Portfolio & Market Update

October 2023

Introduction

It's been another difficult month for investors with equity markets and fixed income assets both delivering negative returns. Although international news has been dominated by events in the Middle East, markets appear to remain unconcerned about the recent geopolitical developments.

The continuing increase in bond yields and higher oil prices exerted downward pressure on equities. The US economy continued to show signs of resilience and whilst the rest of the world displayed signs of economic slowdown, there were indications that inflation had peaked in various regions. However, central banks maintained a cautious approach, signaling prolonged higher interest rates.

Markets

October was a continuation of the trend initiated in September for global markets with higher yields continuing to weigh negatively on equity. With a weaker GBP (sterling) the US equity performed negatively with a loss of 1.56%, though this was better than in US dollar terms. While the FTSE 100, the MSCI Emerging Market, Asia Pacific and the Topix generated even deeper losses of 3.69%,3.59%, 3.30% and 3.85% respectively.

UK

The UK markets also showed a loss of 3.69% for the FTSE100 in October. Confidence surveys showed that consumers and retailers continue to be negatively impacted by the higher cost of living and higher interest rates.

On the inflation front, the latest numbers were disappointing and above market consensus at 6.7% year-on-year, matching the August numbers. Inflation is nonetheless decreasing, just not fast enough.

Europe

The Euro-Stoxx faced challenges during the month and showed a loss of 2.24%. In the Euro area, the inflation rate continued to drop to 2.9% year-on-year in October 2023, reaching its lowest level since September 2021. With such an uncertain backdrop, the European Central Bank (ECB) changed its stance on rate hikes, leaving rates unchanged for the first time in 15 months. The Purchasing Managers' Index (PMI) readings continued to indicate a significant slowdown in business activity, but it looks like we have reached the end of the slowdown, and some indicators are showing tentative improvement.

US

The US experienced challenging conditions in October, with the S&P 500 falling by 2.2% in US dollar terms but better when translated into GBP. Inflation remained anchored at 3.7%, slightly above market expectations, as the decline in energy costs was offset by other components. Composite PMI at 50.7 is further proof of the US economy's resilience (above 50 indicates an expanding market). The US is in the expansionary phase (above 50) for the 9th month in row. Supported by a strong, albeit cooling labour market.

Japan

Japan returned a loss of 3.85% for October. Its weaker currency is buoying the export sector and continues to contribute positively to the economic expansion as shown in PMI data at

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50.5. Despite allowing the 10-year bond yield to trade at a higher level, it was not seen as sufficient by the market. As a result, the Japanese currency continued to devaluate, reaching a level not seen since the 1990's.

Asia & Emerging Markets

EM countries had a negative month in GBP terms, with a loss of 3.32%. Despite better economic news than expected coming from China, Chinese equities continued to slide. However, US sanctions on micro-chip production and the continuing slump in the real estate sector, continued to push sentiment lower, and is having a knock-on impact on GDP growth.

Fixed income

The fixed income market was negative during the month as yields continued to rise. The UK Gilt, while being negative, was relatively more insulated from the global sell-off. This was due to weaker than expected data pushing investors to revise their expectations.

Outlook

While the tragedy unfolding in the Middle East is devastating from a humanity perspective, we believe that the market impact is limited. 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 and we are closely monitoring markets. Central banks will continue the challenging task of balancing inflation and economic growth.

At Flying Colours, 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.