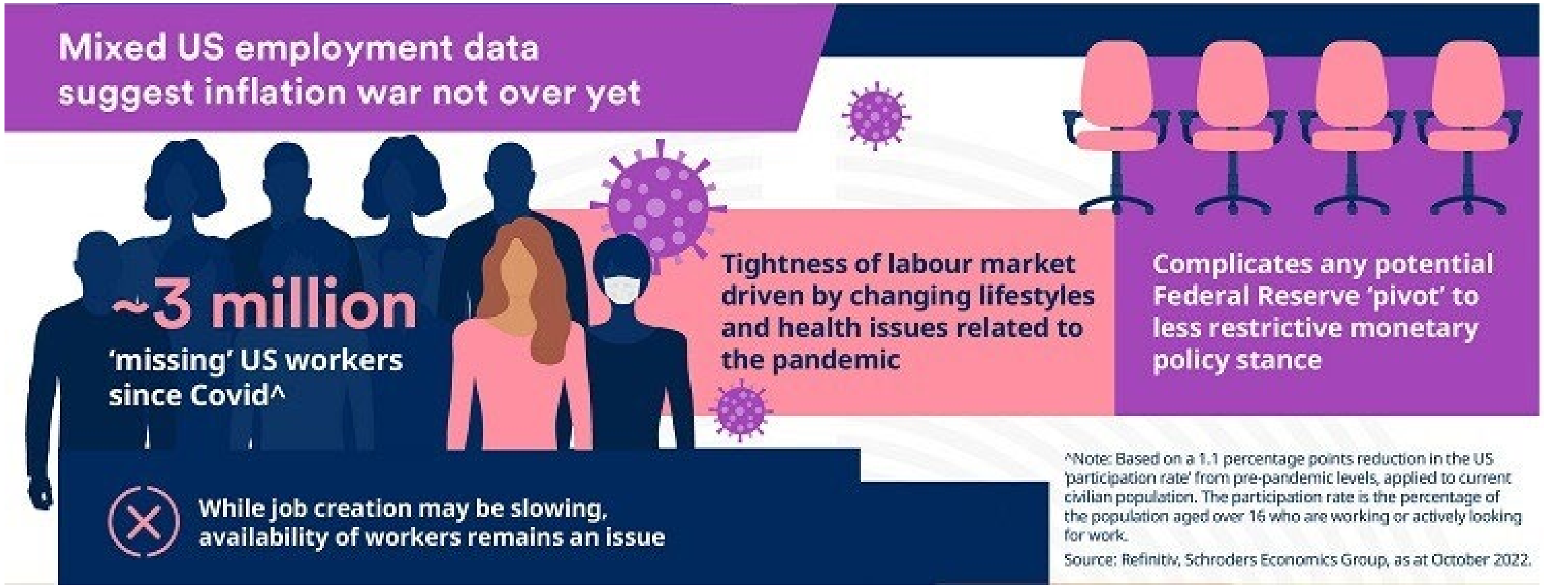
FINURA

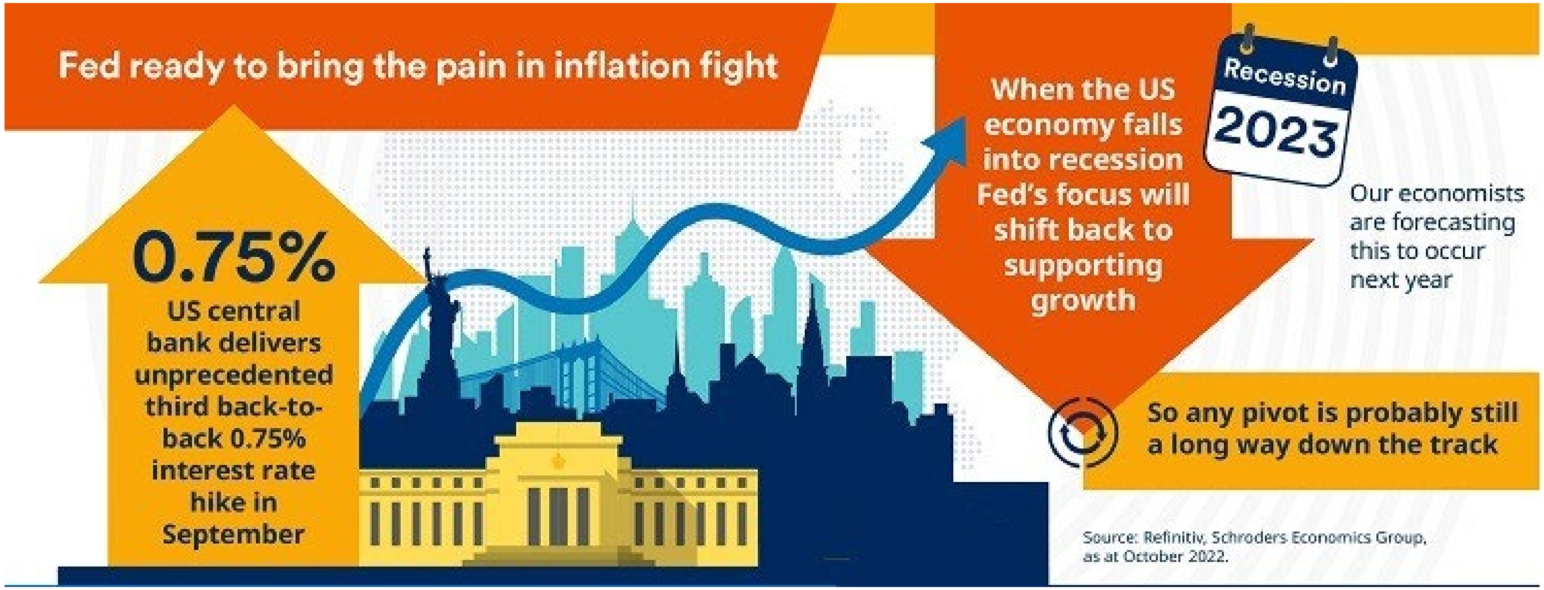
YOUR MARKET COMMENTARY
OCTOBER 2022

Chartered Financial Planners

Pension TRANSFER Gold Standard

INFOGRAPHIC: THE GLOBAL ECONOMY





Source: [Schroders as at October 2022.]

MULTI-ASSET INVESTMENT VIEWS

KEY

▲ Up from last month ▼ Down from last month

Strong Positive | Positive | Neutral | Neutral/ Negative | Strong Negative

	Category	View	Comments
Main Asset Classes	Equities	Neutral/Negative	We remain negative on equities as while prices have fallen, we expect a further deterioration in corporate earnings given the risks of a recession.
	Government Bonds	Neutral	We have yet to see evidence of a softening in the jobs market, which would allow the US Federal Reserve (Fed) to soften its stance on interest rates, and so we retain our neutral score.
	Commodities	Positive	Although demand is slowing, supply side factors are supportive for commodities, particularly in the energy and agricultural sectors.
	Credit	Neutral	Although the outlook for credit is looking brighter, we need to see more stability in spreads and yields before we upgrade to positive.
Equities	US	Neutral/Negative ▼	The region faces higher rates and overly optimistic earnings expectations, so we have downgraded our view.
	UK	Neutral/Negative	Following the government's mini-budget, the subsequent U-turn, and the volatility in the pound, we maintain our negative position.
	Europe	Strong Negative	Although valuations now appear attractive, we believe the challenges posed by the energy crisis, rising inflation and the war in Ukraine justify a downgrade.
	Japan	Neutral/Negative	Although we retain a negative view, we recognise that a cheap yen and attractive valuations could provide medium-term support for the market, particularly compared to others in the region.
