



# Global Matters | Monthly

Market Update

October 2022

*With us, investing is personal* 

# Contents

# Global Market Review & Outlook

After the sharp falls in September, there was some respite for investors in October, with a strong rally in equity markets. Led by the US, +8.1%, the MSCI World Index of developed markets returned 7.2% in the month, recovering all the ground lost in Q3. However, the returns were unevenly distributed, with value stocks substantially outperforming growth stocks, while Asia was weak due to a collapse in share prices in China. The MSCI World Value Index returned 9.7% in the month, compared with MSCI Growth 4.6%, while the MSCI China index returned -16.8% and the Hang Seng index in Hong Kong fell by 14.7%. This was instrumental in the return of -3.1% in the MSCI Emerging Markets Index. The China and Hong Kong markets have fallen by 63% and 53% respectively from their peaks in February 2021.

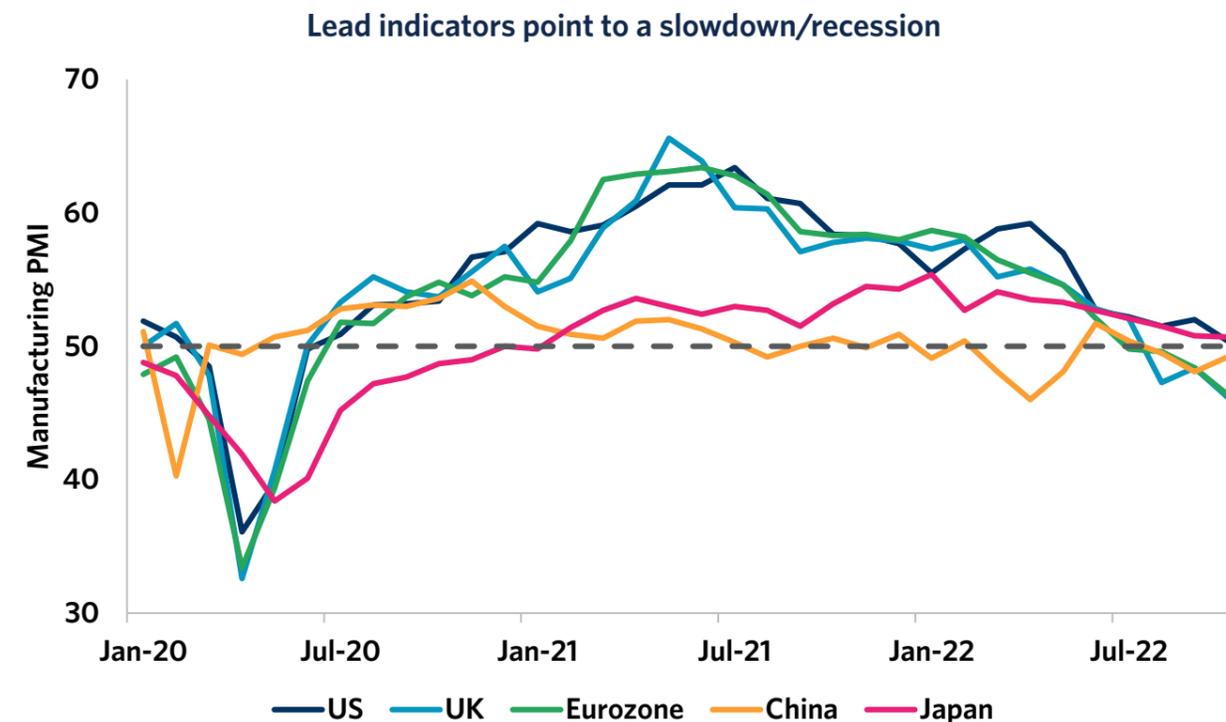
The steep rise in US government bond yields in the preceding two months continued into October, with the yield on 10-year Treasuries rising from 3.83% to 4.05% over the month, resulting in a return of -1.3% in US government bonds. The rise in yields was caused by higher inflation expectations, with the 10-year breakeven rate moving up from 2.15% to 2.51% in October; real yields fell by 14bps in the month. As a result, US Treasury Inflation Protected bonds, +1.3%, outperformed nominal bonds. Other government bond markets outperformed treasuries in local currency terms, with yields stabilising in Europe while the end of the Truss 'growth plan' in the UK and the return of technocrats and fiscal orthodoxy under new Prime Minister Sunak effectively unwound the previous month's chaos in UK gilts. Yields on 2-year gilts dropped by a full percentage point in October to 3.16%, compared with 4.55% following the disastrous mini-budget in September, with 10-year bond yields down to 3.5%, a drop of 58bps; in both cases the yields are back to levels prevailing immediately prior to the fiscal fiasco, suggesting that the risk premium attached to UK assets will not be long-lasting. The prerequisite of financial stability overrides the state of the economy, and the UK now faces a procyclical policy of higher taxes and reduced public spending as the economy enters recession.

