



# MARKET REVIEW

## Global Market Strategy, NIM Solutions

November 2023

### Macroeconomic developments

Despite overall economic resilience, the US economy is undergoing a cooling phase. Modest rises in continuing jobless claims, coupled with an uptick in credit card delinquencies, corroborate the dip observed in retail sales in October. Moreover, while the headline number from the Empire State manufacturing survey was positive, the new orders and employment components exhibited relative weakness. For its part, the US inflation report showed a cooler-than-expected print, with both headline and core inflation dropping to 3.2% and 4.0% YoY, respectively. This decline fuelled optimism that inflation could reach 2% before the close of 2024 and, consequently, investors increased their expectations for rate cuts during next year. On a similar note, the FED opted for a second consecutive pause during its November meeting, maintaining its target rate range at 5.25-5.50%.

European industrial production and manufacturing activity remain subdued, primarily influenced by lacklustre data from Germany and France. However, the most recent Composite PMIs showed improvement in November at 47.1, and eurozone's employment growth in Q3 proved resilient, experiencing a rise of 0.3% QoQ. Moreover, the flash CPI release for November displayed a slowdown in both headline and core inflation, reaching 2.4% and 3.6% YoY, respectively. Despite these recent positive advancements regarding price pressures, the minutes from the ECB's latest meeting indicated a continued vigilance to potential upside inflation risks. In the political sphere, Pedro Sánchez retained his position as Spain's PM following a Catalan amnesty deal, while the far-right PVV emerged as the winner party in the Dutch election.

While UK growth data disappointed and showed that the economy stagnated in the third quarter, mixed economic momentum is characterizing the fourth quarter. With an unexpected decline in retail sales for October but with a return to expansion territory of the timelier Composite PMIs, at 50.1 in November. Moreover, headline and core inflation in the UK experienced a more significant-than-anticipated decline, dropping to 4.6% and 5.7% YoY, respectively. The decrease in services inflation might provide the BoE with a level of comfort in maintaining rates, despite persistent elevated wage growth. For now, the BoE opted to again keep its base rate steady at 5.25% in November. On the fiscal front, the UK Autumn Budget revealed modest stimulus measures.

China's economic data beat expectations for the third consecutive month, with retail sales and industrial production both growing by 7.6% and 4.6% YoY in October, respectively.

Nevertheless, survey data for November indicated some weakness: the NBS manufacturing PMI dipped to 49.4, though non-manufacturing activity remained 'expansionary' at 50.2. The headline inflation rate slipped into deflation territory once again, coming in at -0.2% YoY, echoing further declines in food prices. Meanwhile, the housing market continues to pose a significant drag, with new home sales experiencing a continued YoY decline. The PBoC injected liquidity into the banking system and hinted a potential cut to the required reserve ratio. However, the prevailing consensus suggests that additional fiscal stimulus may be needed to bolster consumer sentiment and counter deflationary pressures.

### Market reaction

The three consecutive months of declines in both global equities and bonds came to a halt in November. The continued global disinflation gave rise to hopes that further rates hikes may not be needed and boosted expectations for cuts in 2024, what brought bond yields lower.

