NATIXIS
INVESTMENT MANAGERS

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Market Review

Global Market Strategy @ Natixis Investment Managers Solutions

Marketing Communication

Macroeconomic developments

Although economic data out in October continued to indicate a slowdown in activity, it is not yet enough to warrant a change on central banks' hawkish rhetoric. Nevertheless, by the end of the month and similar to last summer, investors were uplifted by hopes that the Fed could pull back from its current stance.

After two consecutive quarters of contraction, the US economy expanded at an annualized rate of 2.6% in the third quarter. Personal spending, which accounts for nearly 70% of the economy, increased 1.4%, most of which was attributable to a 2.8% jump in services while spending on durables fell 0.8%. Also dragging down GDP was an annualized 4.9% quarter-over-quarter decline in fixed investment, within which residential fixed investment dropped 26.4%, evidence of the slowdown in the housing sector. On the same note, a slowdown in both housing starts, and home sales highlighted how higher mortgage rates are weighing on the sector; the 30-year fixed mortgage rate rose above 7% for the first time since the year 2000. Manufacturing ISM data came in lower than expected as new orders slipped to 47.1 from 51.3, but the services sector remained robust in October. However, the labour market remained very strong with unemployment rate falling to a new record low of 3.5% while job creations has started to slow. Moreover, the energy crisis in Europe got some relief thanks to the milder temperatures and the decline in gas prices relative to their peak in August. National and joint policy measures, such as a price cap and a common purchases system, continued to advance in order to prevent households and corporates from bearing the full brunt of energy costs. In the meantime, the Euro Area's inflation rose to 10.7% year-over-year and core inflation at 5% year-over-year in October (based on flash estimates). The area's composite PMI slid further into contraction territory and reached 47.1 from 48.1, driven by a rapidly weakening manufacturing sector. Despite the worsening macroeconomic outlook, the ECB delivered its second consecutive 75bp rate hike, pushing its main refinancing rate to 2%. Furthermore, while UK's composite PMI edged downwards from 49.1 to 47.2 and headline inflation hit 10.1% year-over-year in September, calm returned to UK assets following the appointment of Rishi Sunak as prime minister. Last but not least, President Xi Jinping was reappointed during the 20th Party Congress, and he made changes in the party leadership which added pressure on Chinese indices. China's growth during the third quarter surprised on the upside by advancing 3.9% year-over-year driven by a rebound in the manufacturing sector. However, the sizable fall of 5.7 points to 49.3 reported on September's services PMI reflects the rapidly deteriorating consumer spending and sentiment, which keep bearing the consequences of lockdowns.

Markets' reaction

Following the large declines experienced in September, this month saw stocks closing higher for the first monthly gain since July. A series of economic data misses during the second half of the month revived expectations for a slower pace of monetary tightening and contributed to push developed equity markets 7.2% up, while emerging markets retreated 3.1% driven by China, which lost 16.8%. The S&P 500 and the Euro Stoxx 600 increased 8.1% and 7.3%, respectively, with value outperforming growth, 9.6% versus 4.6%. On a sectoral and global basis, energy (+20%), industrials (+10.4%) and financials (+9.2%) were the winners while communications services (+1.2%), real estate (+1.2%) and consumer discretionary (+1.8%) were the laggers. The MSCI EM lagged driven by China in particular but also by Taiwan, which lost 5.1%. Emerging Europe and Latam outperformed, increasing 15.8% and 9.7%, respectively.

Global bonds fell in October with the US and German sovereign 10-year yields reaching new cycle highs at 4.2% and 2.4%, respectively, before falling back slightly by the end of the month. European core bonds fared relatively well as the ECB deliberately declined to state anything on its intention to launch its quantitative tightening program and also announced that it will continue to reinvest the proceeds from its quantitative easing until at least the end of 2024. The 10-year Bund yield fell 8bp to 2.10%, OATs 18bp to 2.61%, BTPs 48bp to 4.18%. Moreover, 10-year gilt yield declined 66bp to 3.48% and the sterling recovered 2.7% against the US dollar as the risk premium on UK assets waned. Credit rebounded in October with US HY leading the space returning 3.2%. EU HY and IG advancing 1.8% and 1.6%, respectively, while US IG lagged and lost 0.8%.

The US dollar was again strong but retreated by the end of the month as sentiment improved. Its strength was particularly noted against the Japanese yen and the Chinese yuan, two currencies whose central banks continue to adopt a much more accommodative stance than the rest. As such, both currencies lost 2.7% versus the US dollar.

Cross Asset Performance in October – USD

Past performance information presented is not indicative of future performance