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YOUR MARKET REVIEW OCTOBER 2023

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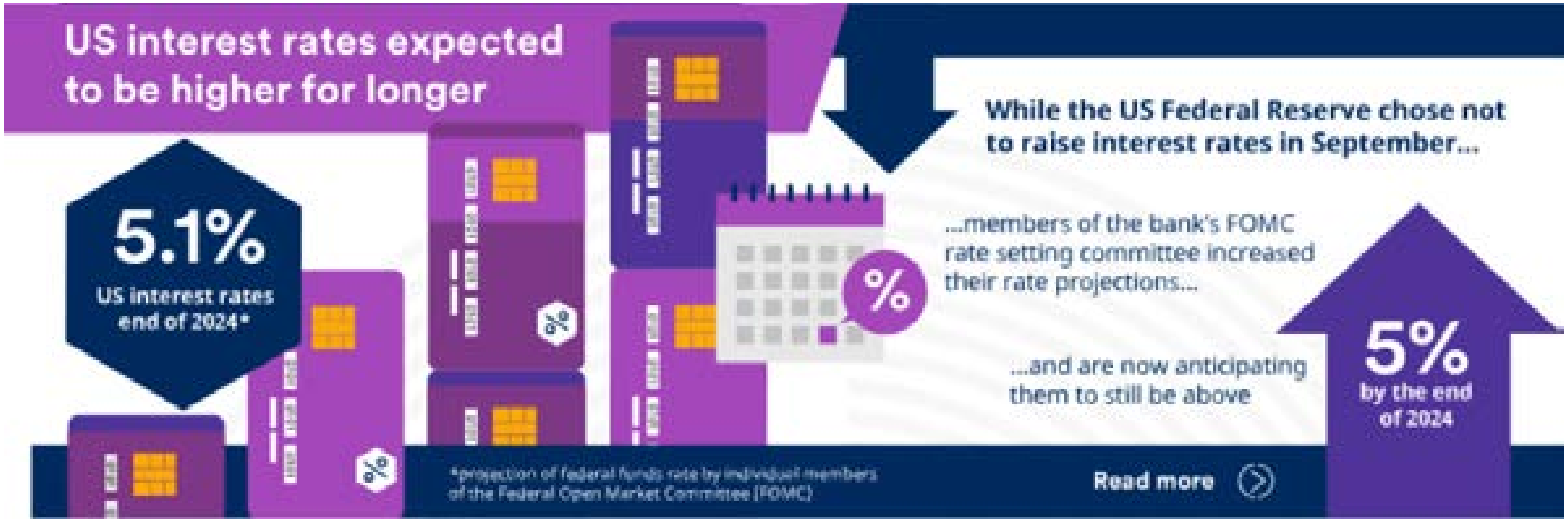
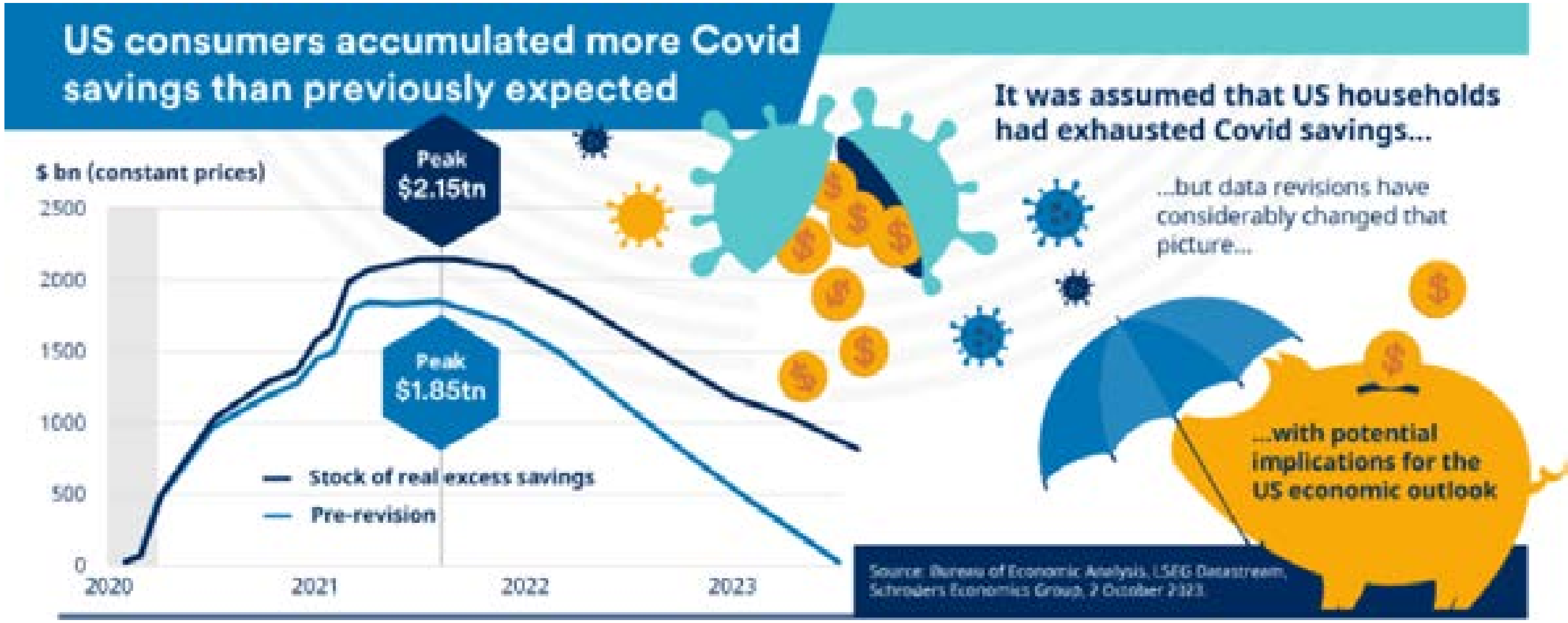
INFOGRAPHIC: THE GLOBAL ECONOMY