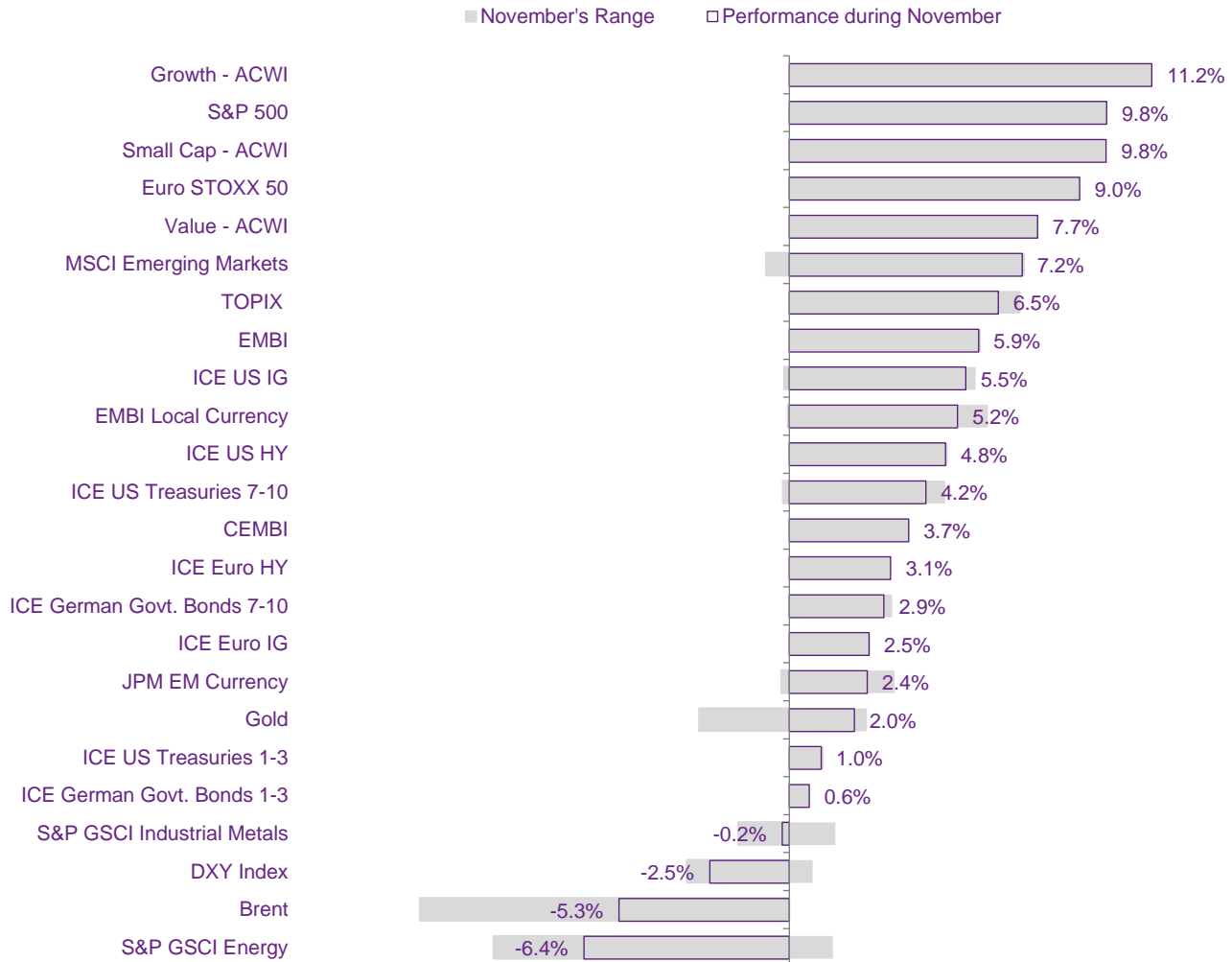
The US and EMU markets had a positive month, experiencing strong gains in rate-sensitive sectors such as real estate and technology stocks. Staples and energy lagged in both regions, with the latter being the only sector with negative performance for the month. For its part, the Japanese market retained its position as the top performer for the year (29% YTD), recording a 5% increase in November driven by large-cap growth stocks, while banks and value stocks faced pressure. Moreover, small-cap stocks experienced a rally in November, as reflected by the 9.8% gain in the MSCI ACWI Small Cap Index. EM gained strongly, slightly behind developed markets, with South Korea, Brazil and Taiwan leading, while Chinese stocks lagged.

The growing speculation that central banks might be done hiking rates bolstered fixed income markets in November. Bond yields dropped across major markets, with the US 10-year yield falling by 58 bp to 4.26%, the Bund by 40bp to 2.43% and the BTP by 63bp to 4.17%. Moreover, 2s/10s spreads again deepened their inversion, with the US one falling by 22bp to -39bp, and the German one by 19bp to -40bp. For their part, credit markets registered positive returns, with EM sovereigns both in HC and LC leading and with US HY and IG following behind. Lastly, the US dollar weakened against all other major currencies: losing 2.57% vs EUR, 3.73 vs. GBP and 0.6% vs. JPY. Meanwhile Brent oil and European natural gas prices fell by 5.3% and 23.2%, respectively, and precious metals increased, with silver leading after an 8.3% jump while gold increased 2.0%.