	Global Emerging Markets[1]	Neutral/Negative	Although valuations have become increasingly attractive, EM outperformance tends to coincide with a bright global macroeconomic picture. Therefore, given the risks of a global recession, we prefer to stay on the side-lines for now.
	Asia ex-Japan & China	Neutral/Negative	We remain negative while the focus is on the five yearly Chinese Communist Party Congress assembly and await any updates on zero-Covid and other policies.
	EM Asia ex China	Neutral/Negative	Semiconductor prices have fallen as supply chain disruptions have eased. However, with continued destocking of excess inventory, this trend may weigh on performance.
Government Bonds	US	Neutral	Based on our fair value models, valuations for US 10-year bonds now look attractive. However, we remain neutral while monetary policy is focused on fighting inflation.
	UK	Neutral/Negative ▼	There have been significant moves in the gilt market due to the conflicts between government and central bank policy. This will likely pressure the BoE's Monetary Policy Committee (MPC) to hike interest rates even higher.
	Germany	Neutral/Negative	We believe that the market is still underestimating the desire by the European Central Bank (ECB) to raise interest rates by more than expected as inflation has continued to climb.
	Japan	Neutral/Negative	Yields remain unattractive compared to other markets. Slowing global growth also remains a risk.
	US Inflation Linked	Neutral	We have retained our neutral score. With US 10-year real rates above 1%, we believe that inflation expectations are now more realistic.
	Emerging Markets Local	Neutral	Although Latin America shows signs of peaking inflation, our outlook on Central & Eastern Europe, Middle East & Africa remains negative.