European and UK markets were helped by further sharp falls in natural gas prices, down by close to half in October, taking the falls since the peak in August to over 70%, as the EU successfully refilled its gas storage facilities ahead of winter and mild weather reduced consumption. The worst fears of shortages and astronomically high prices have been abated. However, inflation rates continued to surprise on the upside, with both headline and core CPI in the Euro Area and UK moving to new highs for this cycle. Euro Area Consumer Price Index (CPI) is now 10.7%, with core at 5.0%, while in the UK the figures are 10.1% and 6.5% respectively, illustrating the scale of the task faced by central banks in bringing inflation down to target levels of 2%.

The European Central Bank (ECB) responded to the task with a second consecutive hike of 75bps to 1.5% in its policy rate, but adopted a somewhat more dovish tone, pointing to 'substantial progress in withdrawing monetary policy accommodation', and to slowing economic activity with 'risks clearly on the downside'.

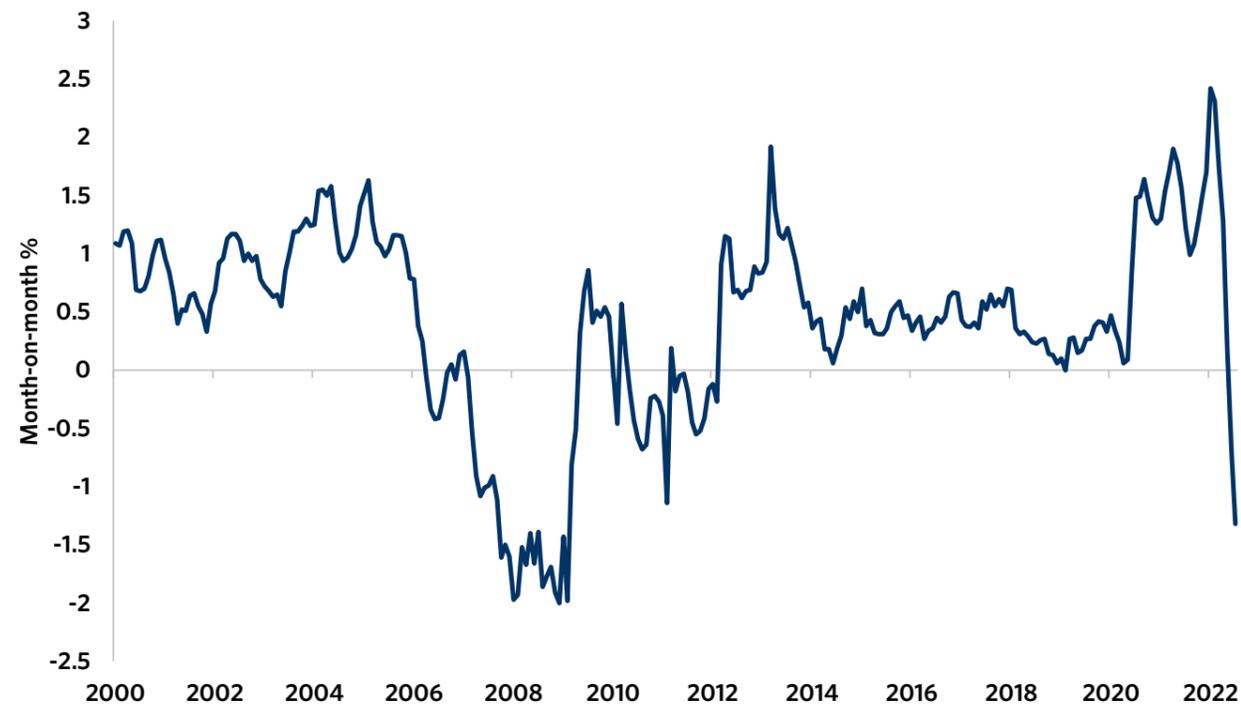
While indicating further rate rises ahead, the ECB, unlike the Fed and Bank of England, has no immediate intention to run off its huge balance sheet by reversing quantitative easing, and will continue to reinvest maturing securities bought under its asset purchase programmes.

