



MARKET REVIEW

Global Market Strategy,
NIM Solutions

October 2023

Macroeconomic developments

The US economy has shown resilience in the third quarter, with GDP growth exceeding expectations at 4.9% YoY (vs 4.5% expected). Consumption remains the primary driver of economic activity, outpacing public consumption and business investment. This stagnation is raising doubts about the spill over effects of public programs supporting the manufacturing sector. PMI data reflected this weakness with the headline ISM Manufacturing PMI was reported at 46.7, dipping further into 'contraction' territory in October and New Orders falling to 45.5. Conversely, household investment has rebounded significantly, in line with the positive signals in the housing supply sector. Overall, internal demand remains robust, supported by a labour market that resists despite multiple signs of slowdown, especially from the manufacturing sector. In the political sphere, House Speaker Kevin McCarthy was replaced by Mike Johnson, a Trump ally.

Euro area's GDP contracted by 0.1% YoY in the third quarter, slightly below expectations and reflecting the lingering concerns about the region's economic outlook, especially due to its exposure to the manufacturing sector. The Eurozone faces challenges due to its exposure to the manufacturing sector and tensions over gas and LNG prices. Germany's industrial sector is entering a recession, and France's economic indicators remain weak, particularly in the construction sector. However, there are signs that the economic situation has stopped deteriorating, with moderate improvements in economic surprise indices and a stable unemployment rate of around 6.5%. The ECB left its key interest rate unchanged at 4.5% after 10 consecutive rate hikes, in line with the contraction of credit supply to households and businesses in the third quarter and with falling inflation, which fell to 2.9% at the headline level to 4.2% at the core one.

For its part, UK's Composite PMI remained in 'contractionary' territory with the economy suffering from higher interest rates as indicated by the nine-point drop in October's consumer confidence. Additionally, retail sales fell by 0.9% MoM in September. Corporate insolvencies have risen by 10% on an annual basis, potentially raising the risk of a UK recession. Headline inflation remained at 6.7%, and core inflation edged 0.1 percentage points lower to 6.1% in September.

China's GDP growth in the third quarter came in stronger-than-anticipated at 4.9% YoY as both industrial production

and retail sales beat expectations in September. However, the October NBS PMIs were slightly weaker than expected, with the manufacturing PMI dipping into 'contraction' territory at 49.5. Moreover, the lingering weakness in the real estate sector has led the central government to step up its economic support by raising its 2023 fiscal deficit ratio. But recent economic data, particularly in the manufacturing sector, cast doubt on China's ability to rebound in the short term.

Market reaction

Global equities and bonds declined for a third consecutive month due to concerns about higher interest rates and geopolitical uncertainty. In contrast, commodities performed well, with energy prices rallying, and investors seeking refuge in gold as a safe-haven asset.

The MSCI World USD experienced a 2.9% decline in October, taking year-to-date performance down to 12.6%, and outperformed the MSCI Emerging Markets, which fell 3.9% over the month and is lagging with a 3.6% return year-to-date. Defensive sectors, such as Staples and Utilities in the Eurozone and Utilities in the US, were the only ones to show positive monthly returns.

