



**THROGMORTON**  
PRIVATE CAPITAL

# Monthly Market Update



## October 2022

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“Interest rate cuts are unlikely as central banks deal with persistently high levels of inflation, meaning falling bond and equity values”



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## September 2022 Market Commentary

After rallying in the previous month, equities and bonds registered negative returns in September. Asian and Emerging Markets were the worst performing equity indices, but all major global equity indices posted negative returns. Whilst the returns on global bonds were not as bad as equities, the hopes of interest rate cuts dissipated as central banks reaffirmed their commitment to fighting persistently high levels of inflation. The US Federal Reserve (Fed), European Central Bank (ECB) and Bank of England (BoE) all raised interest rates again.

### **United Kingdom**

FTSE All Share: -5.88%

The newly formed UK government announced a fiscal package in September which was poorly received by markets. Investors questioned the credibility of the government, which led to significant losses in the bond markets and the need for the BoE to temporarily intervene. The proposed fiscal package also sent Sterling to an all-time low versus the US Dollar having already devalued, following the Fed's warning that they “would keep at it” in relation to raising interest rates to combat persistent inflation.

UK equities declined in September, with domestically focused stocks

farings badly. The FTSE 250 Index fell 9.67% during the month with fears around rising energy bills and reduced consumer discretionary spending impacting the retail, travel and leisure, and home construction sectors. Larger multi-national and energy companies, a lot of which generate income overseas, benefited from the weak Pound and outperformed domestically focused stocks. The FTSE 100 Index posted a negative return.

The European Central Bank raised interest rates in September, taking the deposit rate to 0.75%. The annual inflation rate was estimated to be 10.0%, up from 9.1% in the previous month. Energy costs were the biggest contributor to the inflation rate. Concerns about inflation have sent the Euro to a 20-year low versus the US Dollar.

GDP figures showed the Eurozone grew by

## Discrete Monthly Performance as at 30/09/2022



### United States

S&P 500: -5.40%

US equities fell in September as the Fed raised its interest rate from 2.50% to 3.25%, which represented the third consecutive increase of 0.75%. This was to combat the increase in inflation, with the Fed's preferred measure of inflation (the core personal consumption expenditure index) moving upwards from 4.7% to 4.9%. Furthermore, GDP data confirmed that the US economy is in a technical recession as it fell by -0.6% in Q2 2022, following contraction in the previous quarter. However, other data showed some resilience in the economy, with 315,000 new jobs added.

### Europe

FTSE Developed Europe ex UK: -4.98%

Eurozone equities continued to decline as the ongoing energy crisis, rising inflation, and the outlook for economic growth weighed on investor sentiment.

0.7% in Q2 2022. However, economic indicators signalled a weakening economy.

### China

CSI 300: -5.42%

Ongoing tensions between China and Taiwan impacted investor sentiment. Furthermore, the Chinese property market slumped and the continued spread of Covid-19 and the "zero tolerance" policy towards it, both contributed to a fall in domestic demand. These concerns were not offset by data released in September which showed that Chinese factory activity unexpectedly expanded during August. As a consequence, China equities posted negative returns.

### Japan

Topix: -6.56%

After rising through July and August, the Japanese stock market followed global equity markets lower in September and ended Q3

2022 down 0.8%. This was not helped by the GDP estimate being below consensus expectations.

The Bank of Japan made no policy change and left the interest rate unchanged. This meant that the Yen weakened against the US Dollar.

Data showed Japan's inflation continuing to edge up, with the headline rate reaching 3.0%. However, whilst corporate profit slowed from Q2 2022, overall results were again ahead of expectations and profit margins appear to have remained resilient so far, despite the impact of inflation.

## Emerging Markets

MSCI Emerging Markets: -7.98%

Poland, Hungary and Czech Republic were the weakest performing Emerging Markets, as the Russian war in Ukraine escalated, which has intensified the energy crisis in Europe. South Korea and Taiwan also suffered as the outlook for global trade deteriorated.

Commodity dependent nations were also impacted as prices fell.

Turkey was the best performing market, despite recording inflation in excess of 80%. The Central Bank cut interest rates and data showed that the economy continued to grow strongly. Brazil also performed well as investors took comfort from a narrowing in opinion polls ahead of the October presidential election, and as growth and inflation data improved.

## Global Bonds

Bloomberg Barclays Global Agg: -1.12%  
Gilt yields have continued to rise, meaning that capital values have fallen. The US 10-year yield rose 2.97% to 3.83%. The rise in the UK was even higher, with the 10-year yield rising from 2.24% to 4.15%, with this market also being monitored very closely by the BoE. In Europe, the German 10-year yield increased from 1.34% to 2.11%. Across all global bonds, returns were poor, with Sterling denominated bonds, in particular, being the worst performers.

**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 30/09/2022

	1 Year %	3 Years %	5 Years %	Volatility % <sup>2</sup>
Global Bonds	-3.89	-7.53	6.89	6.82
UK Equities	-4.00	2.40	11.32	14.19
US Equities	1.63	37.64	82.03	14.61
European Equities	-13.61	4.68	12.03	14.09
Japan Equities	-14.60	1.86	16.47	12.45
Asia Equities	-9.23	15.01	29.65	14.85
China Equities	-12.09	17.59	23.85	17.56
Emerging Market Equities	-13.17	3.69	9.71	13.32
Global Equities	-2.93	26.18	55.61	13.71

Data source FE Analytics 30/09/2022. 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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