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October 2023 Market Commentary

“October saw falls in both global equities & bonds as investor concern about higher interest rates for longer, led to a market sell-off”



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Global shares and bonds fell in October amid worries that US interest rates may remain higher for longer, given still strong inflation and robust economic data. The geopolitical situation was another concern for investors amid the conflict in the Middle East, the continuing war in Ukraine, and tensions between the US & China. The price of gold rose, as investors sought safe haven assets.

United Kingdom

FTSE All Share: -4.09%

UK equities fell in October, with large UK banks performing poorly amid concerns about the impact of higher interest rates on the performance of their lending and mortgage businesses in particular.

Long-term interest rates rose again during October and as a result UK Gilts resumed their sell-off following a period of relative stability seen during the summer months. At the same time there was deterioration in the UK economic outlook, which included a sharp drop in consumer confidence, a decline in key purchasing manager indices (PMI) and news of further falls in house prices.

Inflation remained unchanged at 6.7%, versus the market expectation

of a slight moderation to 6.6%. This added to concerns that the UK may be in line for a long inflation battle, even as the economy slows.

United States

S&P 500: -1.56%

Market expectations as to when the US Federal Reserve (Fed) will start to reduce interest rates have been pushed back, which in turn led to a downturn in equities. Inflation remains

-0.1% in Q3 2023. Furthermore, the PMI declined to a 35 month low of 46.5.

At the October meeting, the European Central Bank (ECB) did not change interest rates, breaking a series of 10 consecutive increases. Inflation fell nearer to the ECB 2% target with a reading of to 2.9% in October, down from 4.3% in September. This added to expectations that the interest rate-hiking cycle may be over.

Discrete Quarterly Performance as at 31/10/2023



persistently high and the broader US economy robust, which is impacting the Fed's policy decisions. Citing the "range of uncertainties, both old and new", Fed chair, Jerome Powell, indicated that policymakers had not ruled out further tightening, despite rates currently being at a 22-year high.

The US economy expanded at an accelerated annualised rate of 4.9% in Q3 2023, exceeding market forecasts of 4.3%, largely driven by strong consumer spending. Inflation remained at 3.7%, unchanged on the previous month. The PMI reading also indicated continued expansion, rising to 51.0 in October, up from 50.2 in September (over 50 signals expansion).

Europe

FTSE Developed Europe ex UK: -2.94%

Eurozone shares declined as higher interest rates weighed on growth with data showing that the Eurozone economy contracted by

China

CSI 300: -2.78%

Investor sentiment towards China continued to weaken due to the country's economic slowdown and a lack of a convincing policy response from the Chinese government, which meant that Chinese equities fell. The ongoing real estate debt crisis has also added to investor concerns. Hong Kong share prices also fell in October, as foreign investors reduced their exposure to China on concerns over ongoing US-China tensions.

Japan

MSCI Japan: -3.95%

Japanese equities declined in October amid weaker investor sentiment. However, the continued rise in long-term Japanese Government Bond (JGB) yields benefited banks and financial stocks. The JGB 10 year yield rose to 0.9% in October.

At the Bank of Japan (BoJ) policy meeting on 31 October, the BoJ adjusted its yield curve control policy further by letting the 10-year JGB yield rise above 1.0%. However, the BoJ declared that this level is a reference point rather than a limit. Inflation remains resilient, and the BoJ raised its inflation forecasts above their 2% target for the next three fiscal years.

Emerging Markets

MSCI Emerging Markets: -3.32%

Emerging market equities lagged their developed market peers over the month against a backdrop of rising bond yields and the conflict in the Middle East.

Turkey was the biggest under performer as the currency weakened against the US Dollar. The Turkish Central Bank continues to tighten its monetary policy, raising interest rates to 35% in October, to combat the current inflation rate of 60%. The UAE, Qatar and Kuwait, also fell, as they were impacted by the nearby conflict and lower energy prices.

Global Bonds

Bloomberg Barclays Global Agg: -0.62%

The prevailing narrative that drove bond markets in October, was the expectation that interest rates will need to remain high for an extended period.

In the US, the labour market remains strong and inflation persistently high. Subsequently the US 10-year government bond yield increased to 4.91% in October.

The UK 10 year gilt yield also rose in October, to 4.52% from 4.44% the previous month. Predominantly, this was due to inflation remaining at an elevated level, despite the moderation in wage growth.

European rates bucked the trend of rising yields, with Italian and German 10 year government bond yields falling to 4.73% and 2.81% respectively. Thus, European bonds outperformed other markets.

All investment involves risk. It is important you understand that past performance is not a guarantee of future performance. The value of investments and any income derived from them may go down as well as up and you might not get back the full amount you invested.

Cumulative Performance and Annualised Volatility as at 31/10/2023

	1 Year %	3 Years %	5 Years %	Volatility % ²
Global Bonds	-3.49	-15.21	-3.05	6.80
UK Equities	5.89	39.38	21.10	14.34
US Equities	3.98	41.22	72.99	14.55
European Equities	10.77	28.65	35.72	14.48
Japan Equities	10.81	12.38	21.63	12.23
Asia Equities	4.86	16.70	34.03	15.57
China Equities	-6.69	-20.82	26.59	17.59
Emerging Market Equities	5.13	-4.76	13.97	14.41
Global Equities	4.83	34.77	56.63	13.68

Data source FE Analytics 31/10/2023. Indices used: Global Bonds: Bloomberg Barclays Global Aggregate, UK Equities: FTSE All Share, US Equities S&P500, European Equities: FTSE Developed Europe (Ex UK), Japan Equities: MSCI Japan, Asia Equities: FTSE World Asia Pacific (Ex Japan), China: CSI 300, Emerging Markets Equities: MSCI Emerging Markets, Global Equities: MSCI World. Volatility annualised over 5 years.

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