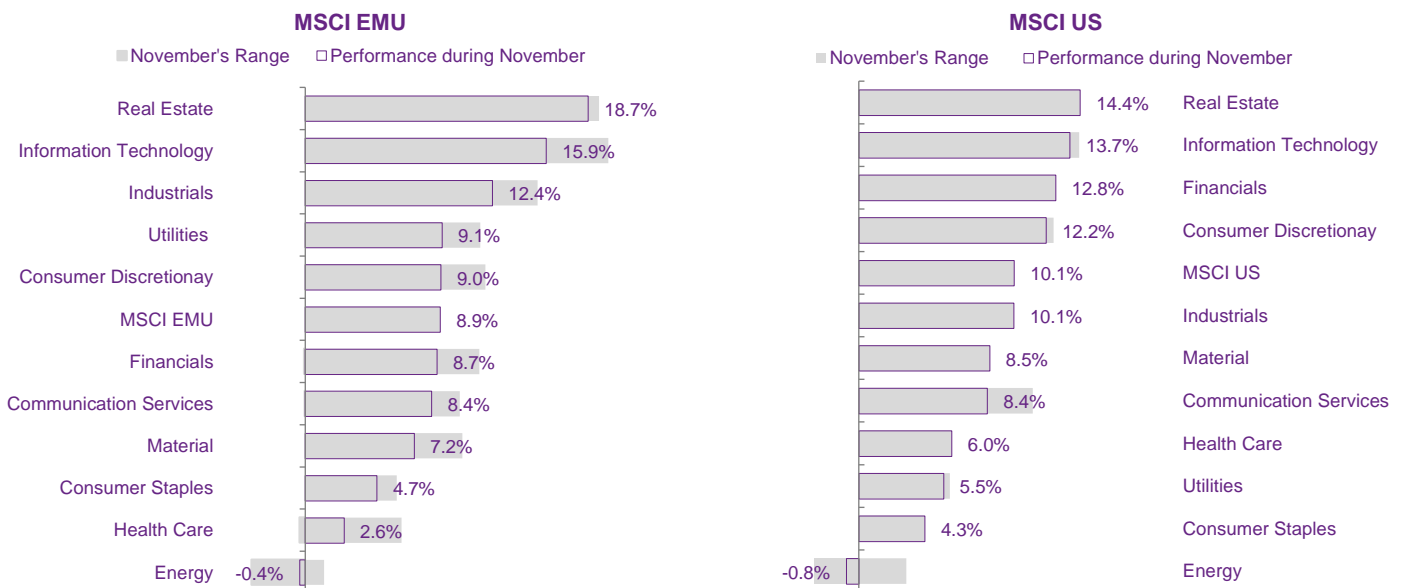
## Cross Asset Performance in November – Local Currency

Past performance information presented is not indicative of future performance.