More generally there appeared to be a less hawkish mood among several central banks following the sharp falls in equity and bond markets and growing evidence of a slowdown in economies. Leading indicators of activity released in October almost universally point to slowing growth; Purchasing Managers' Indices in both manufacturing and services continue to weaken across all the major economies, with data close to or below the threshold between expansion and contraction. Recession in 2023 is increasingly likely, with Europe and the UK most vulnerable, in large part due to their much greater exposure to the sharp rise in energy prices following Russia's invasion of Ukraine.



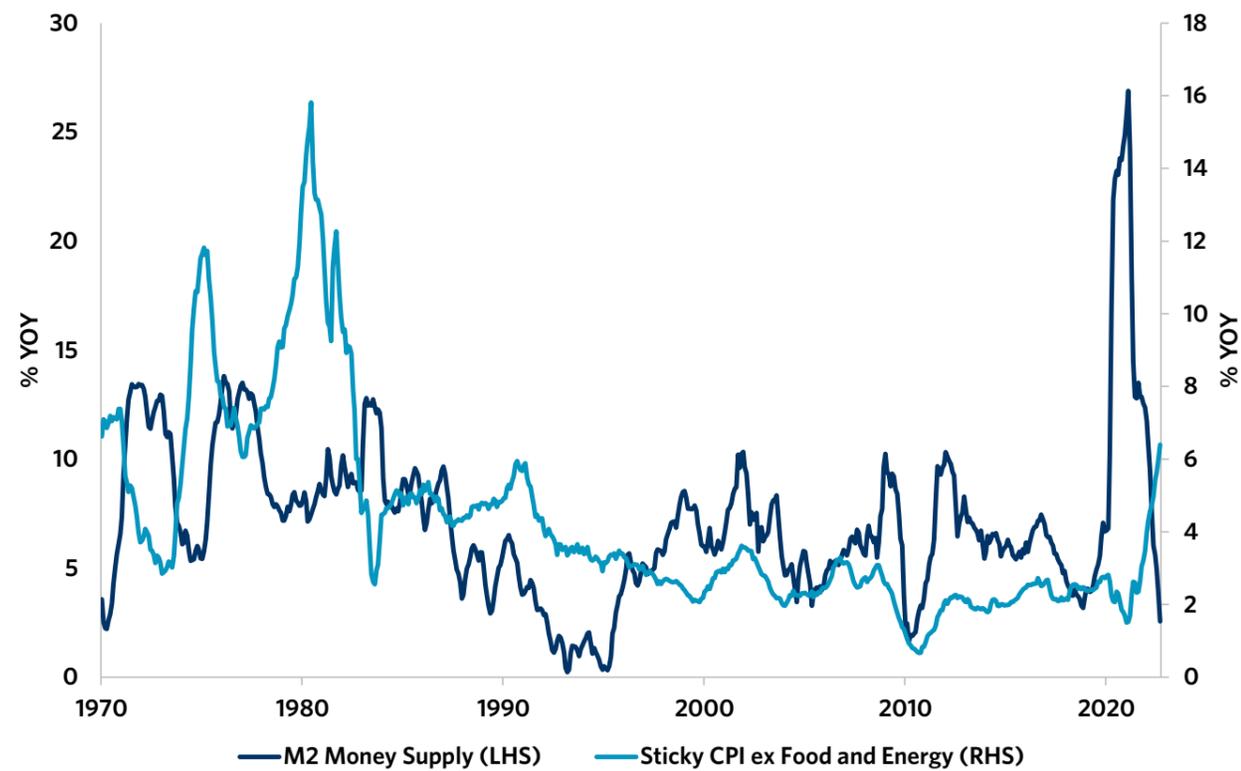
Source: Momentum Global Investment Management, Bloomberg Finance L.P. Data as at 31 October 2022.

### US house prices in steepest fall since GFC



Source: Momentum Global Investment Management, Bloomberg Finance L.P. Data as at August 2022.

