



A Month



in the Markets

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DECEMBER 2023

In this latest edition our Multi Asset Solutions Team look at the challenges investment markets faced in November. Shares experienced their biggest monthly rally in three years fuelled by investor hopes that central banks are close to winning their battle with inflation.¹

Market Overview

There is growing optimism that the global economy may be heading for a “soft landing”, which is when central banks bring inflation under control without causing a recession, which is defined as two consecutive quarters of negative growth.²

The upswing in markets began on the first day of the month when the US Federal Reserve (Fed), opted to hold interest rates at their current levels rather than raise them. Fed Chair Jerome Powell's comments were interpreted by investors to mean that interest rate hikes may be drawing to an end, fuelling a stock market rally.³

Bond markets also thrived this month. Highly rated bonds issued by governments around the world made their best monthly returns since 1997⁴, while US bonds experienced their best month since the 1980s.⁵

Despite a dysfunctional October in which bond yields soared to historic highs, thereby driving down their

prices because bond prices and yields move in opposite directions, November's performance was positive enough to drag US bond prices into positive territory for the year overall.⁶

Not all markets benefitted. Shares in companies based in mainland China were the worst performers among major stock markets this month, with persistent investor concerns hindering performance. This served to only deepen existing difficulties for China's stock market, as the CSI 300 Index, which tracks the performance of the 300 largest companies listed on the Shanghai and Shenzhen stock exchanges, has fallen for four consecutive months.⁷

The Organisation for Economic Cooperation and Development (OECD), a trade body comprised of 38 countries, estimates that global economic growth will slow in 2024 – although not to the point of recession

– before accelerating in 2025. However, this forecast depends on central banks successfully balancing their priorities of fighting inflation and enabling growth.⁸

Baffled by bonds?

It may be worth taking some time to learn the basics to help you better understand how they work. Visit our [Basics on Bonds page](#) for more information.

UK and Europe

In an interview published near the end of November, the Governor of the Bank of England (BoE), Andrew Bailey, stressed that it is too early to consider interest rate cuts.⁹ However, signs are emerging that inflation may be being brought under control. Data released in mid-November showed that inflation in October dropped to its lowest level in two years due to cheaper gas and electricity costs, with prices experiencing their steepest monthly decline since 1992.¹⁰

A survey of business leaders indicated that the UK private sector returned to growth in November after contracting for three months, thanks to a recovery in the services industry and a less severe decline in the manufacturing sector.¹¹ While data released this month showed that retail sales unexpectedly fell in October, consumer confidence nonetheless improved.¹²

Eurozone inflation slowed more than expected in November, bringing the European Central Bank (ECB) closer to its 2% inflation target. While investors had previously been predicting that the central bank would begin cutting interest rates in June 2024, the pace of inflation's decline prompted them to shift their prediction back to April.¹³ Despite this, ECB President Christine Lagarde stressed in late November that the central bank's fight against inflation is not yet over.¹⁴

The debate over interest rates is occurring as Eurozone growth continues to trend downwards, suggesting that the region's economy will enter a recession in the fourth quarter.¹⁵ Business activity fell and firms cut headcount for the first time since January 2021, when COVID-19 lockdowns were in full effect.¹⁶

US

Data released on the last day of November revealed that a measure of inflation favoured by the Fed fell in

October, leading investors to believe that interest rate cuts may come sooner rather than later. Investors now feel there's a 74% chance of a rate cut by May, while only a month ago this figure sat at 38%. Figures released this month showed that inflation is rising at its slowest pace since September 2021.¹⁷

On 30 November, data was released which showed that consumer spending, which accounts for more than two-thirds of US economic activity, eased in October. This was driven by the fact that high interest rates are encouraging consumers to save rather than spend, while growing economic uncertainty is encouraging caution.¹⁸

The US jobs market also appears to be cooling down, as the number of Americans on jobless rolls surged to a two-year high in mid-November.¹⁹ This suggests that high interest rates may be beginning to slow the economy down, despite the fact that figures released in November showed that growth in the third quarter was the fastest in nearly two years.²⁰

Asia Pacific

A survey of business leaders indicated that manufacturing activity in China shrank for a second consecutive month, while service sector activity dropped to its lowest level this year. Hindered by a drop in both local and foreign demand, as well as a property crisis that has damaged confidence, the slowdown suggests that more stimulus measures will be needed to boost economic growth.²¹

