Market Review

Macroeconomic developments

Economic data released in November kept pointing towards a slowing but still resilient business cycle. Encouraging signs on the inflation front, especially on headline prints, boosted investors' hopes that the end of the rate hikes is not so far away.

US headline consumer price inflation increased less than expected in October; 7.7% year-over-year vs 8.2% previously. The core inflation figure also came in lower and advanced 6.3% year-over-year vs 6.6% previously, with both core goods and services losing momentum on monthly basis. Job data for October again reflected of a robust but tight labour market as 284,000 new jobs were added (compared to 269,000 last month) while the participation rate ticked 1 percentage point lower to 62.2% and average hourly wage growth accelerated 0.5% month-over-month vs 0.4% previously. As expected, the Federal Reserve (Fed) implemented its fourth consecutive 75bp rate hike and brought the Fed funds rate to the 3.75%/4.0% range. Statements by Fed Chair Powell later in the month suggested that the Fed acknowledged that a significant amount of tightening had already been delivered and, thus, the central bank was likely to start reducing its hiking pace as soon as December's policy meeting to allow time for further effects to reach the real economy.

Moreover, while Eurozone's inflation hit a new high in October (10.6% year-over-year vs 9.9% previously), with energy and food as its main drivers, November's preliminary data released at the end of the month showed a deceleration in price pressures. Energy was the largest contributor to this disinflation as its advanced slowed to 34.9% year-over-year from 41.5% previously; the milder temperatures experienced in the region so far have reduced countries' need to tap much into their gas reserves. The European Central Bank (ECB) did not meet in November but signalling from policymakers for December's policy meeting was mixed between a 50 and another 75-basis points rate hike. More importantly, core inflation came in line with expectations and stayed flat at 5.0% year-over-year and it did not accelerate on a monthly basis in November (+0.0% month-over-month). Consumer confidence improved but remained at very low levels and PMI data for the Euro Area surprised on the upside driven by the manufacturing sector, but the composite figure remained in contractionary territory (47.8). Similar to that of the Eurozone, UK's macro data in November showed more resilience than expected: the economy contracted 0.2% quarter-over-quarter in Q3 compared to the -0.5% expected and the composite PMI remained steady at 48.2 thanks to an improvement in the manufacturing sector. The new chancellor Jeremy Hunt presented his awaited Autumn statement, which was taken positively by markets, and the Office for Budgetary Responsibility announced its expectation for a 1.5% GDP decline in 2023. The Bank of England (BoE) raised rates by 75bp, bringing its policy rate to 3%, and also signalled a slower pace of hiking will soon be appropriate.

Lastly, data released in China indicated slower activity in the services sector, with the Caixin services PMI slipping further into restrictive territory (at 46.7 vs 48.4 previously), and a 0.5% year-over-year fall in retail sales –the lowest since the aftermath of last April's lockdowns. On the positive side, the government implemented measures aiming at relaxing the strict covid rules and additional support aiming at stabilizing the property sector was announced