### Dollar liquidity in sharp decline - inflation to follow?



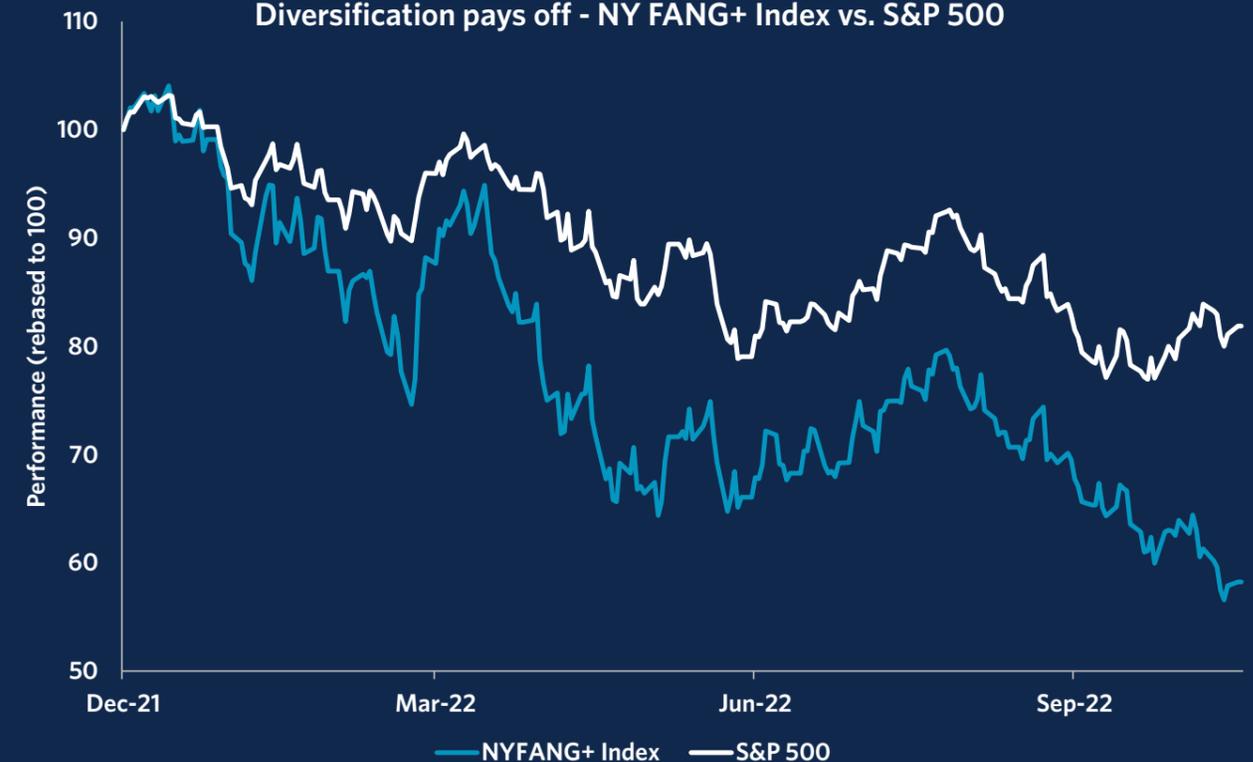
Source: Momentum Global Investment Management, Bloomberg Finance L.P. Data as at September 2022.

The US is better insulated from the energy crisis; GDP grew by 2.6% in Q3, and the labour market remains strong, with unemployment at historically low levels. But there is ample evidence of weakness ahead, especially in key interest rate sensitive areas such as housing, where a sharp downturn is underway. The key 30-year mortgage rate has moved up from 3% a year ago to over 7%, house price indices are in decline and activity levels are slowing. The latest inflation data showed a slight dip in headline CPI to 8.2% in September, but core CPI hit a new high in this cycle of 6.6% year-on-year, with a rise of 0.6% in the month. The Fed remains focused on reining in inflation and is intent on further tightening of policy, increasingly reflected in a collapse in the rate of growth of money supply in the US: M2, a widely used measure of broad money in the US, has contracted in absolute terms in the past six months. A serious slowdown in growth is inevitably underway, a recession next year highly likely.