Source: [Schroders as at October 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 have upgraded equities to positive in the absence of recessionary risks in the short-term. We expect the S&P 500 to rally into year-end.
	Government Bonds	Neutral ▼	We have turned neutral on government bonds. Although we expect yields to stabilise, given that we are not expecting an imminent recession or a Federal Reserve (Fed) pivot, we prefer to have exposure to rates via credit.
	Commodities	Long / Positive	We are keeping our positive score on commodities as they should provide some upside if the export cycle picks up and also protect our portfolios from inflation and geopolitical risks.
	Credit	Long / Positive ▲	We have upgraded our view as the sell-off in bond markets has resulted in attractive yields in US high yield debt. European investment grade debt still offers better yields than cash.
Equities	US	Long / Positive ▲	We upgraded to positive as we believe stabilising bond yields and resilient growth in the US should support this market into year end.
	UK	Neutral	While concerns around stagflation (a combination of slowing growth and accelerating inflation) remain, valuations appear relatively attractive as the UK has underperformed other markets. Better-than-expected fundamentals and a cheap currency have also raised the prospects for the market.
	Europe	Short / Negative	The eurozone purchasing managers' index (PMI) has continued to decline, with manufacturing activity being particularly weak. Valuations are relatively cheap but high inflation and weak fundamentals lead us to keep a negative view.
	Japan	Long / Positive	Strong corporate fundamentals coupled with good domestic demand should allow Japanese equities to grind higher and outperform other regions.
	Global Emerging Markets[1]	Neutral	We remain neutral. The relatively weak global goods cycle remains a headwind; however, the asset class is likely to be supported by central bank policy easing, given inflation in emerging markets (EM) is generally lower than in developed markets.
	Asia ex-Japan & China	Neutral	On the one hand, valuations appear relatively attractive, but momentum has slowed and doubts over economic growth have increased. The market also faces meaningful challenges in the economically significant property sector meaning we remain neutral.
	EM Asia ex China	Neutral	There is some evidence to show that the global manufacturing cycle has started to rebound, particularly in the technology sector. This should benefit Taiwan and South Korea where technology exports are a major contributor to GDP.
Government Bonds	US	Neutral ▼	With the Fed keeping interest rates on hold, we see few catalysts for the short-end of the curve to rally. Longer-dated bonds are unattractive due to the yield curve being inverted (when long-term market interest rates are less than short term ones), and concerns surrounding debt levels and inflation. We have therefore downgraded to neutral.
	UK	Neutral	Whilst wage pressures stay elevated due to ongoing tightness in the labour market, inflation has been falling more than expected. We remain neutral for now.
	Germany	Neutral	Lower inflation and a deteriorating growth outlook are favourable for Bunds (Germany government bonds), but until we see further evidence on the direction of the economy, we prefer to stay on the side-lines.
	Japan	Neutral	We continue to be neutral on Japanese bonds as absolute yields have remained unattractive.
	US Inflation Linked	Neutral ▼	We have downgraded to neutral given the Fed's commitment to curbing inflation. We also see some tentative signs of the upward trend in wages softening.
	Emerging Markets Local	Neutral	Amid continued concerns about risks to the asset class should the US dollar strengthen, we have decided to keep a neutral stance.

