Market Review

Macroeconomic developments

The US economy showcased resilient growth in September, with key indicators like core retail sales, industrial production, and core durable goods orders all seeing an uptick in August. The ISM Manufacturing PMI beat expectations and came in at 49 in September, up from 47.6, largely driven by recoveries in the New Orders and Employment sub-indexes. Inflation figures presented a mixed picture: while the headline rate in August increased from 3.2% YoY to 3.7% in August, mostly due to surging oil prices, core inflation dropped to 4.3%. The Fed maintained its policy target rate range at 5.25-5.50%. However, the latest dot plot continued to show an additional rate increase this year and the monetary policy for 2024 was tightened. Next year's expected Fed funds midpoint rate was increased by 50bps to 5.125%, which arguably served as the catalyst for the selloff in the bond market. Finally, US government shutdown was successfully evaded owing to an eleventh-hour agreement, assuring funding until mid-November.

Eurozone's business surveys remained soft in September, with the Composite PMI in contractionary territory at 47.2. Inflation eurozone decelerated more than expected in September, with the headline rate falling from 5.2% YoY to 4.3% and the core inflation from 5.3% YoY to 4.5%, a full percentage point decline in both figures. The ECB raised its policy rates by 25bps, settling its main refinancing rate at 4.5%.

Moreover, UK's monthly GDP growth (proxy) estimate showed the economy contracting 0.5% in July, more than the -0.2% expected. The country's Composite PMI remained in contractionary territory at 48.5, but activity in manufacturing recovered somewhat. A positive aspect was the upward revision of the UK's post-pandemic economic recovery: as of Q2.23, the economy was approximately 2% larger than earlier projections had indicated. The UK's harmonized headline inflation for August only declined 0.1 percentage points to 6.7% YoY, while the core inflation rate experienced a more pronounced drop from 6.9% YoY to 6.2%. Unlike the ECB's decision, the BoE surprised by leaving unchanged its policy rate at 5.25%.

China witnessed a positive shift in its economic backdrop in August with both retail sales and industrial production seeing a revival and beating expectations. The headline inflation rate climbed back above zero from -0.3% YoY to 0.1%, and the core inflation rate held steady at 0.8% YoY. Moreover, September's manufacturing NBS PMI rose to 50.2, in its first time since March above the 50-level contractionary threshold, and the non-manufacturing PMI increased slightly from 51.0 to 51.7. Beijing reiterated its commitment to stability by cutting banks' reserve ratio by 25bps, which stands as a much bigger cut compared to what policymakers used to do over the past year.

Market reaction

September has historically not been a good month for investors, and as it turns out this year is no exception to that norm. Both equities and bonds ended the month lower, and although stocks have neither risen nor fallen significantly over the past four months, there is a growing belief that the market recovery is losing steam or may even reverse in 2023.

The MSCI World USD experienced a 4.1% decline in September, taking year-to-date performance down to 11.6%, and underperformed the MSCI Emerging Markets, which fell 2.6% over the month but are lagging still with a 0.4% return year-to-date. The energy sector was the only sector to show positive returns, as Brent and WTI prices posted monthly increases of 9.7% and 8.6%, respectively, with Saudi Arabia's and Russia's decision to prolong their voluntary production cuts until the end of the year as the major reason behind this price surge.

