FINURA

# YOUR MARKET REVIEW NOVEMBER 2023

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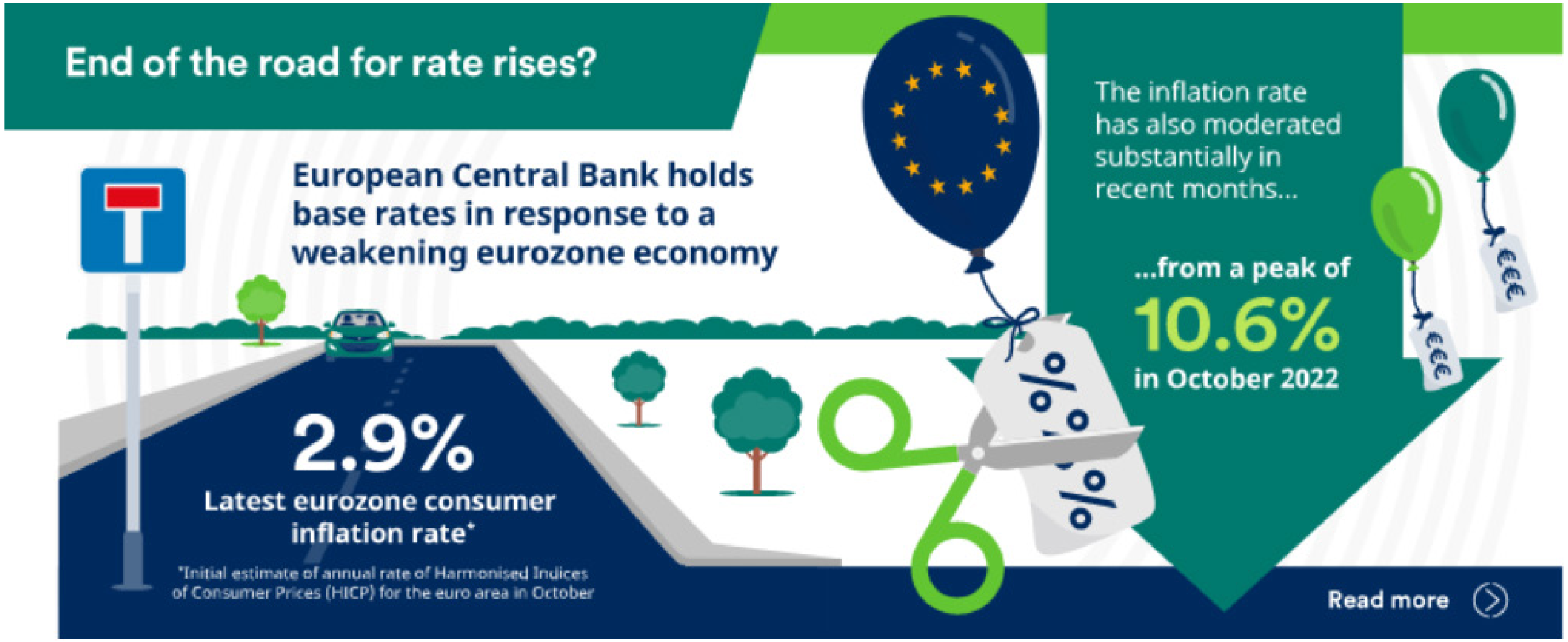
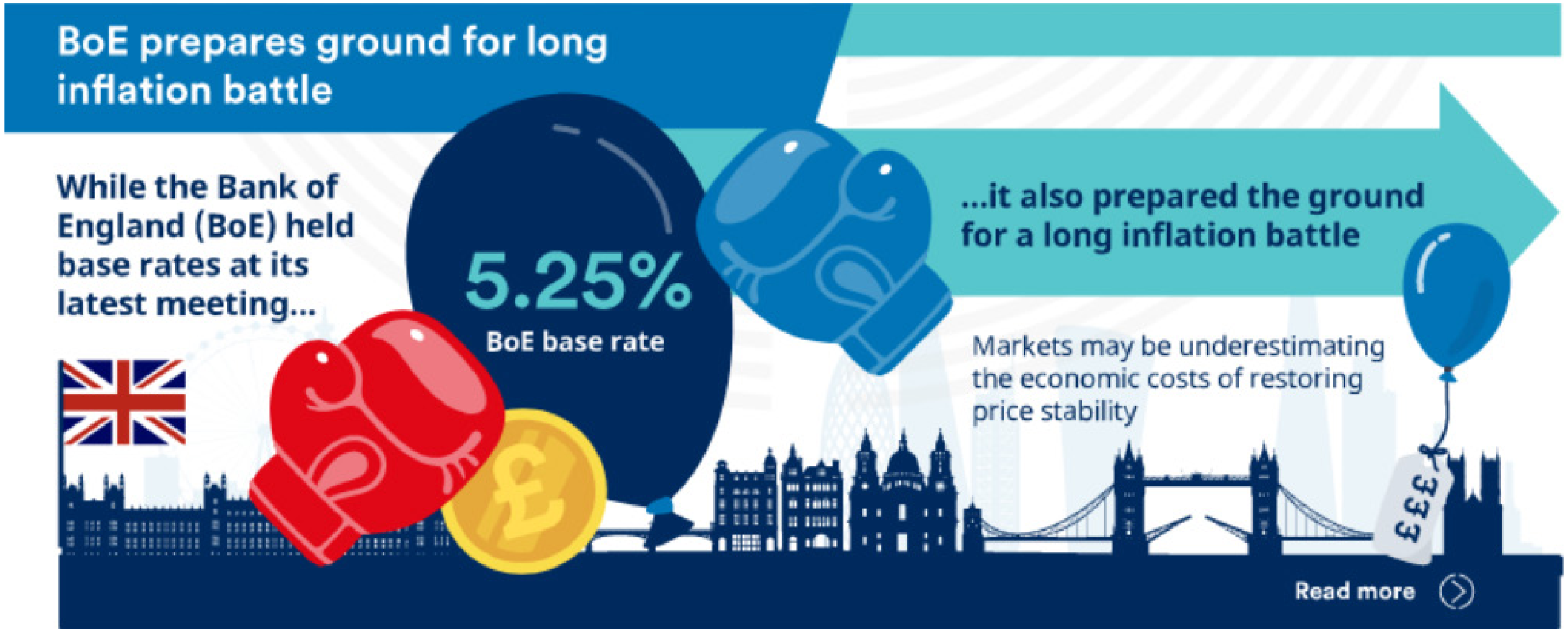
# INFOGRAPHIC: THE GLOBAL ECONOMY