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

	Category	View	Comments
Investment Grade Credit	US	●	Although corporate fundamentals remain strong in the US, yields look unattractive relative to cash rates and valuations remain expensive.
	Europe	●	We retain our preference for European investment grade bonds as we expect it to benefit from the European Central Bank (ECB) nearing the end of its hiking cycle and from the positive carry (carry describes borrowing where interest rates are relatively low to invest in assets where interest rates are relatively high).
	Emerging Markets USD	●	Fundamentals remain resilient despite sluggish Chinese growth. While the light supply of bonds is keeping technical conditions tight, valuations are expensive, and so we remain neutral.
High Yield Bonds (Non-IG)	US	● ▲	We have upgraded our score to positive. Yields are attractive and we do not expect any pick-up in defaults as corporate and household balance sheets remain strong, leaving them in good stead to digest tightening financial conditions and any moderation in growth.
	Europe	●	Defaults in Europe are starting to increase, albeit from a very low base, so we remain neutral.
Commodities	Energy	●	Supply cuts from Saudi/Russia are still feeding into the market but we believe the impact is largely priced, and the outlook for 2024 is for more muted demand growth. However, energy is diversifying in the context of a tense geopolitical situation.
	Gold	●	The pick-up in demand from central banks and Chinese domestic demand is supportive meaning gold could perform well if real (inflation adjusted) yields peak. The negative carry from holding gold means we prefer duration (bonds) for interest rate sensitivity exposure.
	Industrial Metals	●	While supplies of industrial metals remain very tight and the outlook for growth is muted, it is unclear where any increase in demand would come from. We therefore remain neutral.
	Agriculture	● ▼	Crop conditions have improved significantly, providing a buffer on the supply side. El Nino remains a risk but higher yields and good progress in this planting season in the southern hemisphere means we have downgraded our score to neutral.
Currencies	US $	● ▲	A better cyclical outlook in the US relative to other regions leads us to upgrade to positive. Carry and hedging properties of the dollar are also attractive.
	UK £	●	The poor economic outlook and high levels of inflation still weigh on sterling, but with high levels of carry we remain neutral.
	EU €	●	Slowing European growth and unattractive interest rate differentials relative to the US dollar lead us to keep our negative score.
	CNH ¥	● ▲	We have upgraded the renminbi to positive given the lacklustre domestic picture is already priced in and the currency is cheap. Any potential recovery in Chinese exports would bode well for the currency.
	JAP ¥	●	Signs of inflation increasing in Japan could spark more monetary policy discussions from the Bank of Japan, but while it is unclear whether they will intervene, we remain neutral.
	Swiss F	●	Inflation appears to have been brought under control in Switzerland, but we believe the currency is exposed to a weakening euro as the country's exports significantly depend on European demand.

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, October 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

Stocks and bonds both fell in October amid expectations of higher for longer interest rates.

THE MONTH IN SUMMARY

Global shares fell in October amid worries that US interest rates may remain higher for longer given still strong inflation. The geopolitical situation was another concern for investors amid renewed conflict in the Middle East. Bonds also fell, with yields rising sharply. Gold rose as investors sought safe haven assets.

THE US

US equities fell in October, as the date for the expected end to the Federal Reserve's (Fed) tighter policy environment was pushed back. Inflation remains elevated and the broader US economy is still very robust. The war in Ukraine continues, and fresh conflict flared in the Middle East.

