

Investment Comment

05 December 2022

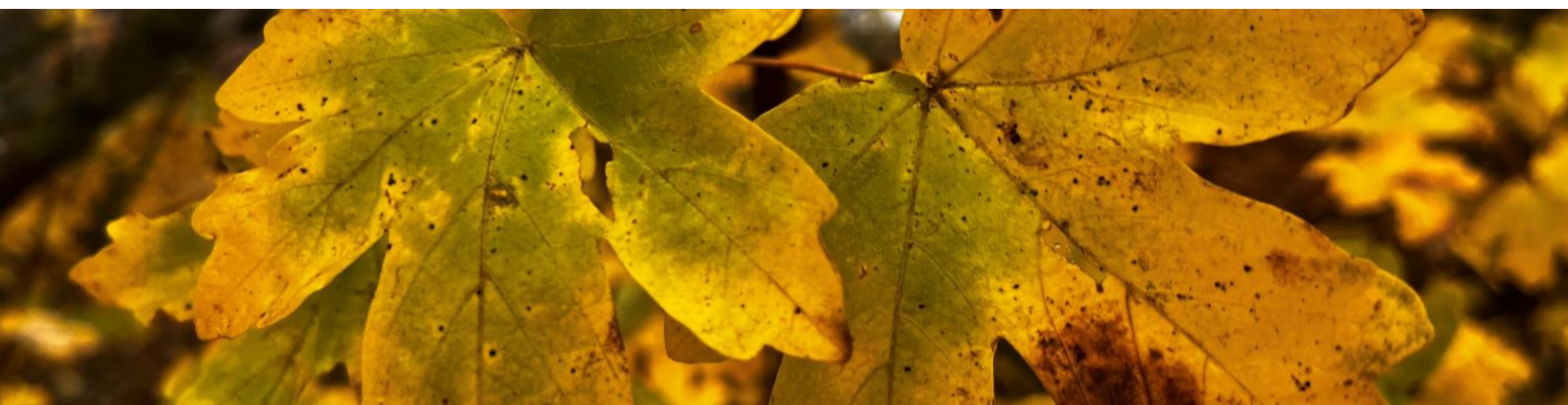
Markets were mainly positive across most geographic sectors during November, following weaker than expected US inflation data which provided a boost to markets and saw global currencies appreciate relative to the dollar. Global equities, as measured by the MSCI ACWI, closed out the month up 4.2%. Alongside stocks, UK Gilts had a particularly positive month, with yields on the 10-year Gilt falling from 3.5% back down to 3.0%, their lowest levels since the mini-budget announcement in September.

The MSCI USA Index rose 1.9% in November, as markets were buoyant on the news of falling inflation which provided hope that the Federal Reserve ('Fed') may begin to slow the pace of monetary tightening. Inflation fell from 8.2% to 7.7% and was lower than the 8% predicted by analysts. US equities rallied hard in the days following the release, with Technology stocks reacting especially strongly. After agreeing a fourth consecutive triple rate hike at the November meeting, which left borrowing costs at levels not seen since 2008, investors' expectations now strongly lie with a double hike at December's meeting. However, Powell warned against reading too much into the most recent inflation figures as the Fed still has more ground to cover. Political attention turned to the midterm elections, where the Republicans were forecast to make gains and take control of both the House of Representatives and the Senate, which have both been under Democrat control since Joe Biden's inauguration. The Democrats defied the historical record, producing one of the best midterm election outcomes this century. While the Republicans gained control in the House, the Democrats narrowly retained control of the Senate. Splits of this nature make it challenging for significant legislation to be passed, but have historically been favourable for US stock markets.

The MSCI Europe ex-UK Index posted a monthly gain of 7.8%. The European Central Bank ('ECB') joined the Fed in implementing a triple rate hike, a second in consecutive meetings, leaving the key borrowing rate at 1.5%. Christine Lagarde, after initially suggesting that the ECB would factor in the likelihood of a recession on further rate hikes at the December meeting, was quick to push back against investors' interpretations that the ECB may soon become more dovish, saying that ECB officials now expect to raise rates beyond the point which they constrain demand and weaken growth. Pressure may be marginally eased by a modest drop in eurozone inflation from 10.6% to 10% in October, the first fall in 17 months. Fears of a deep recession in the winter have been moderated, partially thanks to a mild start to the winter season which has allowed countries to build up gas storage levels, meaning that winter rationing is now unlikely to be required.