Global growth continues to be hampered by China's slowdown, with the crash in the property market, the effect of tightened regulations in its digital economy, Beijing's zero-Covid policy, and slowing exports restraining growth. Although third quarter GDP expanded by 3.9% year-on-year, 2022 is likely to produce the slowest growth rate since the 1970s, with the exception of the pandemic-ravaged 2020. China's equity market has been under pressure all year, and reacted badly to the outcome of the 20th National Congress which resulted in President Xi's leadership and power being consolidated, and the Politburo Standing Committee of Chinese leaders being purged of all but hardline Xi supporters. The drive to common prosperity and wealth redistribution was reinforced, with investors concerned that less friendly business policies will continue to be pursued and a change of direction on Covid less likely.

With interest rates and bond yields rising sharply this year, valuations of all asset classes have been under pressure. Equities now appear much more attractively valued than a year ago, but as the world enters a slowdown the focus could well shift to the resilience of corporate earnings. The third quarter earnings results in the US have been mixed, with some sectors holding up well but others disappointing. Big tech stocks mostly fell into the latter category, with earnings disappointments from Meta, Alphabet, Microsoft, Amazon and others that had benefited substantially from lockdown-induced growth in 2020 and 2021. This was reflected in a fall in October of 6.4% in the NY FANG index of big tech stocks in the US, taking the decline year-to-date to 41%.

### Diversification pays off - NY FANG+ Index vs. S&P 500



Source: Momentum Global Investment Management, Bloomberg Finance L.P. Data as at 7 November 2022.

The peak of inflation is now within sight, albeit with considerable uncertainty around a) the further policy tightening required to bring it sustainably to target levels of around 2%; b) the damage inflicted on economic activity to reach that goal; and c) the pace at which inflation will fall. However, by the end of 2022 most of the Fed's rate hiking cycle will almost certainly be behind us, with markets and the Fed anticipating a peak in Fed Funds of around 5% in the first half of next year. Given the interest rate sensitivity of substantial parts of the economy, policy at this level is likely to be highly contractionary, and the risks could well be of overkill, particularly at a time when economies are under serious pressure from surging food and energy prices, falling disposable incomes and weak consumer and business confidence.

There are risks of unintended consequences of aggressive central bank tightening, especially as liquidity becomes scarce, but valuations of bonds are much more favourable now than for most of the post Global Financial Crisis period, and equities are discounting considerable uncertainty. There are material headwinds for corporate earnings in the year ahead and some disappointments are likely, but the longer-term recovery and upside potential is now significant. It might be too early to expect markets to begin to discount that recovery but timing the turn remains an elusive skill for nearly all investors; much better in our view to take a longer-term perspective, staying invested with broad portfolio diversification, to avoid missing out on that recovery.

***“The peak of inflation is now within sight, albeit with considerable uncertainty around further policy tightening required to bring it sustainably to target levels of around 2%, the damage inflicted on economic activity to reach that goal and the pace at which inflation will fall”***