The US economy expanded at an annualised rate of 4.9% in Q3 2023, exceeding market forecasts of 4.3% growth and accelerating from the 2.1% advance in the second quarter. The expansion was largely driven by strong consumer spending. Over the 12 months to the end of September, inflation as measured by the consumer price index (CPI) has risen by 3.7%, unchanged on previous month's reading. Industrial activity as measured by the latest purchasing managers' index (PMI) also suggested expansion, with the flash composite hitting 51.0 in October, up from 50.2 in September (a reading over 50 signals expansion).

Citing the "range of uncertainties, both old and new", Fed chair Jerome Powell indicated that policymakers had not ruled out further tightening, with rates already at a 22-year high.

Energy stocks were among the weakest performers in a month that saw almost all sub-sectors decline. Consumer discretionary stocks also saw notable declines. Utilities were more resilient, while IT and consumer staples also held up comparatively well.

EUROZONE

Eurozone shares declined. The traditional safe haven sectors of utilities and consumer staples posted small gains for the month. Energy and information technology also proved relatively resilient. Other sectors saw steeper falls. Healthcare was among the weakest performers after a large pharmaceutical company announced a lower profit outlook for next year.

The European Central Bank (ECB) held interest rates steady at its October meeting, breaking a series of 10 consecutive increases. The end of the month brought data showing annual inflation had fallen to 2.9% in October from 4.3% in September. News that inflation is returning closer to the ECB's 2% target added to expectations that this rate-hiking cycle may be over. Read more: End of the road for ECB rate rises?

Higher interest rates have also weighed on growth. Data showed that the eurozone economy contracted in Q3, with the preliminary flash estimate of GDP showing a decrease of -0.1% compared to the previous quarter. The flash HCOB eurozone purchasing managers' index showed that the economic downturn deepened in October with the composite reading of 46.5, a 35-month low and down from 47.2 in September.

UK

UK equities fell over the month. The large UK banks performed poorly amid concerns around the impact of higher interest rates on the performance of their lending businesses and mortgage books in particular. Related concerns around the health of the UK consumer were also reflected in a number of other domestically focused sectors, whose poor performance weighed on UK small and mid cap (smid) equities.

Long-term market interest rates rose again over October as gilts resumed their sell-off following a period of relative stability seen during the summer. At the same time there was deterioration in the UK economic outlook. This included a sharp drop in consumer confidence, a decline in key purchasing manager indices (particularly in those tracking the construction sector) and news of further house price falls.

As a result of these top-down trends several consumer discretionary sectors gave up on the recoveries they enjoyed over the summer. Many of these sectors had rebounded as stable market interest rates fed through into falling mortgages rates. As a result of this reversal many previous top performers in the housebuilding, retail and travel & leisure sectors, became big detractors to UK smid indices in October.

The Office for National Statistics revealed that the Consumer Prices Index (CPI) remained unchanged at 6.7% year-on-year (y/y) in September, versus expectations of a slight moderation to 6.6%. And, while the core CPI inflation rate dropped to 6.1% y/y, it was still slightly above consensus forecasts for 6%. This all added to concerns that the UK may be in line for a long inflation battle, even as the economy slows. Read more: BoE prepares ground for long inflation battle.

JAPAN

The Japanese equity market declined in October, with the TOPIX Total Return index falling by 3.0% in local terms amid weaker investor sentiment. The persistent rise in long-term yields in both the US and Japan continued to benefit financial stocks. In Japan, regional bank stocks saw a boost from their depressed valuation levels. Additionally, energy stocks increased due to the conflict in the Middle East. However, the technology sector was weak, and growth stocks, especially in the small cap space, continued to suffer.

US Treasury yields were pushed up by stronger-than-expected macroeconomic figures, and JGB yields followed suit, creeping up to 0.9% for the 10-year. The weakening of the yen against the US dollar due to the hike in US yields put pressure on the Bank of Japan (BOJ). Consequently, during the monetary policy meeting on 31 October, the BOJ decided to further adjust its yield curve control policy, letting the 10-year JGB yield rise above 1.0% by declaring that level to be a reference rather than a limit. From a Japanese macroeconomic perspective, inflation remains resilient, and the BOJ also raised its CPI forecasts for the next three fiscal years, surpassing the 2% inflation target even for the fiscal year 2024.

First half corporate earnings results were released later in the month, with initial numbers showing weakness in technology companies, but the revision index remained positive. Domestic-oriented companies and auto-related companies followed and announced much stronger results, which gradually supported market sentiment. Read more: Has Japan's stock market resurgence run out of steam?