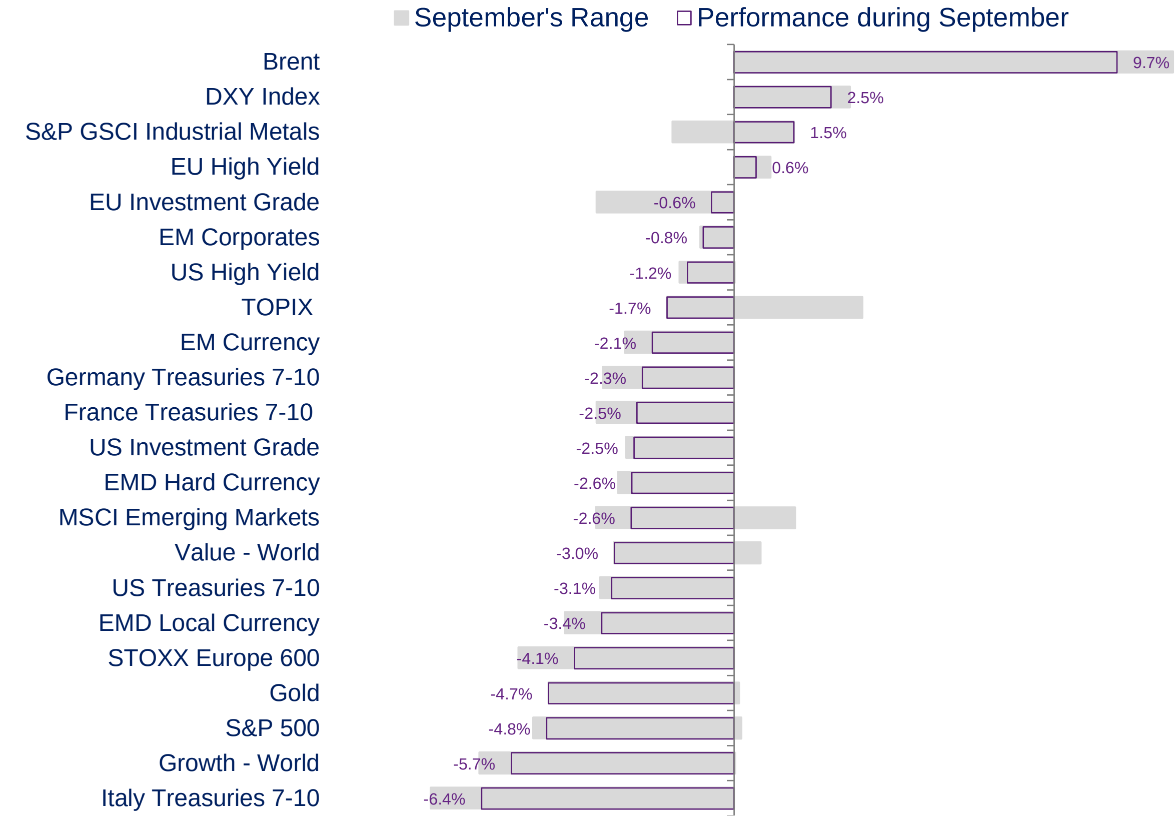
Again, global government bonds did not help to cushion equity losses this month, with the Global Agg falling 1.6%. Notably, major 10-year government yields reached new cyclical highs. During the month, the US 10-year yield jumped by 46bps to 4.57% while the German Bund surged by 29bps to 2.84%. Thanks to their lower duration, high yield corporate bonds held up better than higher quality ones. Overall, European credit outperformed the US, and even showed spreads narrowing.

The US dollar strengthened against all major currencies due to the still reasonable strong domestic growth against a weakening global backdrop in the rest of the world. Gold prices, on the other hand, declined by 4.7%, driven by a rebound in real bond yields and the strengthening US dollar.

Sources : Bloomberg & NIM Solutions

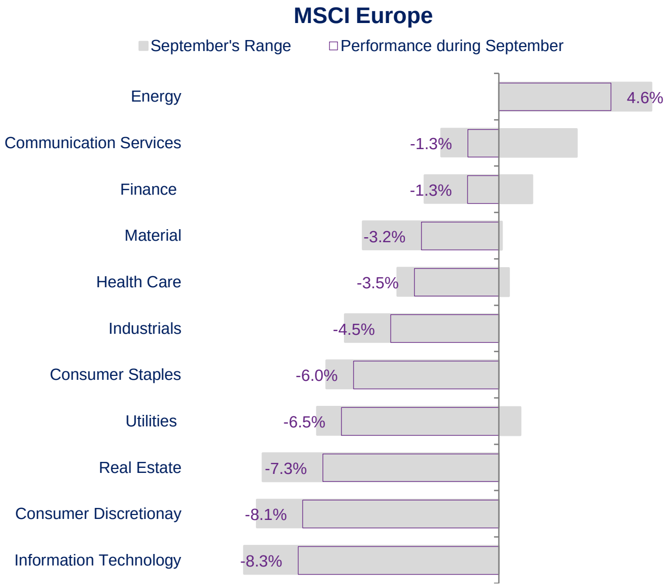
Cross Asset Performance in September – USD

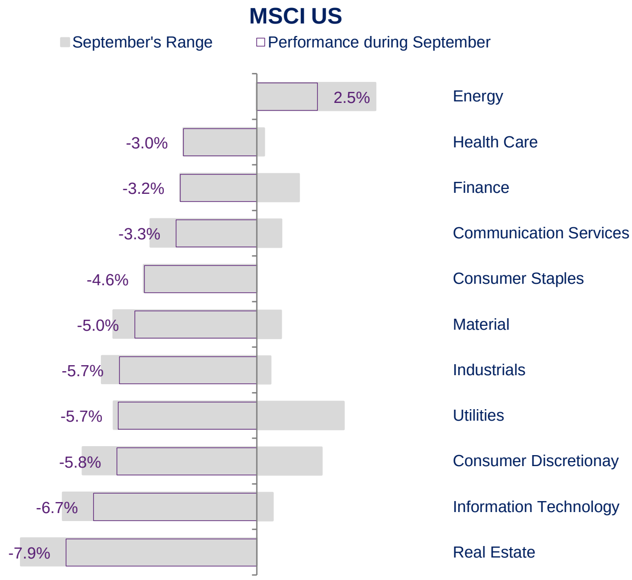
Past performance information presented is not indicative of future performance.