# Market Performance - Global (local returns) as at 31 October 2022

Asset Class / Region	Index	Ccy	1 month	3 months	YTD	12 months
<b>Developed Markets Equities</b>						
United States	S&P 500 NR	USD	8.1%	-6.0%	-18.0%	-15.0%
United Kingdom	MSCI UK NR	GBP	2.9%	-3.2%	1.8%	4.4%
Continental Europe	MSCI Europe ex UK NR	EUR	6.6%	-5.2%	-15.5%	-13.1%
Japan	Topix TR	JPY	5.1%	0.5%	-0.7%	-1.0%
Asia Pacific (ex Japan)	MSCI AC Asia Pacific ex Japan NR	USD	-4.2%	-16.4%	-29.5%	-31.2%
Global	MSCI World NR	USD	7.2%	-6.8%	-20.1%	-18.5%
<b>Emerging Markets Equities</b>						
Emerging Europe	MSCI EM Europe NR	USD	15.7%	0.9%	-76.7%	-79.2%
Emerging Asia	MSCI EM Asia NR	USD	-5.9%	-18.0%	-33.0%	-34.5%
Emerging Latin America	MSCI EM Latin America NR	USD	9.7%	9.0%	13.0%	16.1%
China	MSCI EM China NR	USD	-8.4%	-17.0%	-33.6%	-37.8%
BRICs	MSCI BRIC NR	USD	-16.8%	-28.8%	-42.8%	-47.9%
Global emerging markets	MSCI Emerging Markets NR	USD	-3.1%	-14.1%	-29.4%	-31.0%
<b>Bonds</b>						
US Treasuries	JP Morgan United States Government Bond TR	USD	-1.3%	-7.0%	-13.8%	-13.7%
US Treasuries (inflation protected)	BBgBarc US Government Inflation Linked TR	USD	1.3%	-8.2%	-13.3%	-12.2%
US Corporate (investment grade)	BBgBarc US Corporate Investment Grade TR	USD	-1.0%	-9.0%	-19.6%	-19.6%
US High Yield	BBgBarc US High Yield 2% Issuer Cap TR	USD	2.6%	-3.7%	-12.5%	-11.8%
UK Gilts	JP Morgan UK Government Bond TR	GBP	3.2%	-12.8%	-23.5%	-23.2%
UK Corporate (investment grade)	ICE BofAML Sterling Non-Gilt TR	GBP	4.5%	-10.1%	-19.1%	-19.0%
Euro Government Bonds	ICE BofAML Euro Government TR	EUR	0.2%	-8.7%	-16.6%	-16.5%
Euro Corporate (investment grade)	BBgBarc Euro Aggregate Corporate TR	EUR	0.1%	-7.3%	-14.5%	-14.4%
Euro High Yield	BBgBarc European High Yield 3% Constrained TR	EUR	1.8%	-3.4%	-13.2%	-12.9%
Japanese Government	JP Morgan Japan Government Bond TR	JPY	-0.1%	-1.5%	-3.9%	-3.9%
Australian Government	JP Morgan Australia GBI TR	AUD	1.3%	-3.0%	-9.7%	-7.9%
Global Government Bonds	JP Morgan Global GBI	USD	-0.6%	-9.4%	-20.8%	-21.2%
Global Bonds	ICE BofAML Global Broad Market	USD	-0.6%	-9.7%	-20.8%	-21.3%
Global Convertible Bonds	ICE BofAML Global Convertibles	USD	2.1%	-4.0%	-19.6%	-22.6%
Emerging Market Bonds	JP Morgan EMBI+ (Hard currency)	USD	0.4%	-8.8%	-30.4%	-30.5%

Asset Class / Region	Index	Ccy	1 month	3 months	YTD	12 months
<b>Property</b>						
US Property Securities	MSCI US REIT NR	USD	4.8%	-13.6%	-25.4%	-19.7%
Australian Property Securities	S&P/ASX 200 A-REIT Index TR	AUD	9.9%	-9.2%	-23.9%	-17.4%
Asia Property Securities	S&P Asia Property 40 Index NR	USD	-8.0%	-18.9%	-23.1%	-27.0%
Global Property Securities	S&P Global Property USD TR	USD	1.9%	-15.6%	-27.4%	-24.7%
<b>Currencies</b>						
Euro		USD	0.8%	-3.3%	-13.1%	-14.5%
UK Pound Sterling		USD	2.7%	-5.8%	-15.2%	-16.2%
Japanese Yen		USD	-2.7%	-10.4%	-22.6%	-23.3%
Australian Dollar		USD	0.0%	-8.4%	-11.9%	-14.9%
South African Rand		USD	-1.5%	-9.4%	-13.1%	-17.0%
<b>Commodities &amp; Alternatives</b>						
Commodities	RICI TR	USD	3.1%	-4.9%	18.1%	16.1%
Agricultural Commodities	RICI Agriculture TR	USD	-0.2%	0.0%	6.4%	11.0%
Oil	Brent Crude Oil	USD	7.8%	-13.8%	21.9%	12.4%
Gold	Gold Spot	USD	-1.6%	-7.5%	-10.7%	-8.4%
Hedge funds	HFRX Global Hedge Fund	USD	0.0%*	0.0%*	-4.5%*	-5.3%*
<b>Interest Rates</b>						
						<b>Current Rate</b>
United States						3.25%
United Kingdom						2.25%
Eurozone						2.00%
Japan						-0.10%
Australia						2.85%
South Africa						6.25%

Source: Bloomberg Finance L.P., Momentum Global Investment Management. Past performance is not indicative of future returns.  
\*estimate.