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

	Category	View	Comments
Investment Grade Credit	US	🟢	We retain our positive stance as valuations are attractive. Although corporates appear to be fundamentally solid, we are holding back on investing until we see the impact of the upcoming rate rises.
	Europe	🟢	Our score remains positive as the level of spreads (the difference between the quoted rates of return on two different investments, usually of different credit qualities but similar maturities) means investors can earn a reasonable return. Fiscal intervention and moderating gas prices also improve the case for European IG.
	Emerging Markets USD	🟢	Although emerging markets have struggled with the strong dollar, geopolitical tensions have already been priced in and we remain positive due to valuations.
High Yield Bonds (Non-IG)	US	🟢	We remain positive as US HY has experienced punishing outflows combined with lighter issuance (supply), which is supportive for valuations.
	Europe	🟡	Our view remains neutral as European interest rate sensitivity does not currently appear to be a cause for concern.
Commodities	Energy	🟢	We retain our positive score as the collapse in demand has been as severe as expected. OPEC is also attempting to reduce production quotas to support oil prices.
	Gold	🟡	Although gold has been resilient in the current economic climate, it is less attractive compared to current cash yields. Therefore, we remain neutral for now
	Industrial Metals	🟡	We remain neutral given current growth risks.
	Agriculture	🟢	We retain our positive stance given the very tight supplies and low inventory levels.
Currencies	US $	🟡	We remain neutral, noting that the dollar can be used to limit risk when sentiment is negative, but is likely to weaken once it appears that rate rises have slowed inflation and the US economy sufficiently to allow the Fed to halt its hiking cycle.
	UK £	🟠 ▼	We have downgraded to negative as we believe that the BoE's MPC may disappoint on rate rises given the very high level of UK inflation.
	EU €	🟡	We remain neutral as we expect volatility in the euro to subside as concerns over energy supplies in Europe abate.
	CNH ¥	🟡 ▲	We have upgraded back to neutral as our view on the trade cycle has now largely played out.
	JAP ¥	🟠	We remain negative as although billions are being spent in Japan to defend the currency, the fall in the value of the yen is unlikely to stop if other central banks continue to raise rates.
	Swiss F	🟡	We retain our neutral stance as we expect the SNB to disappoint on rate hikes, which will suppress the franc.

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 2022. 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 at October when developed market shares outperformed their emerging market counterparts.

THE MONTH IN SUMMARY

Developed market shares notched up strong gains in October but emerging markets fell. Chinese equities were weak as the Communist Party Congress signalled no let-up in the zero-Covid policy and reinforced President Xi's authority. In the UK, bond yields fell (meaning prices rose) as markets welcomed the appointment of Rishi Sunak as prime minister.

THE US

US equities recovered some ground in October, after several weeks of declines. The rise came in spite of the Federal Reserve (Fed) confirming that tighter monetary policy is still needed to contain elevated inflation. Economic data was also mixed. Industrial data looks set to weaken further at the start of Q4, with the 'flash' composite purchasing managers' index (PMI) falling from 49.5 to 47.3 in October (for the PMI surveys, a reading below 50 denotes economic contraction).