Sector Performance in September – USD

Past performance information presented is not indicative of future performance.



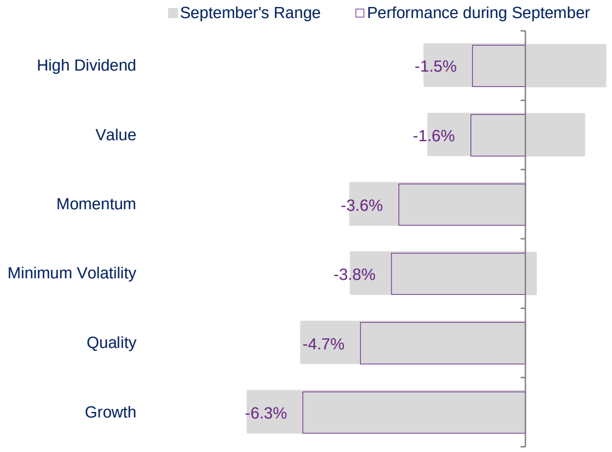


Source: Bloomberg & NIM Solutions

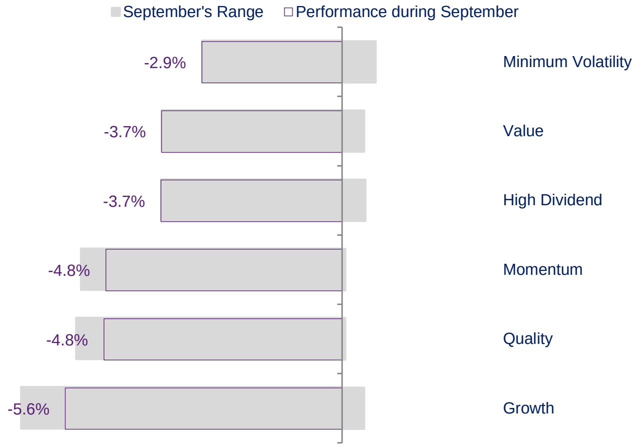
Style Performance in Sptember – USD

Past performance information presented is not indicative of future performance.

MSCI Europe



MSCI US



Net Yield Change in September

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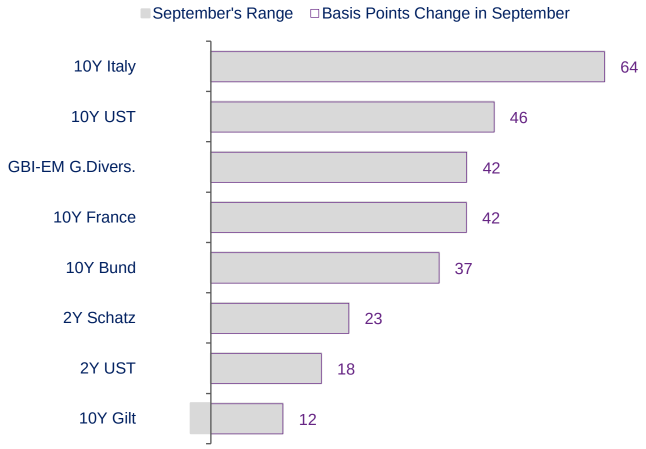
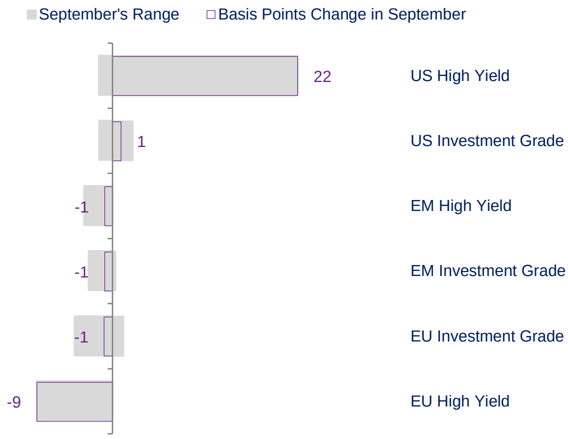
Bonds



Credit Spreads



Source: Bloomberg & NIM Solutions

All amounts shown are expressed in USD unless otherwise indicated.

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