# Market Performance - UK (all returns GBP) as at 31 October 2022

Asset Class / Region	Index	Local Ccy	1 month	3 months	YTD	12 months
<b>Equities</b>						
UK - All Cap	MSCI UK NR	GBP	2.9%	-3.2%	1.8%	4.4%
UK - Large Cap	MSCI UK Large Cap NR	GBP	2.4%	-2.2%	8.9%	11.7%
UK - Mid Cap	MSCI UK Mid Cap NR	GBP	5.0%	-11.2%	-27.2%	-24.8%
UK - Small Cap	MSCI Small Cap NR	GBP	4.3%	-12.5%	-26.6%	-25.7%
United States	S&P 500 NR	USD	4.9%	-0.2%	-3.2%	1.3%
Continental Europe	MSCI Europe ex UK NR	EUR	4.5%	-2.4%	-13.4%	-11.3%
Japan	Topix TR	JPY	-0.7%	-4.3%	-9.5%*	-9.4%
Asia Pacific (ex Japan)	MSCI AC Asia Pacific ex Japan NR	USD	-7.0%	-11.3%	-16.8%	-18.0%
Global developed markets	MSCI World NR	USD	4.0%	-1.2%	-5.7%	-2.8%
Global emerging markets	MSCI Emerging Markets NR	USD	-6.0%	-8.9%	-16.7%	-17.8%
<b>Bonds</b>						
Gilts - All	ICE BofAML UK Gilt TR	GBP	3.3%	-13.1%	-23.9%	-23.7%
Gilts - Under 5 years	ICE BofAML UK Gilt TR 0-5 years	GBP	2.5%	-3.3%	-4.7%	-4.6%
Gilts - 5 to 15 years	ICE BofAML UK Gilt TR 5-15 years	GBP	4.7%	-11.9%	-17.4%	-16.8%
Gilts - Over 15 years	ICE BofAML UK Gilt TR 15+ years	GBP	2.4%	-20.0%	-37.5%	-37.5%
Index Linked Gilts - All	ICE BofAML UK Gilt Inflation-Linked TR	GBP	-4.6%	-18.4%	-33.5%	-33.4%
Index Linked Gilts - 5 to 15 years	ICE BofAML UK Gilt Inflation-Linked TR 5-15 years	GBP	1.2%	-12.4%	-16.0%	-15.3%
Index Linked Gilts - Over 15 years	ICE BofAML UK Gilt Inflation-Linked TR 15+ years	GBP	-9.1%	-24.3%	-44.6%	-44.8%
UK Corporate (investment grade)	ICE BofAML Sterling Non-Gilt TR	GBP	4.5%	-10.1%	-19.1%	-19.0%
US Treasuries	JP Morgan US Government Bond TR	USD	-4.3%	-1.7%	1.4%	2.8%
US Corporate (investment grade)	BBgBarc US Corporate Investment Grade TR	USD	-4.0%	-3.8%	-5.4%	-4.2%
US High Yield	BBgBarc US High Yield 2% Issuer Cap TR	USD	2.6%	-3.7%	-12.5%	-11.8%
Euro Government Bonds	ICE BofAML Euro Government TR	EUR	0.2%	-8.7%	-16.6%	-16.5%
Euro Corporate (investment grade)	BBgBarc Euro Aggregate Corporate TR	EUR	0.1%	-7.3%	-14.5%	-14.4%
Euro High Yield	BBgBarc European High Yield 3% Constrained TR	EUR	1.8%	-3.4%	-13.2%	-12.9%
Global Government Bonds	JP Morgan Global GBI	GBP	-3.5%	-3.9%	-6.5%	-6.1%
Global Bonds	ICE BofAML Global Broad Market	GBP	-0.6%	-9.7%	-20.8%	-21.3%
Global Convertible Bonds	ICE BofAML Global Convertibles	GBP	2.1%	-4.0%	-19.6%	-22.6%
Emerging Market Bonds	JP Morgan EMBI+ (Hard currency)	GBP	-2.5%	-3.2%	-17.9%	-17.2%