Source: [Schroders as at November 2023.]

# MULTI-ASSET INVESTMENT VIEWS

KEY

▲ Up from last month ▼ Down from last month

Long / Positive | Neutral | Short / Negative

| | Category | View | Comments |
|---|---|---|---|
| Main Asset Classes | Equities | Long / Positive | We maintain our positive score, with the rationale remaining largely similar to last month. The persistence of lower bond volatility remains the most important factor for equities towards the end of the year. |
| | Government Bonds | Long / Positive ▲ | We have upgraded to positive as we believe that rates have peaked and continue to be positioned for a soft-landing. |
| | Commodities | Long / Positive | We maintain our positive score on commodities, particularly gold and energy. The asset class also offers a hedge against stagflation and geopolitical risks. |
| | Credit | Long / Positive | We have retained our positive view on credit as it is well-placed to perform well given the outlook for nominal growth. Yields on credit are also attractive in the current market environment. |
| Equities | US | Neutral ▼ | We have downgraded to neutral as valuations are less attractive compared to other regions and as the so-called "Magnificent 7" mega cap technology stocks has largely driven market performance. |
| | UK | Neutral | We maintain a neutral view due to pessimism surrounding the UK's economic outlook. |
| | Europe | Neutral ▲ | We have upgraded from negative to neutral as we believe that the bleak economic picture has largely been priced in for European companies. |
| | Japan | Long / Positive | We maintain our positive outlook as Japan has attractive relative valuations and has the only central bank implementing loose monetary policy. |
| | Global Emerging Markets[1] | Neutral | Given that the manufacturing recovery will impact emerging markets in an uneven manner, we maintain our neutral view. |
| | Asia ex-Japan & China | Neutral | We maintain our neutral view on China due to the continuing weak outlook. China's economy could suffer rather than benefit from increased AI demand. |
| | EM Asia ex China | Neutral | Although we maintain our neutral view, we do recognise the potential for Korea and Taiwan to outperform other emerging markets due to positive demand for semi-conductors. |
| Government Bonds | US | Long / Positive ▲ | We have upgraded to positive as we believe that the Federal Reserve (Fed) has reached the end of its cycle of rate hikes and that the yield curve has become less inverted. |
| | UK | Neutral | We remain neutral as although inflation has cooled concerns remain about persistently strong wage growth and supply-side issues. |
| | Germany | Neutral | We maintain our neutral stance as inflation may prove to be persistent, reducing the European Central Bank's scope to reduce rates. |
| | Japan | Neutral | Although divergence in Japanese monetary policy persists, inflationary dynamics have normalised. We maintain our neutral view as yields have stayed unattractive. |
| | US Inflation Linked | Neutral | We remain neutral. Although inflation returning is a risk, we believe the hiking cycle may have allowed the Fed to bring inflation under control in the short-to-medium-term. |
| | Emerging Markets Local | Neutral | Although we are positive on the US dollar and its potential to weigh on local emerging market bonds, we continue to hold a neutral view. |

[1] Global Emerging Markets includes Central and Eastern Europe, Latin America and Asia.

| | Category | View | Comments |
|---|---|---|---|
| Investment Grade Credit | US | 🟡 | We continue to hold a neutral stance, whilst noting the weakening in fundamentals across the sector. |
| | Europe | 🟢 | The positive carry (the profit achieved by investing in an asset using borrowed capital) offered by European bonds alongside the attractive yield is sufficient reason for us to keep our positive view. European valuations are also more attractive than their US counterparts. |
| | Emerging Markets USD | 🟡 | The light supply of bonds remains favourable, but continued expensive valuations mean we remain neutral. |
| High Yield Bonds (Non-IG) | US | 🟢 | The US economy has proved resilient and with the high level of absolute yields still very attractive, we have kept our positive score. |
| | Europe | 🟡 | Although negative net issuance has provided a technical boost, European default rates lead us to remain neutral. |
| Commodities | Energy | 🟢 | We note the recent sell-off in the oil market but believe it has been overdone. We expect the next move to be a move back higher. |
| | Gold | 🟢 ▲ | The heightened levels of real interest rates, strong technical factors, and a lack of correlation from Chinese domestic demand have led us to upgrade gold to positive. |
| | Industrial Metals | 🟡 | We remain neutral as although the supply-side remains tight, there is no current indication as to where demand will come from |
| | Agriculture | 🟡 | We continue to hold a neutral view as potential risks from El Nino have been reduced by significant wheat exports from Russia. |
| Currencies | US $ | 🟢 | We have maintained our positive view due to the diversification opportunities and hedging characteristics offered by the US dollar. |
| | UK £ | 🟡 | Concerns about the economic outlook and stagflation balanced with potential carry opportunities lead us to remain neutral. |
| | EU € | 🔴 | We remain negative as concerns persist about European growth prospects and inflation especially when compared with the US. |
| | CNH ¥ | 🟡 ▼ | We move to neutral as Chinese growth remains sluggish and doubts still remain over the real estate sector. |
| | JAP ¥ | 🟡 | We remain cautious as we do not expect the yen to outperform especially given the expectation that there may be further monetary policy discussions in light of the divergent policy. |
| | Swiss F | 🟡 | Belief that the Swiss National Bank has completed its hiking cycle are offset by exposure to the euro, leaving us to remain neutral. |

