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A Month in the Markets

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In this latest edition our Multi Asset Solutions Team look at the challenges investment markets faced in November. After a challenging year so far, stock markets gained for a second month and bond prices rose.

Market Overview

Investors experienced somewhat of a breather during November, as stock markets gained for a second month and bond prices rose.[1] This is mainly thanks to the US Federal Reserve (Fed) indicating that the size of interest rate increases might be reduced[2], and US inflation showing signs of cooling.

Speculation that China was planning to reopen its economy amid the country's strict zero-COVID-19 strategy spurred a rally in the nation's shares and boosted the offshore yuan earlier in the month.[3] The policy is characterised by tight lockdowns and mass testing, shutting off large parts of the economy and exacerbating supply chain problems caused by the war in Ukraine.

Emerging market shares had their best month since May 2009, and their currencies strengthened as the US dollar weakened in November.[4] The US dollar was sunk by bets that the Fed would pivot from aggressive interest rate increases.

The S&P Global Developed Sovereign Bond Index, a measure of developed economies' debt issuance, returned 4.6% in November, paring US dollar losses this year to 17.2%.[5] Emerging market bonds denominated in US dollars advanced the most since the global financial crisis[6], outperforming US debt.

UK and Europe

The new UK government, led by Prime Minister Rishi Sunak, is trying to restore confidence even as the economy struggles with a cost of living crisis and soaring inflation. During the month it unveiled a new budget that proposed to increase taxes and cut government spending. The Bank of England raised rates for the eighth time since last year, most recently by 0.75%, to 3%. This is the biggest hike in 33 years.[7]

Pound sterling gained nearly 5% against the US dollar in November – the biggest monthly increase since July 2020.[8] This is largely due to the US dollar weakening after the Fed signalled a downward shift in interest rate increases. Pound sterling has recovered from the record low it reached in September, when the previous UK Government announced £45 billion in unfunded tax cuts.[9]

Commodity shares helped lift the FTSE 100 Index to its monthly performance in two years.[10] The index rose by 6.7%, while the domestically focused FTSE 250 Mid-capitalisation Index increased by 7.1%.[11]

European markets were on the brink of an upward trajectory in November, having gained almost 20% from the lows reached in September.[12] This included Germany's DAX[13], as investors were encouraged by the prospect of less restrictive US monetary policy.

European Central Bank policymakers are concerned that inflation may become entrenched. They also want to discuss the unwinding of its government debt purchase programme that was used to stimulate economic growth and flood financial systems with cash.[14] Some policymakers supported a smaller 0.50% hike at its October meeting, when rates were increased 0.75% to 1.75%, minutes of the gathering showed.[15]

US

The US economy expanded faster in the third quarter than initially estimated, accelerating an annualised 2.9%, compared with an October reading of 2.6%.[16] This was thanks to consumer spending holding up well and businesses investing in equipment.

Stock markets had a positive run, with the S&P 500, Dow Jones and Nasdaq indices all rising over the month, while yields on Treasury bills dropped.[17] Prices on bonds move inversely to yields. After trading at 4% or higher for 23 days this year, yields on 10-year Treasury bills closed November at 3.7%.[18]

Asia Pacific

Many markets across the region rallied as investors expressed positive sentiment in anticipation of China potentially reopening its economy. They were also encouraged by signals that the Fed may lighten the severity of its interest rate increases. The MSCI Asia Pacific Index gained about 14% in November, its biggest jump since 1998.[19]

Investors had reason to be optimistic during the month as some pandemic restrictions in China were eased. The country also unveiled measures to bail out cash-strapped property developers.[20] Hong Kong's Hang Seng Index rose 27% in November – the most since October 1998 – outperforming their global peers.[21]

In Japan, unburdened by the fight against inflation and rising interest rates, the Nikkei 225 gained during November, on prospects that easier monetary policy in the US would boost Japanese corporate profits.[22]

Outlook

While we have seen stock markets rise somewhat from their lows, we remain cautious albeit less so than earlier in the year. We're not convinced yet that the correction we've experienced means we're in the recovery phase, and will continue to monitor this closely.

Our central view is that central banks will keep hiking interest rates until inflation is firmly under control. There is still uncertainty with the war in Ukraine, persistent supply chain issues, worries over China and the outlook for global economic growth.

All data as at 1 December 2022.

[1] Bloomberg, 30 November 2022
[2] Wall Street Journal, 23 November 2022
[3] The Economist, 9 November 2022
[4] Reuters, 30 November 2022
[5] S&P Global Developed Sovereign Bond Index, 30 November 2022
[6] Bloomberg, 29 November 2022
[7] CNBC, 3 November 2022
[8] Reuters, 30 November 2022
[9] Reuters, 23 September 2022
[10] Reuters, 30 November 2022
[11] London Stock Exchange, 30 November 2022
[12] Forbes, 30 November 2022
[13] Bloomberg, 15 November 2022
[14] European Central Bank, 30 November 2022
[15] Reuters, 24 November 2022
[16] CNN Business, 30 November 2022
[17] Investing.com, 30 November 2022
[18] Bloomberg, 22 November 2022
[19] Bloomberg, 30 November 2022
[20] South China Morning Post, 30 November 2022
[21] Wall Street Journal, 30 November 2022
[22] Reuters, 29 November 2022