Portfolio & Market Update

November 2023

Introduction

November was a clear break from previous months. Equities delivered strong returns while bonds delivered positive returns for the first time in six months. Geopolitical worries have abated and while there is still a possibility that the situation in the Middle East could escalate, there does not appear to be any market implications if this proves to be the case.

The US economy continued to show signs of resilience while the rest of the world displayed signs of economic slowdown.

Weaker than expected inflation numbers have pushed bond yields lower and there are strong indications that inflation has peaked in various regions. This has led market participants to believe that central banks are going to cut rates in 2024. However, central bankers are maintaining a more cautious approach, which appears to signal higher interest rates for longer.

Markets

November was an good month for multi-asset portfolios as both equity and fixed income performed positively. US equity showed a strong return, one of the best since July 2022. This was a break in the trend initiated in August for global markets: lower yields indicate to central banks that they are about to pivot. It is usually accepted that lower yields are supportive for equities.

With a stronger British currency (Sterling) the US equity performed positively at 4.5%, though this was better in US dollar terms at 8.9% Meanwhile, the FTSE 100, the MSCI Emerging Market, Asia Pacific and the Topix generated positive returns of 2.5%, 3.4%, 2.8% and 3.5% respectively.

UK

The UK markets achieved a positive return in November of 1.8% for the FTSE100. Confidence surveys showed a marked improvement, despite the fact that consumers and businesses continue to be negatively impacted by the higher cost of living and interest rates . In fact, business sentiment edged slightly above 50 in the Purchasing Managers' Index (PMI) – any score over 50 indicates that the economy is growing again.

House price growth remains negative, but the latest figures are better than expected. On the inflation front, the latest figures are still high but surprised markets by being lower than expected at 4.6% year-on-year. This is a similar level to November 2022, however, this is not fast enough to warrant a reduction in interest rates yet.

Europe

The Euro-Stoxx recovered strongly during November, resulting in a 5.3% return. In the Euro area, the inflation rate dropped to 2.4% year-on-year, reaching its lowest level since July 2021. PMI readings continue to indicate a significant slowdown in business activity, but it looks like we have reached the bottom, with some indicators showing tentative signs of improvement.

US

The US experienced a good month in November, with the S&P 500 generating a positive return of 8.9% in US dollar terms, but less impressive when translated into GBP. Inflation remained anchored at 3.2%, slightly below market expectations, as the decline in energy costs continued as well as the price of used cars, while the food price increase was more muted. The PMI stands at 50.7, unchanged from the previous month. This is further proof of US economic resilience as the economy is in the expansionary phase (above 50) for the 10th month in a row. This is supported by a strong, albeit cooling labour market, with an unemployment rate of 3.9%, rising from the low of April 2023.

Japan

Japan returned a strong performance of 3.5% in GBP for November. While the PMI data showed a deceleration of growth at 49.6 for the first time in 12 months, inflation rates continued to rise to 3.3% in October 2023, up from 3% in the prior month. This is above the 2% target set by the Bank of Japan. On a month-on-month basis, the inflation rate is the highest since 2014. Recent action by Bank of Japan has led to currency appreciation.

Asia & Emerging Markets

EM countries had a positive month in GBP terms, returning 3.5%. With better-than-expected economic news continuing to come from China, coupled with some monetary stimulus, pushed the equity market higher. Recent meetings at the highest level between US and China has created the impression that we are entering a phase of reduced tension between the two countries.

Fixed income

The fixed income market was positive during the month as yields dropped. In the UK, the 10-year yield dropped by nearly 0.5% from the high of October. This was due to better-than-expected inflation data pushing investors to revise their expectations of a rate cut as early as next year.

Outlook

We continue to expect inflation to fall in all regions, albeit at varying rates. Our outlook is that there is still the potential for economic slowdown in the coming months. Central banks will continue the challenging task of balancing inflation and economic growth.

As such, we will continue to review the economic outlook and market signals to ensure that we are positioned in the best interests of our clients. Our portfolios are designed for long-term investment so we manage our portfolios with this in mind, managing the long-term risk and not being influenced by short-term trends which could be costly for our investors. Our aim is to achieve carefully managed risk-adjusted returns, following our investment philosophy.