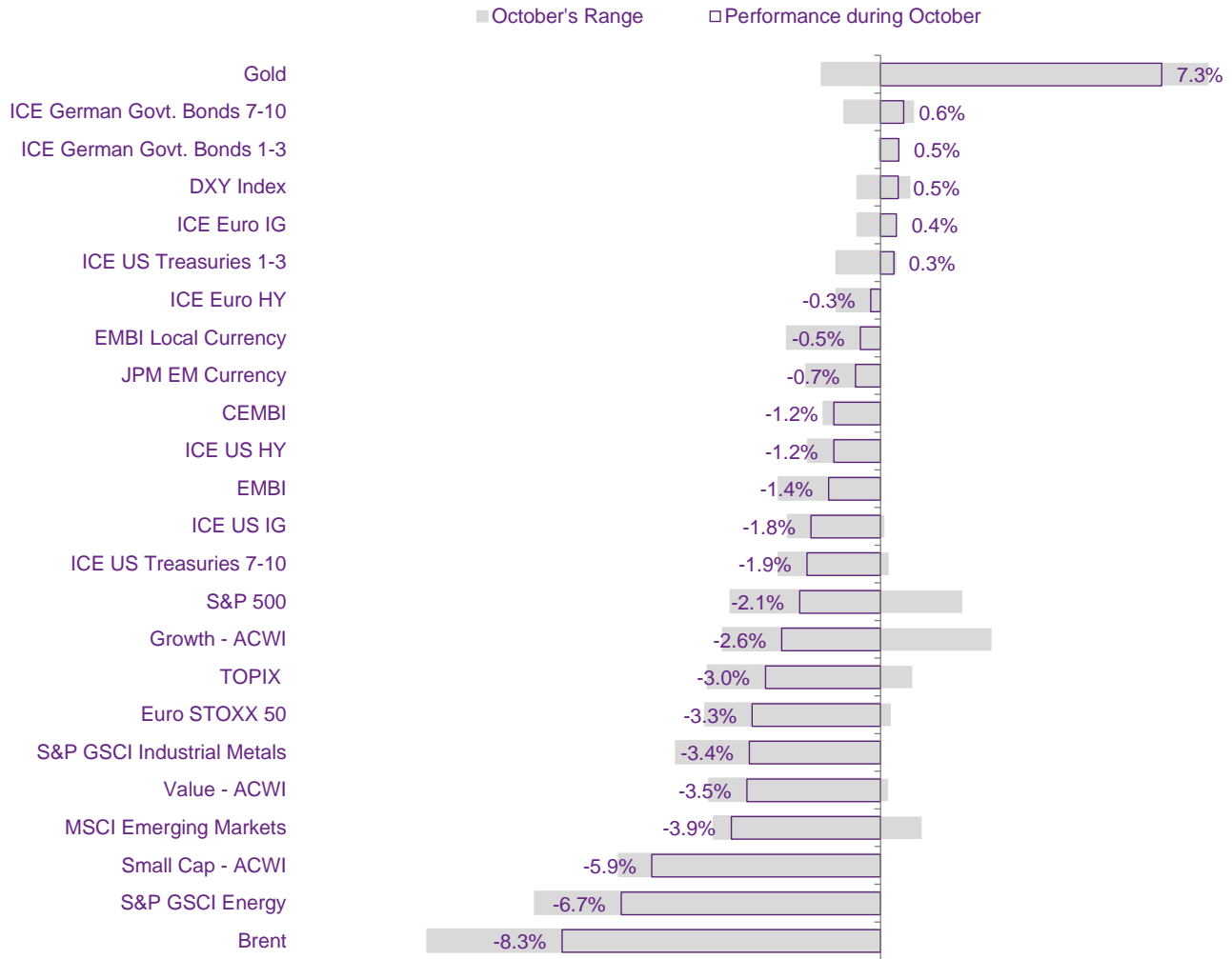
The 10-year US Treasury jumped by 34bps and reached a 16-year high due to buoyant economic data and worries about the sustainability of US public finances. Noteworthy is that this occurred while German 10-year Bunds fell by 2bps to 2.82% and Italian 10-year BTPs fell by 4bps to 4.74%. Moreover, global sovereign yield curves steepened in October, with the 2s10s spread increasing from -47 to -16 in the US and from -36 to -19 in Germany. Japan's government yields rose steadily throughout the month as persistent price pressures led to concerns about the sustainability of the BoJ's YCC policy. While the BoJ initially defended its accommodative stance earlier in the month, it later adjusted its YCC policy at its October meeting by making the previously strict 1% yield cap on its 10-year sovereign yield less restrictive.