Past performance is not a guide to future performance and may not be repeated. The value of investments and the income from them may go down as well as up and investors may not get back the amounts originally invested. Source: Schroders, November 2023. The views for equities, government bonds and commodities are based on return relative to cash in local currency. The views for corporate bonds and high yield are based on credit spreads (i.e. duration-hedged). The views for currencies are relative to US dollar, apart from US dollar which is relative to a trade-weighted basket.

# MARKETS REVIEW

**A look back on markets in November, when slowing inflation gave rise to hopes that interest rates may have peaked.**

## THE MONTH IN SUMMARY

November was a positive month for both shares and bonds. Slowing inflation in the US and other regions gave rise to hopes that interest rates may have reached their peak. Growth stocks outperformed value. Commodities fell amid weakness in energy prices.

## THE US

US equities advanced strongly in November. Gains were supported by the publication of October inflation data which showed that the consumer price index (CPI) reading had fallen to 3.2% year-on-year from 3.7% in September. The release raised hopes that inflation is on course to fall back to the Federal Reserve's (Fed) 2% target, and that further interest rate hikes may not be needed.

Minutes from the Fed's 31 October/1 November meeting indicated that the central bank still has concerns over the level of inflation. At the end of that meeting, Fed chair Jerome Powell said that the central bank was "not thinking about rate cuts right now".

Economic data painted a mixed picture for the US economy. The second estimate of Q3 GDP showed an upward revision to 5.2% (annualised) compared to the first reading of 4.9% and growth in Q2 of 2.1%. However, data from the manufacturing sector showed weakness with the ISM manufacturing PMI indicating contraction with a reading of 46.7, unchanged versus October.

The cooler-than-expected inflation reading boosted rate-sensitive areas of the market such as real estate, and technology stocks. The consumer discretionary sector was another strong performer while energy underperformed.

Read more: [Is the future still bright for the Super-7?]

## EUROZONE

Eurozone shares gained in November amid steeper-than-expected drops in inflation. In the eurozone, annual inflation for November was estimated at 2.4%, down from 2.9% in October. As in the US, this prompted hopes that price pressures may be easing and that interest rates may soon be cut.

At sector level, top gainers in the eurozone included real estate, information technology and industrials. The energy sector underperformed, as did less economically sensitive sectors such as healthcare.

While markets rallied on hopes of imminent rate cuts, comments from European Central Bank President Christine Lagarde were more cautious. Lagarde said that eurozone inflation would come back to the 2% target if rates remained at current levels for "long enough".

Other data pointed to weakness in the eurozone economy. The flash HCOB eurozone purchasing managers' index for November showed business activity continuing to fall with a reading of 47.1, albeit this was up from 46.5 in October.

## UK

UK equities rose over the month but lagged several other developed regions. UK small and mid-cap equities outperformed the broader market as hopes built that interest rates may have peaked. Sterling performed strongly which held back the internationally exposed larger companies.

As elsewhere, top performing sectors included information technology and real estate, given their sensitivity to the outlook for interest rates. Laggards included the energy sector and defensives such as healthcare and consumer staples as investors preferred more cyclical areas of the market.

Inflation in the UK showed a sharp slowdown to 4.6% year-on-year in October, below market forecasts of 4.8% and well below the 6.7% reading for September. The data contributed to hopes that the Bank of England may have finished its series of interest rate hikes. Meanwhile data from the Office for National Statistics showed no growth in UK GDP in Q3.

Read more: [UK economy stagnates as interest rate rises start to bite.]

