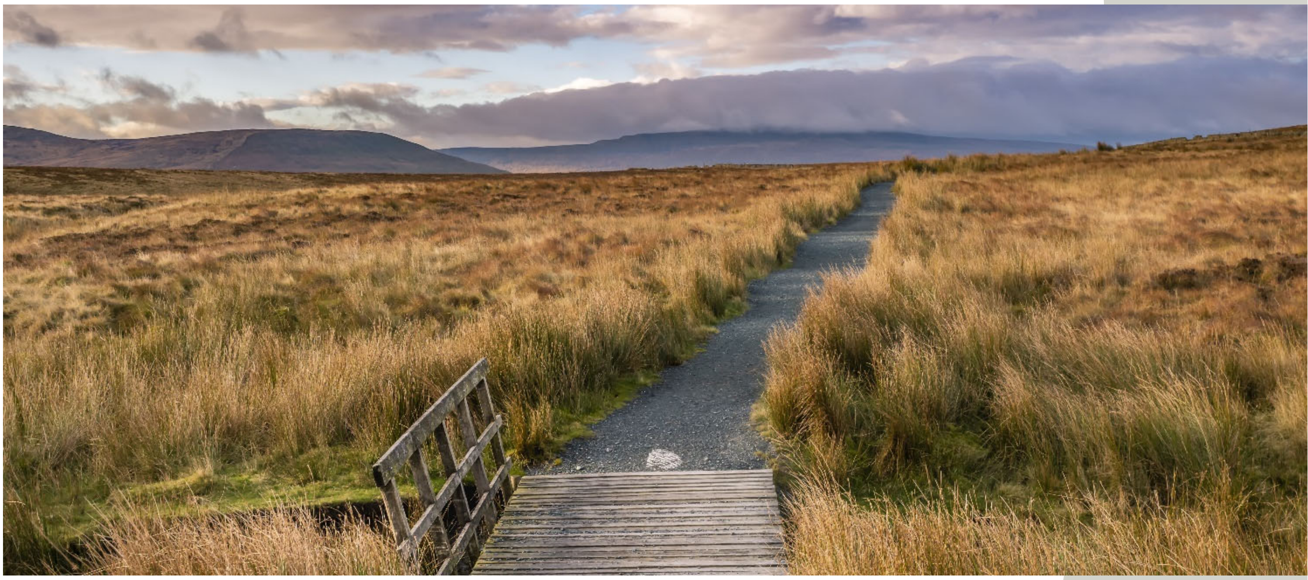
RATHBONES | Incorporating Investec Wealth & Investment (UK)

11 December 2023

Market reflection



John Wyn-Evans
Head of investment strategy

Overview

Finally, we are in the happy position of being able to report a better month for balanced portfolio investors, with both bonds and equities gaining ground during November. In doing so, they clawed back many of the losses suffered in the previous three months.

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The better mood stemmed from various factors. First, the third quarter corporate results season passed off with relatively few hitches. Indeed, as is usually the case, aggregate earnings once again exceeded expectations. Second, inflation levels continued to fall. Yes, prices are still rising, but now at a slower pace, and there is some optimism that headline inflation can reach the central banks' 2% target within a reasonable timeframe. This has allowed central banks at least to contemplate the possibility of curtailing interest rate increases, although they have been shy of suggesting actual rate cuts, for fear of allowing animal spirits to be rekindled too readily, thus risking renewed inflationary pressure. Even so, investors' expectations have leapt ahead, with the initial rate cuts being priced in for early summer 2024. Sentiment can turn quickly once investors smell a shift of interest rate policy in the wind, and this is a key reason for us not having taken a more extremely defensive stance previously. In the UK, the Chancellor's Autumn Statement passed by without making many ripples in financial markets, which, given experience, was to be welcomed. But nor did it put a dent in the Labour Party's lead in the opinion polls as the country prepares for a General Election, probably to be held next year. The country's finances allowed Mr. Hunt little room for grand gestures. Although a 2% cut in employees' National Insurance contributions generated positive headlines, it does little to offset previous policy tightening, notably the fiscal drag created by the freezing of personal allowance thresholds.

• The Bloomberg consensus for World GDP growth in 2023 has risen from a low of 2.1% in February to a current 2.85%. The outlook for 2024 continues to suggest slower progress next year, with consensus estimates at 2.65%, as the lagging effect of higher interest rates continues to bite.

• Global equities rallied strongly in November, although gains to sterling investors were muted by the combination of a weaker dollar and stronger pound. Sterling rose from $1.21 to $1.27 against the greenback as UK economic data came in better than expected, although overall activity remains flat.

• The dollar-denominated Bloomberg Global Aggregate Index investment grade bonds gained 5.5% in November, finally dragging itself back in to positive territory for the year. US Treasuries, which tend to determine the global cost of capital, had their best month since the mid-1980s, with the 10-year yield falling from 4.93% to 4.25%.

• The weaker dollar helped Gold to renew its attack on its all-time high closing price of $2,063. The price has also been supported by strong central bank buying, especially in emerging economies. The freezing of Russia's dollar assets following its invasion of Ukraine has motivated many countries to diversify their reserves away from dollars.

• One mitigating factor for inflation has been the oil price. It quickly lost its gains following Hamas's attacks on Israel and, remarkably, is lower than it was before Russia invaded Ukraine. There is plenty of supply in the world, much of it from supposedly sanctioned producers.

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