ASIA (EX JAPAN)

Asia ex Japan equities were weaker in October, with all index markets ending the month in negative territory. There was a broad sell-off as concerns over rising interest rates and geopolitics

weakened sentiment. Pressure on equities from higher interest rates has been exacerbated by the conflict in the Middle East, which has driven a flight towards assets perceived as safe havens, such as gold.

Indonesia, South Korea, and the Philippines were the weakest index markets in October. In South Korea, chip makers were under pressure in the month amid investor fears of a global economic slowdown. The sell-off came despite positive economic data released in the month, showing that the country's economy grew by 0.6% in the third quarter compared with the previous quarter.

Chinese shares also fell in the month, with investor sentiment towards China continuing to weaken due to the country's economic slowdown and a lack of a convincing response from the Chinese government. The ongoing real estate debt crisis has also added to investor concerns. Hong Kong share prices also fell in October, as foreign investors reduced their exposure to China and on concerns over ongoing US-China tensions.

EMERGING MARKETS

Emerging market (EM) equities lagged their developed market peers over the month against a backdrop of rising yields and conflict in the Middle East.

Turkey was the biggest underperformer as the currency weakened against the dollar. The central bank continues to tighten, raising the policy rate to 35%in October. However, inflation is above 60%. Korea also lagged the index while GCC markets, including UAE, Qatar and Kuwait, fell too, impacted by the nearby conflict and softer energy prices. China was behind the index despite some positive economic data releases, including better retail sales and higher tech exports, and an apparent easing in US-Sino relations given confirmation from the White House that presidents Biden and Xi are due to meet in November.

Brazil marginally outperformed, as did Thailand and India. South Africa and Taiwan both delivered negative returns but these were ahead of the index. In South Africa, a weaker currency, rising yields and softer platinum group metals (PGM) prices were negative for sentiment, while in Taiwan the picture was more positive with improvements seen in tech exports and manufacturing.

The remaining markets gained in US dollar terms. Czech Republic, Greece and Hungary posted marginally positive returns while Egypt and Poland were the top performers. In Poland, sentiment was supported by the electoral victory of Donald Tusk's pro-European Civic platform which unseated the ruling party in an election that saw record high turnout.

GLOBAL BONDS

Throughout October, the prevailing narrative driving bond markets was the expectation that interest rates would need to remain high for an extended period. Factors such as a robust US labour market, persistently high inflation, and growing concerns over US Treasury supply kept the pressure on US yields.

The US curve steepened, with the 30-year yield surpassing the 5.0% mark for the first time since 2007. The tightening of financial conditions lowered expectations of an imminent rate hike by the Fed, as the higher yields have already been contributing to tightening monetary policy conditions. The US 10-year yield increased from 4.57% to 4.91%, while the two-year yield climbed from 5.05% to 5.10%.

The European Central Bank (ECB) kept rates stable, as expected. However, the lack of discussion about potentially moving up the December 2024 end-date for reinvestments from its Pandemic Emergency Purchase Programme (PEPP) was unexpected, with a recent rise in Italian bond yields being one likely reason. Italy's finances were brought back into the spotlight with the release of the government's 2024 Budget. In October the Italian 10-year yield decreased during the month from 4.79% to 4.73%, and the 2-year yield fell from 4.02% to 3.85%.

European rates outperformed other markets, with yields falling across shorter maturities. Germany's 10-year Bund yield dropped slightly from 2.84% to 2.81%, and the two-year yield came down from 3.21% to 3.07%. Spain also saw a drop with its 2-year yield coming down to 3.43% from 3.60% the previous month.

UK data generally underwhelmed, with consumer sentiment indices and weak retail sales contributing to a pessimistic tone. Despite a moderation in wage growth, services inflation - a key concern for the Bank of England (BoE) - remained persistent. The gilt yield curve steepened, with short-term yields declining compared to a modest increase in long-term securities. The UK 10-year yield increased from 4.44% to 4.52%, while the two-year yield decreased from 4.90% to 4.78%.

Emerging market sovereign investment grade (IG) and high yield (HY) outperformed developed markets over the month in excess return terms despite the conflict in the Middle East. (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.)