## Sector Performance in November – Local Currency

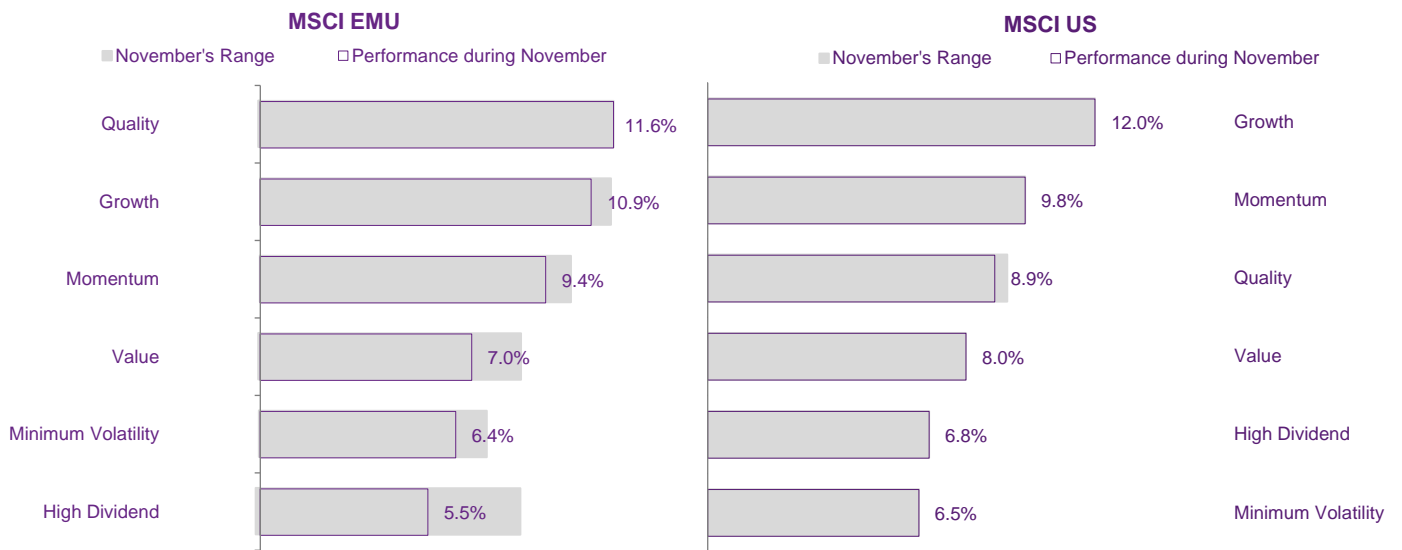
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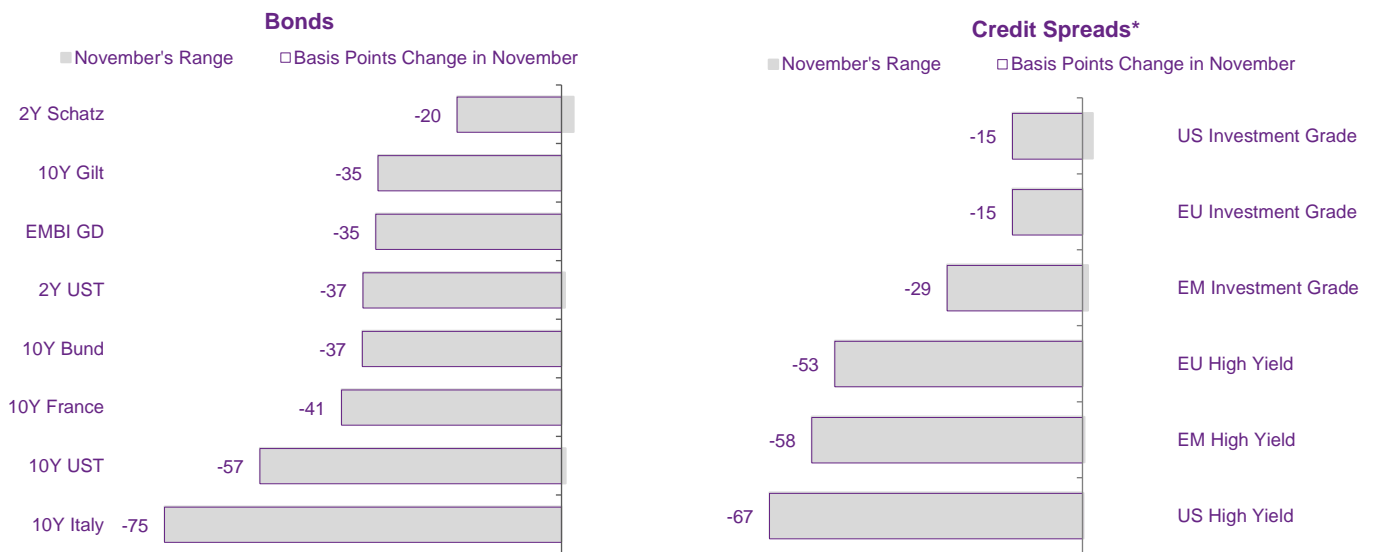
## Style Performance in November – Local Currency

Past performance information presented is not indicative of future performance.



## Net Yield Change in November

Past performance information presented is not indicative of future performance.



\*Credit spreads are OAS and correspond to Bloomberg indices



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