Cantab
ASSET MANAGEMENT

Investment Comment

8 November 2023

The Federal Reserve ('Fed') held rates steady again at the 1 November meeting, in line with analysts' predictions. Fed Chair, Jerome Powell, indicated in his speech that one further rate hike could materialise before the end of the year, as well as fewer cuts in 2024 than previously anticipated. Many asset managers have now echoed the narrative that interest rates will be 'higher for longer'. The likelihood of such a scenario is reinforced by the data, with consumers and the wider economy proving more resilient than expected. The US economy added 336,000 jobs in September, nearly doubling the 170,000 projected by analysts. The services sector expanded above expectations while manufacturing maintained its course, despite forecasts of a slight contraction. Elsewhere, the US-EU summit took place in Washington, with discussions around the US lifting tariffs on EU steel and aluminium imports. No decision was reached, as Brussels declined to take action to levy similar tariffs on China, which the US claims is flooding the market with cheap metal.

UK GDP grew by 0.6% year-on-year in Q2 2023, against projections of 0.4%. The construction sector contracted notably in September, experiencing its fastest rate of decline since May 2020. Consumer confidence in the UK fell against forecasts of a slight improvement, and expectations for the UK economy and the outlook for personal finances also experienced declines. As in the US, the Bank of England opted to hold rates steady in its November meeting.

The European Central Bank held its key interest rate at 4%, choosing to pause after an unprecedented streak of ten consecutive increases. Sentiment in Europe is now negative, as persistent inflation has taken its toll and the services and manufacturing sectors remain firmly in contractionary territory. After five years of trade talks with Australia, the EU failed to reach a free trade deal in another example of ongoing retrenchment of globalisation. Ireland and Portugal are set to invest their budget surpluses in new sovereign wealth funds, designed to provide revenue for infrastructure projects, tackling climate change, and future economic challenges.

The Chinese economy expanded by 4.9% year-on-year in Q3 2023, exceeding market forecasts of 4.4% and fuelling hope that the economy may yet meet its annual growth target of 5% this year. Sustained stimulus from Beijing was sufficient to offset the impact of a prolonged property crisis and weak trade. Retail sales in China climbed 5.5% year-on-year in September, comfortably exceeding market estimates. Weakness in the Japanese Yen has led to the Bank of Japan ('BoJ') revising its yield curve control policy. The BoJ had previously raised the cap on 10-year government bonds yields to 1% from 0.5% and has now announced that it would allow rates to exceed this level. The modest policy changes led to the Yen falling to 151.6 to the US Dollar, its lowest level since October last year, as investors had anticipated more drastic action from the BoJ.

The ever-changing narrative on interest rates continues to rage on, with most asset managers now expecting a scenario in which rates stay higher for longer, as economic data remains robust for now and the tightness of the labour market means any loosening of monetary policy risks an undesired uptick in inflation. Cantab portfolios are positioned to reflect continued uncertainty, but we are optimistic that as interest rates peak, market participants will once again look towards longer term fundamental growth prospects.

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