The US dollar weakened against all other major currencies due to Treasuries' poor performance and despite the still reasonable strong domestic growth. The Japanese yen depreciated 1.2% against the US dollar following BoJ decision. Oil prices declined by 8.3% to USD 87 per barrel in October, while gold rose by 7.3%, briefly breaching the USD 2,000 per ounce mark



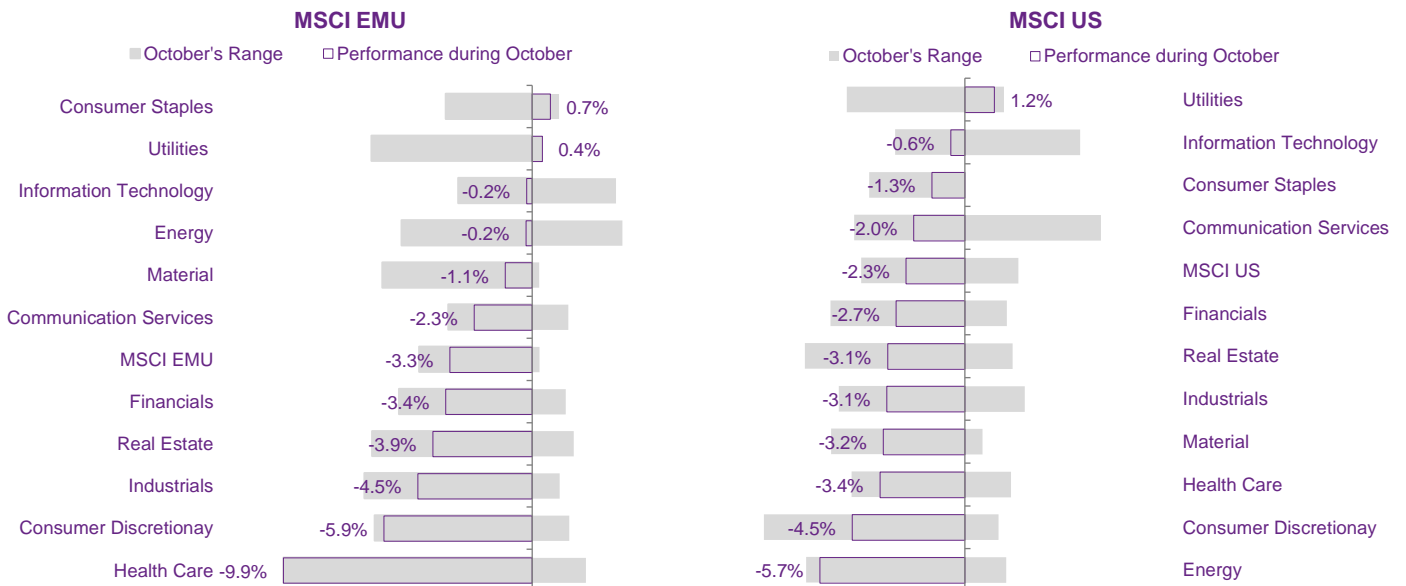
Cross Asset Performance in October – Local Currency

Past performance information presented is not indicative of future performance.