Chancellor of the Exchequer Jeremy Hunt announced an Autumn Statement that contained more policy measures than many had expected. Key initiatives included the extension of the 100% capital expenditure allowance, which allows companies to deduct expenditure on plants and machinery from taxable income.

## JAPAN

The Japanese equity market rebounded with a total return of 5.4% for the TOPIX total return index. Investor sentiment improved as some market trends reversed. US Treasury yields sharply declined. Japanese government bond (JGB) 10-year yields also declined, but receding expectations of further tightening by the US Federal Reserve led to the Japanese yen appreciating against the US dollar. After hitting another 33-year high intraday in the middle of the month, the yen appreciation weighed on the Japanese equity market.

Large-cap growth stocks drove the market higher in the first half of November. On the other hand, the decline in JGB yields had a negative impact on banks. Profit-taking also put pressure on value stocks, including financials. Technology stocks rebounded sharply, and large-cap stocks performed well, backed by foreign investors buying Japanese shares. Small-cap stocks lagged as weakness in the domestic economy also weighed on domestically-oriented smaller companies.

Macroeconomic figures in Japan remained somewhat sluggish, including Q3 GDP data, which showed weaker-than-expected domestic demand, consumption, and capital expenditure. Another risk is the Kishida administration, as his popularity continued to decline. However, there are more cases where wage negotiations next year could be solid, as labour unions have raised their demands and corporate management seems to be responding well to them.

The strength of corporate earnings also supports the expectation of further wage growth next year. The first half of the fiscal year finished with reasonably strong earnings results. Yen weakness certainly helped, but at the same time, pricing power held up well. November also saw more companies disclosing management plans to tackle lower valuations.

## ASIA (EX JAPAN)

Asia ex Japan equities achieved strong gains in November as hopes that US interest rates may have peaked led to renewed

investor appetite for risk assets across the region. Less hawkish signals from the US Federal Reserve, coupled with falling inflation and softer labour market data, boosted investor hopes that the US central bank will not raise interest rates any further.

All markets in the MSCI Asia ex Japan index ended the month in positive territory in November. South Korea, Taiwan and the Philippines were the strongest index markets, while gains in Hong Kong, Thailand and Singapore were more modest.

Chinese stocks failed to match the gains achieved by some of their regional peers due to ongoing concerns over weaker Chinese economic growth. Fears that stimulus measures by the Chinese government wouldn't be sufficient to spur growth and the ongoing real estate crisis also weakened sentiment towards Chinese stocks. Shares in India and Indonesia achieved robust gains in the month, while price gains in Malaysia were more muted.

## EMERGING MARKETS

Emerging markets (EM) gained strongly in November, albeit slightly behind developed markets. This came against a backdrop of what appears to be a soft landing for the US economy and increased expectations of interest rate cuts from the Federal Reserve in 2024.

Egypt was the top-performing index market, followed by Korea where tech-related stocks rallied strongly. Mexico and Brazil also posted double-digit growth (in US dollars). The former was supported by currency gains and the latter by further signs of disinflation and another policy rate cut, taking the SELIC rate to 12.25%. Taiwan also benefited from a rally in tech stocks.

Greece, Poland and Hungary outperformed too. In Poland, markets continue to benefit from October's electoral result with signs of strength in consumption also helpful for sentiment. South Africa marginally underperformed against a backdrop of an increase in the frequency of power black-outs and a ports crisis. India also lagged the index even as GDP growth proved strong and inflation showed some signs of moderating. Some of the energy-related markets, such as UAE, Qatar and Saudi Arabia, underperformed given softer energy prices.

China was some way behind the index with economic data released in the month proving somewhat mixed. Thailand was the weakest index market on the back of a weaker-than-expected Q3 GDP print.

## GLOBAL BONDS

November was a positive month for fixed income markets. Government bonds, credit (both investment grade and high yield) and securitised assets all rallied amid growing speculation that central banks might be very close to ending rate hikes. Encouragingly, inflation pressures continued to ease as did concern around higher oil prices.

