NATIXIS INVESTMENT MANAGERS

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Market Review

Global Market Strategy @ Natixis Investment Managers Solutions

Economic & Political News

Inflation figures continued to come in hot in November. Headline CPI numbers, on a year-over-year basis, hit 6.2% in the US and 4.9% in the Euro Area, making a three-decade high in both regions. Supply constraints remain largely behind price pressures, which is no wonder considering that personal consumption expenditure on goods is 25% above pre-pandemic levels. In addition, PMIs also came in above expectations in most countries, showing a very strong manufacturing sector and an improving services one, particularly in the US. Retail sales in the US advanced 16.3% year-over-year in October, the highest increase since June. The labour market surprised adding 531,000 nonfarm payrolls in October versus the 400,000 expected, and weekly jobless claims fell to their lowest level since 1969. In Europe, economic data was more mixed as some northern and eastern countries reimposed mobility restrictions, which triggered a deterioration on consumer sentiment. Positive news emerged from Japan's next fiscal package, which could be larger than previously expected and could add support the country's GDP in 2022.

The House of Representatives passed the USD1.75 trillion Build Back Better plan, which now awaits in the Senate, where Democrats expect to use the reconciliation process to approve it. Moreover, following his renomination as Fed's chair, Powell stated that inflation should no longer be referred as "transitory" and that he expected to discuss accelerating the pace of the tapering of bond purchases at the Fed's December meeting. Incoming data on the newly discovered variant will be key gauge whether the Fed will carry on with its accelerated tapering plans or not. Social Democrat leader Scholz will succeed Merkel as chancellor of Germany after securing a deal with the Greens and the liberal Free Democrats to form a coalition government.

Equities

Despite the strong economic data, global equities fell for most of November. The rising number of Covid cases in Europe made the markets nervous about the potential of it also occurring in the US. Markets' breadth kept deteriorating as the month went by. Indeed, the Russell 2000 was already down 6% coming into Black Friday. And, following the discovery of the new variant by the end of the month, they sold off with the stocks related to the Reopening theme suffering the most. The communication services, financials and energy sectors were amongst the worst performers, while technology and consumer discretionary held up better. In particular, US chipmakers gained strongly and despite current supply constraints.

Fixed Income

Conversely, sovereign bonds rallied in November as risk appetite weakened and investors priced in the possibility of a faster tapering of asset purchases and the emergence of the Omicron variant. Noteworthy is that soon after getting the highest US CPI figure in three decades, 10-year breakevens peaked and started their decline to their lowest level in the month. This may well have been that markets are looking through inflation fears and are now switching their attention to growth following the Fed's pivot to a less dovish stance. Certainly, the Fed Funds futures now imply between two and three rate hikes in 2022, the first one to take place in June. In addition, yield curves have flattened considerably during November, particularly in the US where the 2y10y spread tightened 18 bps.

Investment grade credit saw flat total returns, +0.3% and 0.1% for EU IG and US IG, respectively, but underperformed government bonds, which returned +1.2% and 0.3% for EU GOV and EU GOV. HY declined, with spreads widening sharply in the final week of the month. US HY fell -1.0% while the EU HY declined -0.6%.

Emerging Markets

The improving economic data coming out of China was not sufficient to offset the negative impact that a rising US dollar tends to have on emerging markets, which decline 4.1% in November. Indeed, Chinese external and domestic demand data beat market expectations, with exports jumping 27% year-over-year and retail sales 4.7% year-over-year in October.

Turkey's finance minister, Lufti Elvan, resigned amid a 27% plunge in the lira. The country's central bank proceeded to cut rates several times during the month despite running a 20% year-over-year average inflation. Moreover, China, Russia, and India, which are responsible for 30% of methane emissions, did not commit to the global methane pledge that was arrived to together with other 100 countries during COP26.

FX & Commodities

Perhaps the only thing hotter than US inflation was its currency. The DXY Index soared to 16-month highs as mounting signs of a strengthening US economy suggested the Federal Reserve may need to taper its bond purchases at a faster pace and bring forward plans to raise interest rates. The US dollar received an added boost after President Biden re-nominated Powell for a second term as Fed chair as he is considered less dovish than his main challenger for the Fed position, Lael Brainard. The euro weakened against most of its main peers, except for commodity-linked currencies after the ECB restated its cautious approach to tightening monetary conditions. In addition, the current wave of infections hitting several European countries, including Germany and Netherlands, further dampened demand for euro. The BoE wrong-footed markets by keeping rates unchanged at record lows and sending the Sterling towards USD1.33 against the US dollar –its lowest level since December 2020.

The S&P GSCI Index declined 11.8% in November largely driven downwards by the stronger US dollar, which tends to negatively affect demand. In addition, a sharp decline in the price of oil also added downside pressure to the commodities index. The energy component was the worst performer of the index in November. The industrial metals component also recorded a negative performance, with lower prices for zinc, lead, aluminium, and copper. The precious metals component also declined, with lower prices for both silver and gold.

Developed Markets Equity - LC		**Fixed Income Sectors - LC**	
Top 3 Markets in November	**Return**	**Top 3 Markets in November**	**Return**
- TA35 Tel Aviv	0.7%	- EU GOV	1.2%
- Swiss Market	0.4%	- GLOBAL INF-LINKED	0.9%
- Nasdaq	0.3%	- US GOV	0.3%
Worst 3 Markets in November		**Worst 3 Markets in November**	
- ISEQ Ireland	-8.2%	- EM Sov HC	-1.8%
- IBEX 35	-8.2%	- EM Corp HY	-1.2%
- Hang Seng	-7.4%	- US HY	-1.0%
Emerging Markets Equity - LC		**Forex and Commodities - USD**	
Top 3 Markets in November	**Return**	**Forex**	**Return**
- Turkey Bist 100	19.3%	- DXY Index	2.3%
- S&P PSA Chile	8.3%	- USD/EUR	-2.3%
- FTSE South Africa	5.4%	- USD/GBP	-2.7%
Worst 3 Markets in November		**Commodities**	
- Moex Russia	-10.6%	- Gold	-1.0%
- S&P Merval	-6.0%	- WTI	-21.3%
- KOSPI Index	-5.7%	- Bitcoin	-6.3%

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