Sector Performance in October – Local Currency

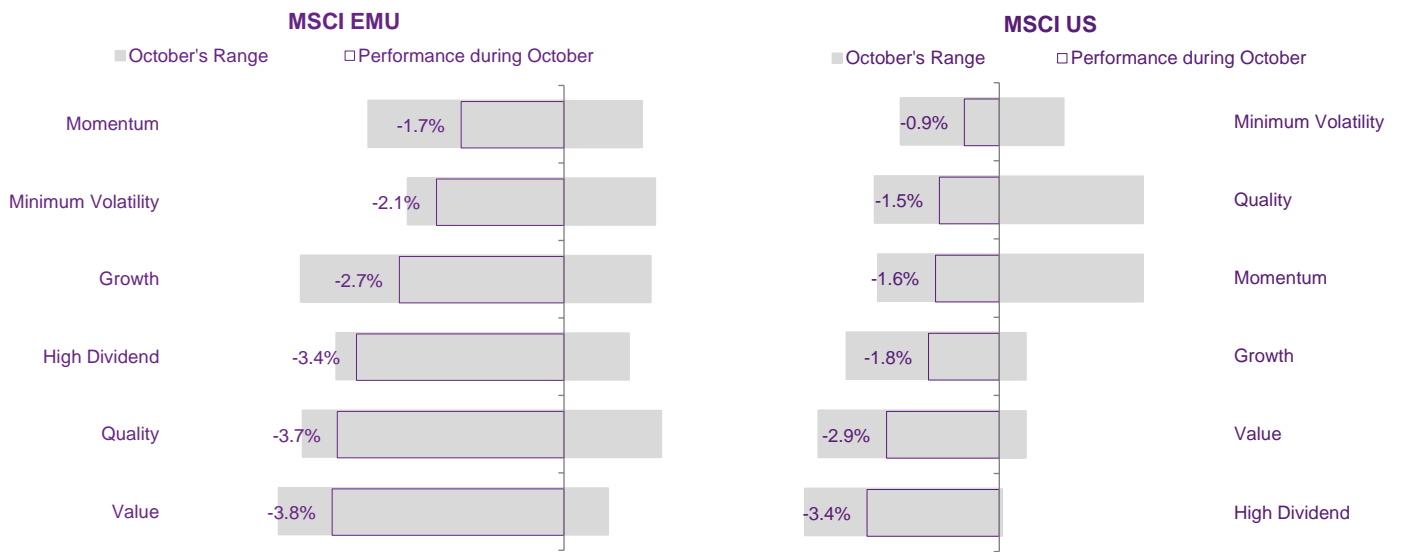
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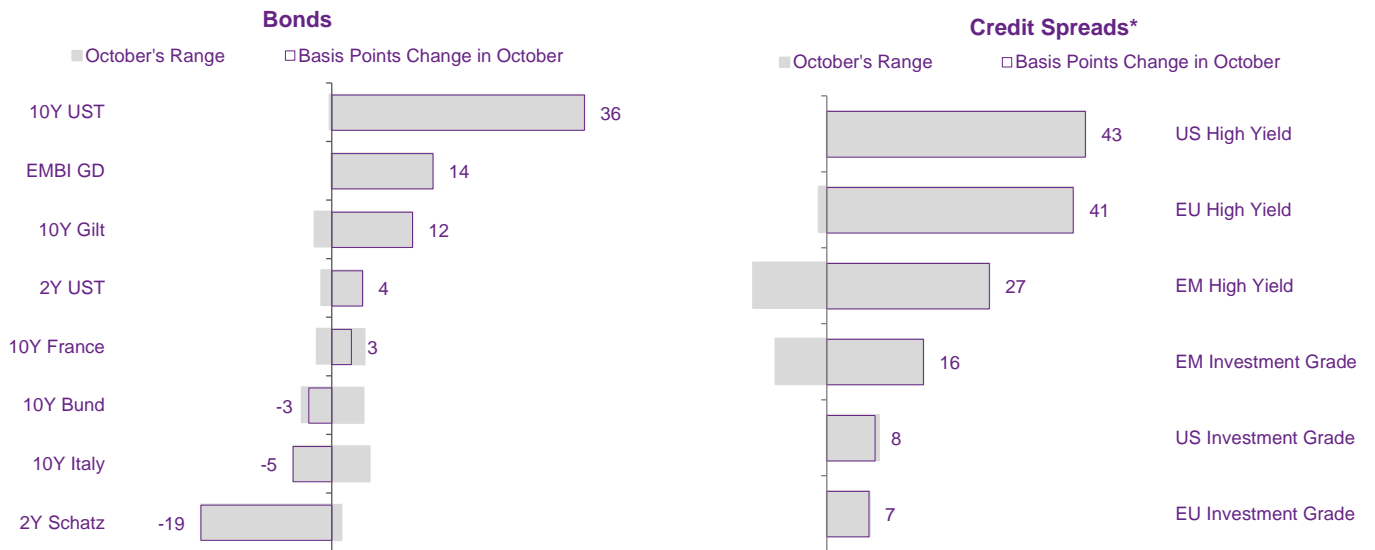
Style Performance in October – Local Currency

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Net Yield Change in October

Past performance information presented is not indicative of future performance.



*Credit spreads are OAS and correspond to Bloomberg indices



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