The Bank of Japan (BoJ) made minor tweaks to its yield curve control policy, introducing more flexibility around the upper limit at the 10-year point. This fell short of market expectations that had anticipated a more substantial change. BoJ Governor Kazuo Ueda cited the bigger-than-expected increase in US Treasury yields as the primary factor behind the latest move.

Dollar gains were more modest compared to other major currencies. Over the month, both the euro and Swiss franc appreciated, while the Norwegian krone notably lagged as oil prices softened.

On the credit front, IG corporate bond spreads (both EUR and USD) widened, indicating underperformance relative to government bonds. HY bonds fared the worst, delivering negative total returns and underperforming government bonds. Gross issuance underwhelmed in October. Euro IG gross supply dropped to €20 billion from €55 billion in September, while US IG supply was only $83 billion, down from $141 billion in September.

Convertible bonds could not escape the equity market headwinds and the Refinitiv Global Focus finished the month with a loss of -3.1%. Primary markets slowed down in October with $5.2 billion of new convertibles being launched.

COMMODITIES

The S&P GSCI Index fell in October. Precious metals was the best performing component. The price of gold was sharply higher as renewed conflict in the Middle East prompted investors to seek assets perceived to be safe havens. Within the energy component, natural gas prices rose amid concerns over risks to supply stemming from damaged pipelines as well as the Middle East conflict. Energy otherwise saw declines for crude

oil, heating oil and gas oil. Agriculture also gained, with sharply higher prices for coffee and cocoa. Within industrial metals, the price of zinc was sharply lower, while price falls for aluminium, copper, lead, and nickel were more modest

TOTAL RETURNS (NET) % – TO END OCTOBER 2023

	1 MONTH			12 MONTHS		
Equities	**USD**	**EUR**	**GBP**	**USD**	**EUR**	**GBP**
MSCI World	-2.9	-2.7	-2.3	10.5	3.3	4.8
MSCI World Value	-3.4	-3.3	-2.9	3.1	-3.6	-2.2
MSCI World Growth	-2.4	-2.3	-1.8	18.1	10.4	12.1
MSCI World Smaller Companies	-6.1	-6.0	-5.6	-1.0	-7.4	-6.0
MSCI Emerging Markets	-3.9	-3.7	-3.3	10.8	3.6	5.1
MSCI AC Asia ex Japan	-3.9	-3.7	-3.3	13.5	6.1	7.7
S&P500	-2.1	-1.9	-1.5	10.1	3.0	4.5
MSCI EMU	-3.4	-3.3	-2.9	19.1	11.4	13.0
FTSE Europe ex UK	-3.6	-3.4	-3.0	18.0	10.4	12.0
FTSE All-Share	-4.7	-4.5	-4.1	1.6	4.4	5.9
TOPIX*	-4.4	-4.3	-3.9	17.6	10.0	11.6

	1 MONTH			12 MONTHS		
Government Bonds	**USD**	**EUR**	**GBP**	**USD**	**EUR**	**GBP**
JPM GBI US All Mats	-1.2	-1.0	-0.6	-0.6	-7.0	-5.7
JPM GBI UK All Mats	-1.0	-0.8	-0.4	-1.0	-7.4	-6.1
JPM GBI Japan All Mats**	-3.1	-3.0	-2.6	-5.7	-11.9	-10.6
JPM GBI Germany All Traded	0.2	0.3	0.7	4.0	-2.8	-1.4
Corporate Bonds	**USD**	**EUR**	**GBP**	**USD**	**EUR**	**GBP**
BofA ML Global Broad Market Corporate	-1.2	-1.1	-0.6	5.3	-1.5	-0.1
BofA ML US Corporate Master	-1.8	-1.6	-1.2	3.3	-3.5	-2.0
BofA ML EMU Corporate ex T1 (5-10Y)	0.2	0.4	0.8	11.5	4.3	5.8
BofA ML £ Non-Gilts	-0.6	-0.5	-0.1	8.2	1.2	2.7
Non-investment Grade Bonds	**USD**	**EUR**	**GBP**	**USD**	**EUR**	**GBP**
BofA ML Global High Yield	-1.0	-0.5	-0.1	8.2	1.2	2.7
BofA ML Euro High Yield	-0.2	0.0	0.4	6.9	0.0	1.5

Source: LSEG DataStream.
Local currency returns in October 2023: *-3.0%, **-1.7%.
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