Minutes from the September Fed meeting were released on 12 October. These indicated that central bank officials are agreed that tighter policy is to remain the priority for as long as inflation remains unacceptably high. Specifically, the central bank signalled that the risk of tightening too much far outweighs the risk of doing too little. Chair Jerome Powell has previously conceded that economic pain will be necessary in order to repress inflation adequately.

Investors may have been focused on the earnings season which, at the half-way stage, showed around three quarters of companies having delivered better-than-expected results. All sectors made gains, although dispersion was high. Energy stocks were broadly stronger following especially robust earnings. Some retailers were notably weaker, with investors anticipating pressure on consumer spending.

EUROZONE

Eurozone shares moved higher in October. All sectors gained, with energy and industrials leading the way. The weakest sectors were consumer staples and consumer discretionary. The bulk of the Q3 corporate earnings season took place during the quarter, with earnings generally showing resilience.

The European Central Bank raised interest rates by a further 75 basis points and acknowledged that the eurozone economy may be heading for recession. Markets took that statement as a sign that the pace of rate rises could soon ease, which supported appetite for shares. Preliminary data showed that the eurozone economy continued to grow in Q3, with an expansion of 0.2% quarter-on-quarter after 0.8% growth in Q2.

Inflation hit a new record high of 10.7% year-on-year in October, with energy the largest contributor to the rise. In October, the European Commission proposed new regulation to cap energy prices and introduce measures such as joint gas purchasing. Worries over gas shortages eased with storage facilities close to capacity after a ramp-up in imports and lower demand amid mild weather and energy-saving measures.

UK

UK assets reacted positively to Rishi Sunak being appointed leader of the Conservative Party and, by extension, becoming the country's new prime minister. His fiscally conservative reputation and prior experience as chancellor helped to stabilise gilt yields and in turn interest rate expectations. As a result a number of domestically-focused areas of the market recouped some of their prior losses.

Consumer discretionary sectors of the market outperformed, including housebuilders, travel and leisure companies and high street retailers. More broadly, economically-sensitive sectors enjoyed a recovery, with industrials being another top-performing sector. Energy companies performed well, in line with renewed strength in oil prices.

It was due to these trends that UK mid-sized companies outperformed, despite some mixed trading updates from this area of the market. Similarly, Q3 results from larger UK companies (which were broadly in line with expectations) did not dictate how they performed either. Their underperformance was due to other factors, including weakness in the US dollar and euro versus sterling over October.

UK macroeconomic data deteriorated, with the Office for National Statistics confirming that the economy had unexpectedly shrunk by 0.3% in August. Meanwhile, business surveys suggested that this weakness had continued into the autumn. Purchasing manager indices tracking activity levels signify the economy contracted in September and October, adding to fears of imminent recession.

JAPAN

The Japanese stock market regained some ground in October, ending the month with a total return of 5.1% in local terms. The yen continued to weaken against the US dollar, especially in the first half of the month.

Global investors generally anticipated a slowing of US interest rate rises, which supported Japan's equity market in October, although there was some volatility caused by higher-than-expected US inflation. Data released in October also showed Japan's headline inflation remaining at 3.0% while the core rate, excluding energy and fresh food, climbed to 1.8%.

Although these numbers are approaching the Bank of Japan's target levels, Governor Kuroda remained downbeat on the sustainability of inflation numbers into 2023, citing the negative output gap in particular. As a result, the Bank of Japan's policy meeting at the end of October confirmed no change in policy for the foreseeable future. A range of current government initiatives, including energy subsidies aimed at limiting increases in the cost-of-living, are actually running against the Bank of Japan's loose monetary policy.

Just before the end of the period, the corporate results season began for the quarter that ended in September. Only a minority of companies had reported numbers by the end of October. The initial impression is for another solid set of results, even if the positive skew may be less than seen in the previous three quarters.

