annual returns on average.
- 29% of the time, the last two months have had better performance than the previous ten months cumulatively.
- Results are less clear in other markets, which may correlate with US large-caps but don't have the same fiscal year.

In an age where robots run trading, it stands to reason that past trends would tend to be reinforced. So, in conclusion, the Santa rally could be already here, as it is most years. A good part of that may have already happened last week, although history suggests there could be more.

George Lagarias – Chief Economist

Important information

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