Asset Class / Region	Index	Local Ccy	1 month	3 months	YTD	12 months
<b>Property</b>						
Global Property Securities	S&P Global Property TR	GBP	-1.1%	-10.5%	-14.3%	-10.2%
<b>Currencies</b>						
Euro		GBP	-1.8%	2.7%	2.5%	2.1%
US Dollar		GBP	-2.6%	6.1%	18.0%	19.4%
Japanese Yen		GBP	-5.2%	-4.9%	-8.7%	-8.5%
<b>Commodities &amp; Alternatives</b>						
Commodities	RICI TR	GBP	0.1%	0.9%	39.4%	38.4%
Agricultural Commodities	RICI Agriculture TR	GBP	-3.1%	6.1%	25.6%	32.3%
Oil	Brent Crude Oil	GBP	4.6%	-8.5%	43.9%	34.0%
Gold	Gold Spot	GBP	-4.5%	-1.8%	5.4%	9.2%
<b>Interest Rates</b>						
						<b>Current Rate</b>
United Kingdom						2.25%

Source: Bloomberg Finance L.P., Momentum Global Investment Management. Past performance is not indicative of future returns.  
\*estimate.

# Asset Allocation Views

Main Asset Classes	Change	Negative	Neutral	Positive
Equities	-	○ ○	●	○ ○
Fixed Income	-	○ ●	○	○ ○
Alternatives	-	○ ○	○	● ○
Cash	-	○ ○	○	● ○

## Our Overall View

We continue to favour equities over fixed income in recognition of their better return potential and inflation capture over time. Despite the recent sharp repricing, most fixed income remains expensive in real terms today but valuations have improved. Alternatives are attractive for their diversifying qualities as much as the return potential, while cash offers increasing return and optionality in the event of market weakness, as we have seen.

EQUITIES	Change	Negative	Neutral	Positive
Developed Equities	-	○ ○	●	○ ○
UK Equities	-	○ ○	○	● ○
European Equities	-	○ ○	●	○ ○
US Equities	-	○ ●	○	○ ○
Japanese Equities	-	○ ○	○	● ○
Emerging Market Equities	-	○ ○	●	○ ○

Equities offer improving return potential after recent weakness. Financial conditions have tightened, but by historical standards are not restrictive, and excess savings and strong labour markets should support the consumer in the near term. The UK continues to trade at a discount and is well positioned sectorally to benefit should a softer landing eventuate. We also favour Japan on valuation grounds and for the accompanying Yen exposure. European equities have cheapened but fundamental risks, notably around energy pricing, caution against increasing today.

FIXED INCOME	Change	Negative	Neutral	Positive
Government	-	○ ●	○	○ ○
Index-Linked	-	○ ●	○	○ ○
Investment Grade Corporate	▲	○ ○	●	○ ○
High Yield Corporate	-	○ ○	●	○ ○
Emerging Market Debt	-	○ ○	○	● ○
Convertible Bonds	-	○ ●	○	○ ○

Bonds remain expensive today despite sovereign yields having moved higher since June. Concerns around a slowdown in global growth have also improved their appeal. Inflation linked bond valuations have now largely normalised as anticipated inflation rolls over. In credit we prefer higher yielding, short duration bonds, including emerging markets. On the back of improved all in yields we upgrade investment grade corporates to neutral. Convertible bonds are less attractive with equities and credit presenting better opportunities today.

REAL ASSETS / ALTERNATIVES	Change	Negative	Neutral	Positive
Commodities	-	○ ○	●	○ ○
Property	-	○ ○	●	○ ○
Infrastructure	-	○ ○	○	● ○
Liquid Alternatives	-	○ ○	○	● ○
Private Equity	-	○ ○	●	○ ○

Real assets and alternatives continue to look attractive on both fundamental and valuation grounds, and as portfolio diversifiers with quality bonds taking considerable interest rate pain. Commodities remain volatile but with a slowdown in growth further gains in aggregate will be harder to come by. Private equity offers an alternative source of portfolio growth but is being pulled lower by public market valuations. Discounts abound but may not close imminently. Infrastructure enjoys structural tailwinds from digitalisation and energy transition initiatives.

CURRENCIES vs. USD	Change	Negative	Neutral	Positive
GBP	-	○ ○	○	● ○
EUR	-	○ ○	●	○ ○
JPY	-	○ ○	○	● ○
Gold	-	○ ○	●	○ ○

Sterling and Yen are mildly favoured following their recent repricing lower. The latter's (usually) diversifying qualities also retain some added portfolio attractiveness. The Euro continues to struggle in the face of relative rate expectations and more localised economic and political considerations. Gold has inflation protection qualities vs. the fiat currencies, plus haven qualities that are attractive, but looks less good value today.

**“Alternatives are attractive for their diversifying qualities and return potential”**



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