ASIA (EX JAPAN)

Asia ex Japan equities were weaker in October, driven lower by sharp sell-offs in China and Hong Kong. This followed confirmation that Chinese Premier Xi Jinping would remain as leader for an historic third five-year term. Markets fell on concerns that Xi may continue with policies focused on reducing China's exposure to foreign interests and influence at the expense of economic growth, with potentially negative consequences for private companies. News that China would not be relaxing its zero-Covid policy anytime soon also weakened investor sentiment.

Technology companies fell sharply in China and Hong Kong. China's new Politburo, the core circle of power within China's ruling Communist Party, now consists of loyalists to Xi. This makes it unlikely that anyone would challenge Xi over economic policy decisions. Share prices in Taiwan were also lower in the month on ongoing geopolitical tensions with China.

The Philippines was the best performing index market in October. Share prices in South Korea also achieved robust gains, with equities rebounding in the month following weakness earlier in the year. Malaysia, Thailand and India also ended the month in positive territory.

EMERGING MARKETS

Emerging market (EM) equities didn't participate in the rally seen across developed market equities during October. The MSCI EM Index fell, with China the weakest index market by a wide margin. The closely watched 20th Party Congress reinforced President Xi's authority and failed to signal any near term let-up in the zero-Covid policy. New US export controls on the semiconductor industry, which will restrict Chinese companies' access to advanced chips, also weighed on sentiment.

Qatar and Taiwan were the only other EMs to deliver a negative return. Taiwan underperformed, while Qatar's returns were ahead of the benchmark.

Indonesia and Thailand generated positive returns and outperformed the broader index. India outperformed too, despite disappointing macroeconomic data – industrial production fell while inflation continued to rise – and higher oil prices (India is a net oil importer).

Malaysia and South Africa performed better than the index. In South Africa, the Medium Term Budget Policy Statement showed strong terms of trade for FY2022/2023 as a result of higher commodity prices, while signs of progress in addressing corruption also lifted sentiment.

The markets of oil-exporting countries like Saudi Arabia, UAE and Kuwait all finished ahead of the index as oil prices gained on OPEC+'s production cuts. Brazil outperformed as the currency strengthened, and election-related volatility ended with former President Lula winning a third term. Korea and Mexico also beat the index, with the latter boosted by currency gains.

Having performed poorly in recent months, Hungary and Poland were up double digits in US dollar terms in October, supported by currency strength. Turkey was the best performing index market in the month. Despite consumer price index (CPI) inflation reaching 83.5% year-on-year in September, the central bank cut rates once again, this time to 9.5% at its October meeting.

GLOBAL BONDS

It was a better month for global bond markets, with the UK as the notable outperformer. US Treasuries underperformed other major markets, with better-than-expected labour market data and an upside surprise in inflation once again reinforcing a hawkish response by the US Federal Reserve. The US 10-year yield rose from 3.83% to 4.05%, with the two-year rising from 4.28% to 4.49% (rising yields means falling bond prices).

In the UK, political events continued to dominate with the introduction of another new prime minister (Rishi Sunak) and a fiscal U-turn bringing some stability to the market as the Bank of England (BoE) ended its gilt purchase programme. Yields remained high but fell compared to September. The UK 10-year yield decreased from 4.15% to 3.51% and 2-year fell from 3.92% to 3.27%.

Elsewhere, even though the European Central Bank raised rates by an expected 0.75%, the communication was interpreted as dovish, noting increasing concern over the region's growth outlook. Core European yields were little changed over the month, while peripheral markets outperformed. Activity data was weak across the region, with manufacturing PMIs in particular deep into contractionary territory.

Eurozone CPI came to a new all-time high of 10.7% y/y in October, while inflation in Germany hit 10.4%, driven mainly by rising energy prices. Germany's 10-year yield edged up from 2.11% to 2.14%.

Although US and European government bond yields were marginally higher over the month, credit spreads tightened and so credit largely outperformed government bonds.

The UK credit market was a clear outperformer, driven by domestic politics which restored some calm to the markets.

