

# MARKET UPDATE

Welcome to our weekly newsletter, where the Manager summarises the key market developments over the last seven days.

## The Noise

The European Central Bank kept interest rates steady on Thursday with the deposit rate held at 4%, pressing pause on its harshest cycle of increases since the launch of the Euro. The decision was widely expected by markets, amid growing fears about the Eurozone economy. Although inflation still remains higher than the Bank's 2% target, pricing pressure is easing. However, some believe that higher interest rates have caused the economy to slow so much that a recession may be under way.



The latest UK jobs data has seen the unemployment rate rise to 4.2% between June and August, up from 4% in March to May. Though unchanged from last month's data, it indicates that businesses are hiring less as the impact of rising prices and higher interest rates start to take shape. Looking ahead to the Bank of England's next interest rate decision next week, this should be seen by the Monetary Policy Committee as a sign that interest rates are gradually doing their job. Markets now see it as even more likely that interest rates will be held at 5.25% next week.

As North Sea countries look to quadruple their offshore wind generation and move away from Russian oil and gas, security for these energy producing assets has become an area of growing concern. As an example, 4% of Denmark's power is supplied via two unprotected underwater cables from one offshore wind farm, leaving them vulnerable to sabotage. Military officials, lawmakers and the wind farm industry in many North Sea countries are acutely aware of the growing risk, but are yet to agree who should bear the cost of protecting these wind farms.



## The Numbers

Performance to 26/10/2023	1 Week	YTD	Absolute Level
<b>Equity USD Total Return</b>			
MSCI ACWI	-2.90%	6.10%	631
MSCI USA	-3.40%	9.00%	11623
MSCI Europe	-1.70%	3.60%	7744
MSCI UK	-2.10%	2.80%	7127
MSCI Japan	-2.20%	5.80%	6996
MSCI Asia Pacific ex Japan	-2.30%	-4.90%	493
MSCI Emerging Market	-2.10%	-2.60%	473
MSCI EAFE Index	-1.80%	2.90%	1943

Source: Bloomberg, data as at 26/10/2023

Performance to 26/10/2023	1 Week	YTD	Absolute Level
<b>Fixed Income USD Total Return</b>			
Global Aggregate	0.50%	-3.30%	431
Global Treasury	0.30%	-4.80%	511
Global IG	0.80%	-0.50%	247
Global High Yield	0.30%	3.60%	1383
<b>Currency Moves</b>			
USD vs GBP	0.10%	-0.40%	0.82
USD vs EUR	0.20%	1.30%	0.95
USD vs JPY	0.40%	14.70%	150
<b>Commodities USD Return</b>			
Gold	0.70%	8.50%	1638
Oil	-5.80%	7.60%	85

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## The Nuance

The US economy grew at its fastest pace in nearly two years in the third quarter, as the Bureau of Economic Analysis reported annualised expansion of 4.9% for the quarter. It continues to defy predictions of a recession, as higher wages from a tight labour market drove consumer spending and encouraged businesses to invest in more inventory. The report also showed underlying inflation subsiding and a pick-up in government spending.

While the exceptional performance of the US economy over the summer may not be sustainable, it nonetheless demonstrated the economy's resilience in the face of the Federal Reserve's aggressive interest rate hikes. Additional data from the Bureau of Economic Analysis' report prove that we should expect growth to moderate. Household incomes after inflation and taxes fell by \$71 billion, and savings also weakened to \$777 billion from \$1 trillion, indicators of a slowing economy. Despite this, there is still growing belief that the Federal Reserve can engineer a soft landing for the economy.



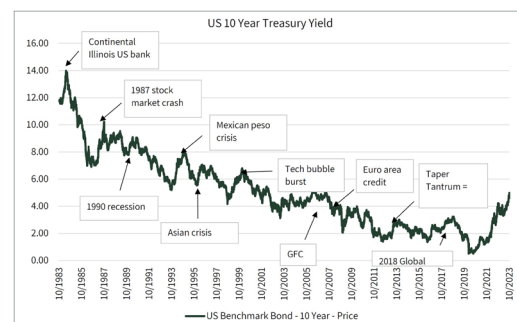
## Weekly Spotlight

The interest rate on US government bonds, often called the US Treasury yield, acts as a thermometer to test the temperature of current economic conditions. This week, the chart below shows the 10-year US Treasury yield went above 5% for the first time since 2007, just before the Global Financial Crisis. This week's increase in yield came as investors anticipated the US Federal Reserve would keep interest rates at elevated levels for an extended period of time.



Source: Factset, data from October 2018 – October 2023

A period of high rates can often be followed by negative market movements. This is because as interest rates increase, borrowing costs increase and this acts as a contractionary movement for the economy. The chart below shows over the past 40 years, a rise in US Treasury yields has often been followed by a financial incident, with the most recent being the 2018 global sell-off. Interest rates tend to fall in a period of negative growth as inflation typically slows and Central Banks move to more supportive monetary policy.



Source: Factset, data from January 1983 – October 2023

Although this is considering the 10-year US Treasury yield, bonds are available with different terms (e.g. 5-year or 20-year). Generally, the price of bonds with a longer term are more sensitive to moves in interest rates. Therefore, if interest rates fall from recent highs, then bonds with a longer term will deliver better returns to investors. Even though it's difficult to be sure when interest rates will stop going up, it seems like the peak is close by.



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Source: atomos

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