The US Federal Reserve (Fed) kept rates on hold as anticipated, with a relatively dovish tone to the accompanying statement. Despite ongoing concerns around expansive fiscal policy, there was better news in terms of supply, with the Quarterly Refunding Announcement being lower than expected ($112 billion versus $114 billion). Nevertheless, Moody's announced a change to its AAA US rating outlook from stable to negative due to increased downside fiscal risks.

Economic data was generally softer, with the US ISM manufacturing index falling to a surprisingly weak 46.7 in October, compared to the predicted 49. As for the labour market, October's payrolls data displayed a significant decline from the previous month, with headline gains of just 150k.

Meanwhile, the Bank of England kept the base rate unchanged at 5.25% in a 6-3 split vote. UK gilts joined the global rally, as weaker labour market data later appeared to validate the committee's less hawkish bias. The Autumn Statement delivered little market moving news. With slightly more fiscal space to play with, a lowering of national insurance contributions and a reduction of rates for small businesses were among the headline measures.

In Europe, inflation fell more than expected to 2.4%. Although there was no European Central Bank board meeting during November, the market anticipated an end to rate hikes. German manufacturing data was notably weak, with industrial production contracting by -1.4% in September, compared to the -0.1% forecast.

A blend of weaker growth, subsiding inflation pressures, and shifting interest rate expectations resulted in a fall in yields across all major markets. Led by the US, the 10-year yield dropped by 57 basis points (bps) to 4.34%, the UK 10-year yield fell by 34bps to 4.18%, while Germany lagged slightly with a 10-year yield drop of 36bps to 2.45%. The European periphery, including Spain and Italy, outperformed core markets.

Global credit markets registered positive returns in November with upbeat sentiment propelling higher risk assets to outperform government bonds. US investment grade (IG) led the IG space with 1.8% excess return, and high yield (HY) emerging market sovereigns topping the HY space at 3.6% excess return for the month. Issuance increased from last month as rates volatility subsided. Notably, US dollar high yield recorded its highest monthly level since the beginning of the year.

Investment grade bonds are the highest quality bonds as determined by a credit rating agency; high yield bonds are more speculative, with a credit rating below investment grade.

Convertible bonds benefited from the supportive equity market tailwind and the Refinitiv Global Focus index finished the month with a gain of 4.5%. Primary markets remained very active in November. This year's volume in interesting and well-priced convertibles is a remarkable change to 2023. At the same time, convertible valuations remain subdued.

## COMMODITIES

The S&P GSCI Index fell in November. Energy and livestock were the worst performing components of the index, while precious metals, industrial metals and agriculture achieved modest gains in the month. Within energy, prices for oil were modestly lower in the month due to uncertainty in the market over OPEC production quotas. Gas prices, however, were almost unchanged from a month earlier.

In precious metals, the price of silver was sharply higher, while gold achieved a more modest price increase in the month. In industrial metals, copper achieved a small price gain, while the price of aluminium, lead, nickel, and zinc all declined. In agriculture, the price of coffee, wheat and corn gained, while sugar and soybean prices fell.

## DIGITAL ASSETS

November was another strong month for digital assets. The main theme this month was the outperformance of alt coins which finally caught up after a period of underperformance relative to Bitcoin. Solana (+54%), UNI (+44%) and AVAX (+89%) were amongst the list of strong performers in November.

Both Bitcoin and Ethereum appreciated meaningfully, returning 9% and 13% for the month and bringing the year-to-date Bitcoin return to 128%. Meanwhile, AI related projects such as Render (RNDR, 752%) and Akash Network (AKT, 784%) have been this year's top performers so far.

News headlines this month were dominated by Binance, the world's largest cryptocurrency exchange, whose founder and CEO Changpeng Zhao agreed to plead guilty to US money laundering violations and decided to step down. It is positive for the global crypto industry that the US regulatory shadow hanging over Binance is now resolved.