US high yield also performed well, as did European investment grade and high yield. On the flipside, emerging markets and US investment grade credit saw negative returns. (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 US dollar's rally slowed this month. Against its G-10 peers, the dollar strengthened only against risk-off currencies such as the Swiss franc and the Japanese yen.

While the MSCI World gained 7.2% in October (in US dollars), convertible bonds did not benefit from this significant tail wind. The Refinitiv Global Focus index rose by just 2.3%. With an upside participation of under 40%, convertibles have not displayed their traditional convexity when measured against the broad global stock market. (Convexity is convertible bonds' ability to limit downside risk due to their bond floor, while at the same time benefiting from a substantial part of stock market rallies.)

The convertible bond primary market was depressed in the first half of the year but came back to life in the last few months. However, in October it was back to just $1.5 billion of new paper coming to the market.

COMMODITIES

The S&P GSCI Index recorded a positive performance in October, with higher energy prices offsetting weaker prices for agriculture and precious metals. Energy was the best-performing component of the index, with sharply higher prices for heating oil, gas oil and unleaded gasoline offsetting a fall in the price of natural gas.

Within agriculture, cotton and coffee prices were sharply lower, while sugar, soybeans and corn achieved modest price gains. Within precious metals, silver achieved a small price gain while the price of gold was modestly lower. Within the industrial metals component, higher prices for aluminium, lead and nickel helped to offset weaker prices for zinc and copper.

TOTAL RETURNS (NET) % – TO END OCTOBER 2022

	1 MONTH			12 MONTHS		
Equities	**USD**	**EUR**	**GBP**	**USD**	**EUR**	**GBP**
MSCI World	7.2	6.2	3.9	-18.5	-4.5	-2.9
MSCI World Value	9.7	8.7	6.4	-8.4	7.3	9.1
MSCI World Growth	4.6	3.7	1.4	-28.4	-16.1	-14.7
MSCI World Smaller Companies	8.0	7.1	4.8	-21.8	-8.4	-6.9
MSCI Emerging Markets	-3.1	-4.0	-6.1	-31.0	-19.2	-17.9
MSCI AC Asia ex Japan	-6.1	-6.9	-9.0	-34.0	-22.7	-21.4
S&P500	8.1	7.2	4.8	-14.6	-0.0	1.7
MSCI EMU	8.9	7.9	5.6	-27.4	-15.0	-13.5
FTSE Europe ex UK	7.7	6.7	4.4	-25.8	-13.1	-11.6
FTSE All-Share	6.4	5.4	3.1	-18.3	-4.4	-2.8
TOPIX*	2.4	1.5	-0.8	-24.1	-11.1	-9.6

	1 MONTH			12 MONTHS		
Government Bonds	**USD**	**EUR**	**GBP**	**USD**	**EUR**	**GBP**
JPM GBI US All Mats	-1.3	-2.2	-4.3	-13.7	1.1	2.8
JPM GBI UK All Mats	6.5	5.5	3.2	-35.5	-24.5	-23.2
JPM GBI Japan All Mats**	-2.7	-3.6	-5.7	-26.3	-13.7	-12.2
JPM GBI Germany All Traded	0.3	-0.6	-2.7	-27.6	-15.2	-13.8
Corporate Bonds	**USD**	**EUR**	**GBP**	**USD**	**EUR**	**GBP**
BofA ML Global Broad Market Corporate	0.1	-1.5	-3.6	-21.4	-8.5	-7.0
BofA ML US Corporate Master	-0.9	-2.4	-4.5	-19.1	-5.9	-4.3
BofA ML EMU Corporate ex T1 (5-10Y)	2.1	0.5	-1.7	-30.6	-19.3	-17.9
BofA ML £ Non-Gilts	9.0	7.3	5.0	-31.3	-20.0	-18.7
Non-investment Grade Bonds	**USD**	**EUR**	**GBP**	**USD**	**EUR**	**GBP**
BofA ML Global High Yield	2.4	0.8	-1.4	-17.0	-3.4	-1.8
BofA ML Euro High Yield	0.9	0.0	-2.2	-14.6	0.0	1.7

Source: Thomson Reuters DataStream.
Local currency returns in October 2022: *5.1%, **-0.1%.
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