While the economy is forecast to reach its 5% growth target this year, Chinese government advisers are set to recommend that next year's growth targets be lowered to 4.5-5.5%. These advisers will advocate interest rate cuts in a bid to stimulate demand, and that the state should invest more – particularly in infrastructure – to drive growth.²²

Japan's Nikkei 225, the nation's benchmark stock market index, surged to its highest peak since 1990 and enjoyed its best overall month in two years. Japanese companies reported robust earnings during the month as export-orientated firms benefitted from a weaker yen that made their products and services cheaper – and therefore more competitive – overseas.²³

After shrinking for the time in three quarters during the third quarter of 2023, economists expect Japan's economy to return to growth in the fourth quarter due to a recovery in demand and an influx of foreign tourists.²⁴

Bank of Japan (BoJ) officials have attempted to cool investor expectations that the central bank will break with its commitment to negative interest rates, which have made the nation an outlier among developed economies. Although a key measure of inflation has remained outside the BoJ's 2% target for 19 months, policymakers stressed that they want to wait until wage increases have sustainably outpaced inflation before reassessing policy.²⁵

Outlook

We expect inflation to remain sticky. Major central banks may find it more challenging to cut inflation from 4% to 2% than from 10% to 6%, especially with less room to manoeuvre on interest rates because of slowing economic growth.

While we anticipate interest rate cuts, we believe the market is too aggressive in its expectations for next year. Investors are anticipating five interest rate cuts in the US next year, with some warning that the Fed needs to act soon to avoid a sharp economic downturn.²⁶

We believe the global economy will continue to grow without tipping into a recession, given that central banks seem willing to provide support when needed. Our expectation is that the US economy will outperform major advanced economies.

Our cautious view on shares remains unchanged and we still prefer bonds as an asset class. We will consider diversifying some of the fund's bond holdings through buying different types of bonds, or bonds that take different amounts of time to reach maturity.

All data as at 30 November 2023.

¹ The Financial Times, 31 November 2023

² Bloomberg, 17 November 2023

³ Reuters, 1 November 2023

⁴ Reuters, 30 November 2023

⁵ Bloomberg, 30 November 2023

⁶ Business Insider, 29 November 2023

⁷ Bloomberg, 30 November 2023

⁸ Reuters, 29 November 2023

⁹ Daily Focus, 29 November 2023

¹⁰ The Guardian, 15 November 2023

¹¹ S&P Global/CIPS Flash UK PMI, 23 November 2023

¹² Reuters, 24 November 2023

¹³ Bloomberg, 30 November 2023

¹⁴ Reuters, 27 November 2023

¹⁵ The Financial Times, 23 November 2023

¹⁶ Reuters, 23 November 2023

¹⁷ Yahoo! Finance, 30 November 2023

¹⁸ Benzinga, 29 November 2023

¹⁹ Reuters, 30 November 2023

²⁰ Bloomberg, 29 November 2023

²¹ South China Morning Post, 30 November 2023

²² Reuters, 22 November 2023

²³ Reuters, 30 November 2023

²⁴ Wall Street Journal, 15 November 2023

²⁵ Bloomberg, 29 November 2023

²⁶ CNBC, 29 November 2023

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Portfolio Positioning for the Santander Atlas Portfolios

The funds had a good month, benefitting both from holding more bonds that take longer to mature than the benchmark and the broad rally in financial markets. A surge in gold prices to a six-month high²⁷ also boosted returns.

There was a clear preference for bonds over shares in the funds' holdings. Among shares, there was no particular bias towards any region or sector.

We believe shares have risen in value too quickly and are now experiencing a temporary boost, known as a relief rally, before they will stabilise. Although the value of stock markets might rise in the short term, we're leaning towards a more cautious approach due to the potential risks.

Within bonds, our preference for government bonds has diminished slightly since October following the drop in yields.

Similarly, our enthusiasm for company bonds – particularly high-yield bonds – has marginally decreased. This is because you now earn less extra return on higher-yield bonds compared to government bonds. We anticipate a potential opportunity to acquire corporate bonds at lower prices.

We believe high-quality companies issuing bonds are still fundamentally strong, with no notable increase in debt defaults.

Ultimately, the shifts in our perspective are minor and our broad outlook remains unchanged.

Find out more

Learn more, visit our website [here](#) for more insights into financial markets.

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Investors and potential investors should read and note the relevant risk warnings in the relevant Fund Prospectuses and NURS KIIs before making any investment decisions.

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