The MSCI UK Index ended November up 7.2%. The Bank of England, in conjunction with the Fed and ECB raised rates by 0.75%. Despite the announcement that there are likely to be fewer rate hikes in the near future, sombre forecasts from the Office for Budget Responsibility ('OBR') painted a gloomy picture. The OBR forecast the UK economy to shrink 1.4% next year and that pre-pandemic levels of GDP would not be regained until late 2024, whilst also predicting that living standards would fall by the highest level in six decades. House prices dropped 1.4% in November which, excluding the transitory fall at the onset of the pandemic, is the largest monthly decrease since the global financial crisis in 2008. Jeremy Hunt delivered the much anticipated Autumn Statement, which sought to reassure investors of the UK's ability to manage debts that have dramatically increased following the pandemic and this year's energy crisis. The Chancellor announced a large fiscal consolidation, including £30bn of spending cuts and £25bn of tax rises, discussed further in our recent Investment Outlook.

The MSCI Asia Pacific ex-Japan and MSCI Emerging Market Indexes rose 13.7% and 11.0%, respectively, in November. In China, protests broke out across at least 10 cities, including Beijing and Shanghai, over strict coronavirus restrictions and increased



ensorship under President Xi's administration. Whilst these protests were swiftly quelled, investors were optimistic that this may heap pressure on President Xi to alter the country's strategy to overcome Covid-19. Earlier in the month, markets rose sharply on an agreement between the People's Bank of China and the China Banking and Insurance Regulatory Commission which included requirements for banks to roll over loans to the property sector and encouraged them to give homebuyers more time to repay mortgages. This was a welcome relief for the property market and provided an immediate uplift to sentiment with real estate shares and bonds rising sharply - the Hang Seng Mainland Property Index was 70.0% higher by the end of the month. Positive commentary from the meeting of President Joe Biden and China's President Xi Jinping at the G20 summit offered hope of a de-escalation of US-China tensions. However, despite the protests, there was a notable uptick in Covid-19 cases, which reached near record daily case levels. Partial lockdowns have remained across much of China which continue to disrupt both supply chains and markets. Elsewhere in Emerging Markets, signs that interest rates may slow in the US initiated a rally in equity markets and the best month for Emerging Market debt in 24 years. Despite an increase in investor confidence, there is still a large degree of uncertainty as to how Emerging Markets will cope with a global recession.

The MSCI Japan Index posted a monthly gain of 6.0%. Japan's preliminary GDP data for Q3 surprised notably to the downside, contracting by 1.2% year-on-year against forecasts for growth of 1.1%. The contraction has been largely attributed to the weakness of the Yen which has caused a surge in import prices, upon which Japan relies heavily for industry. However, US inflation data and inferences that the Fed may soon begin tapering the pace of monetary withdrawals provided some welcome relief for the Yen which bounced back from its 32-year lows seen in October to end the month up 8.2% at 137.4 Yen to the Dollar. It is expected that increased tourism and the rollout of Prime Minister Fumio Kishida's \$200bn spending package will help ease the burden on households arising from soaring commodity prices and the weaker Yen.

Markets continue to present challenges for investors. Central bank policy and geopolitical tensions will remain key influences on markets through to the end of the year and into 2023. Volatility has reached the lows of this summer, however, these levels still remain elevated in comparison with the pre-pandemic market environment, reflecting the significant degree of uncertainty present amongst investors. Global stock and bond markets have responded positively to the hint of easing inflationary pressure. We note however that inflation remains significantly above target and that the macroeconomic and social impact of rate rises are yet to be fully felt. Uncertainty is high and we feel that further volatility is likely before we see sustained recovery. Markets are forward looking and tend to respond ahead of macroeconomic indicators; this month's activity is indicative of this. Whilst it is tempting to make efforts to 'time' markets, the unpredictability of both the fundamental drivers and the 'market' response to said drivers makes this very challenging. We are confident that Cantab portfolios are well positioned to deliver long-term growth and will continue to evolve in line with the changing economic environment.

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