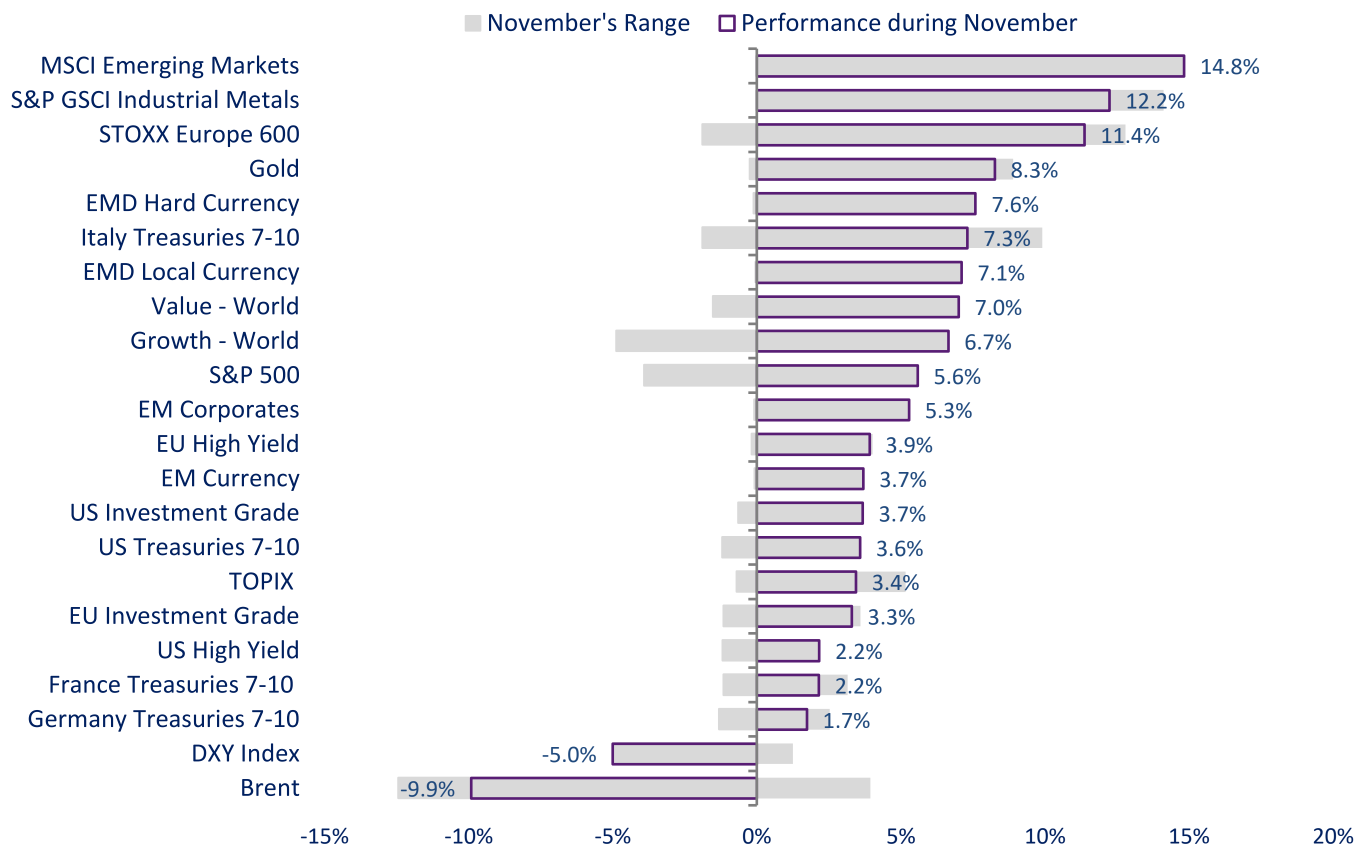
Markets' reaction

The last two months have allowed major equity and bond indices to close the gap initiated following the large declines experienced in September. Sentiment was overall boosted by initial signs that central banks may be approaching the end of their tightening cycles and by the business cycle holding better than previously thought.

Emerging equity markets performed especially well and returned 14.8%, driven by the 28.9% rally of the MSCI China as investors welcomed the relaxion of the country's zero-Covid policy and the weaker US dollar. Developed equity markets lagged but still returned a 6.9% in November, with the STOXX Europe 600 advancing 11.4% and the S&P500 5.6%. Global value slightly outperformed global growth, 7% vs 6.7%, respectively. On a sectoral and global basis, materials (+14.1%), industrials (+9%) and financials (+9%) were the winners while energy (+3.3%), consumer discretionary (4.9%) and healthcare (+5.7%) were the laggers.

Global bond yields fell in November driven by the lower inflation print in the US and the Fed's signs for a slower pace of hikes going forwards. The US 10-year yield fell 27bp to 3.74%, the German 10-year yield fell 18bp to 1.92%, OATs 22bp to 2.39%, BTPs 35bp to 3.82% and Gilts 38bp to 3.1%. Credit spreads tightened across global markets, led by EM high yield (+6.0%).

The US dollar was continued the downward trend started at the end of October and retreated against all major currencies, especially against the Japanese Yen (-7.2%). The US dollar lost 5.6% against the Swiss Franc, 5.3% against the Euro, 5.1% against the British Pound and 2.9% against the Chinese Renminbi.


Cross Asset Performance in November – USD
Past performance information presented is not indicative of future performance
November's Range
Performance during November
MSCI Emerging Markets
S&P GSCI Industrial Metals
STOXX Europe 600
Gold
EMD Hard Currency
Italy Treasuries 7-10
EMD Local Currency
Value - World
Growth - World
S&P 500
EM Corporates
EU High Yield
EM Currency
US Investment Grade
US Treasuries 7-10
TOPIX
EU Investment Grade
US High Yield
France Treasuries 7-10
Germany Treasuries 7-10
DXY Index
Brent
14.8%
12.2%
11.4%
8.3%
7.6%
7.3%
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