Cantab
ASSET MANAGEMENT

Investment Comment

7 December 2023

Chancellor Jeremy Hunt delivered the Autumn Statement on 22 November, which included a cut to Class 1 National Insurance contributions from 12% to 10% starting on 6 January 2024. UK GDP grew by 1.3% year-on-year in September and by 0.2% month-on-month against projections of flat growth. Notably, the construction sector rebounded from a 0.8% contraction in August to a 0.4% expansion, while services expanded marginally by 0.2%. Decreases in UK inflation, from 6.7% in September to 4.6% in October, were welcomed and reinforced the idea that Bank of England rate hikes may have finished. The decreases were largely due to the reduction of energy prices following OFGEM's decision to lower the cap on household energy bills. Regular pay growth eased to 7.7%, down slightly from its previous reading but still among the highest growth rates since 2001. Preliminary UK PMI data for November indicated services and manufacturing would again come in ahead of expectations. Revisions to OBR forecasts for the UK economy saw projected growth reduced from 1.8% to 0.7% for 2024 and from 2.5% to 1.4% for 2025. However, the Chancellor has pledged to boost the UK economy with a raft of growth measures.

US economic data remained strong during November: initial projections for third quarter GDP were revised up to 5.2% from 4.9%, compared with the 2.1% increase in Q2. Jobless claims rose by 7,000 to 218,000 at the end of November but undershot estimates. The data showed manufacturing and job growth cooling in October, while increasing indications of tightening lending standards and decreasing demand for major types of loan were indicative of a slowdown. Home sales are forecast to remain subdued next year and beyond, after the rate on the popular 30-year fixed-rate mortgage hit a more than two-decade high at just under 8%. Sentiment data from the University of Michigan weakened for a fourth consecutive month, although this follows a period of improvement earlier in the summer. Consumer sentiment is now roughly in line with its level in May this year.

Growth in the Euro area is forecast at just 0.7% in 2023, as tighter financing conditions and higher prices weigh on domestic demand and as foreign demand remains subdued. Retail sales declined by 0.3% in September, marking a third consecutive month of decreases. Manufacturing PMI data for November showed the sector at its highest level of output in six months and surpassed expectations, but the sector remains in contractionary territory. However, October's gloomy reading from the ZEW Indicator of Economic Sentiment was substantially improved upon in November, coming in well ahead of market forecasts and marking the highest reading since February this year.

Annual inflation in Japan edged up in October to 3.3% from 3.0% in September, while core inflation remained stable. November's flash PMI figures indicated a contraction in the manufacturing sector, although services increased slightly; both readings were below analysts' expectations. In China, consumer and industrial activity expanded faster than predicted in October, as retail sales expanded 7.6% year-on-year and industrial production rose by 4.6%. Elsewhere, the financial regulator in South Korea imposed a blanket ban on short selling until 2024 to appease retail investors ahead of parliamentary elections next year.

As the final month of the year progresses, sustained falls in inflation offer hope to investors that interest rates have reached their peaks. After a tumultuous cycle of rate tightening, investors seek greater clarity on policy heading into the new year. This clarity should allow markets to focus on longer term fundamental growth prospects.

cantabam.com

Cantab Asset Management Ltd
50 Station Road, Cambridge CB1 2JH
01223 52 2000
advice@cantabam.com

5th Floor, 8 Angel Court, London EC2R 7HP
020 3651 0570
advice@cantabam.com