# TOTAL RETURNS (NET) % – TO END NOVEMBER 2023

| | 1 MONTH | | | 12 MONTHS | | |
|---|---|---|---|---|---|---|
| **Equities** | **USD** | **EUR** | **GBP** | **USD** | **EUR** | **GBP** |
| MSCI World | 9.4 | 6.0 | 4.8 | 13.0 | 6.6 | 6.3 |
| MSCI World Value | 7.4 | 4.0 | 2.9 | 3.2 | -2.6 | -2.9 |
| MSCI World Growth | 11.2 | 7.7 | 6.6 | 23.1 | 16.2 | 15.8 |
| MSCI World Smaller Companies | 9.3 | 5.9 | 4.8 | 2.0 | -3.8 | -4.1 |
| MSCI Emerging Markets | 8.0 | 4.6 | 3.5 | 4.2 | -1.7 | -2.0 |
| MSCI AC Asia ex Japan | 6.9 | 3.6 | 2.5 | 2.2 | -3.6 | -3.9 |
| S&P500 | 9.1 | 5.7 | 4.6 | 13.8 | 7.4 | 7.1 |
| MSCI EMU | 11.4 | 7.9 | 6.8 | 17.6 | 10.9 | 10.6 |
| FTSE Europe ex UK | 10.9 | 7.5 | 6.3 | 17.2 | 10.6 | 10.3 |
| FTSE All-Share | 7.4 | 4.1 | 3.0 | 8.2 | 2.1 | 1.8 |
| TOPIX* | 8.0 | 4.6 | 3.5 | 15.8 | 9.3 | 8.9 |

| | 1 MONTH | | | 12 MONTHS | | |
|---|---|---|---|---|---|---|
| **Government Bonds** | **USD** | **EUR** | **GBP** | **USD** | **EUR** | **GBP** |
| JPM GBI US All Mats | 3.4 | 0.2 | -0.9 | 0.2 | -5.5 | -5.8 |
| JPM GBI UK All Mats | 7.5 | 4.2 | 3.1 | 0.1 | -5.5 | -5.8 |
| JPM GBI Japan All Mats** | 4.7 | 1.4 | 0.4 | -6.9 | -12.1 | -12.4 |
| JPM GBI Germany All Traded | 5.8 | 2.5 | 1.4 | 3.6 | -2.2 | -2.5 |
| **Corporate Bonds** | **USD** | **EUR** | **GBP** | **USD** | **EUR** | **GBP** |
| BofA ML Global Broad Market Corporate | 5.6 | 2.3 | 1.3 | 5.5 | -0.4 | -0.7 |
| BofA ML US Corporate Master | 5.6 | 2.3 | 1.3 | 4.0 | -1.9 | -2.2 |
| BofA ML EMU Corporate ex T1 (5-10Y) | 6.6 | 3.2 | 2.2 | 9.7 | 3.6 | 3.2 |
| BofA ML £ Non-Gilts | 7.4 | 4.1 | 3.0 | 8.7 | 2.6 | 2.3 |
| **Non-investment Grade Bonds** | **USD** | **EUR** | **GBP** | **USD** | **EUR** | **GBP** |
| BofA ML Global High Yield | 4.9 | 1.6 | 0.5 | 10.0 | 3.8 | 3.5 |
| BofA ML Euro High Yield | 3.2 | 0.0 | -1.1 | 6.0 | 0.0 | -0.3 |

Source: LSEG DataStream.
Local currency returns in November 2023: *5.4%, **-2.2%.
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**Source: Schroders, November 2023: The value of investments and the income from them may go down as well as up and investors may not get back the amounts originally invested. Past performance mentioned is not a guide to future performance and may not be repeated. The sectors, securities, regions and countries shown are for illustrative purposes only and are not to be considered a recommendation to buy or sell.**

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