

Hymans Robertson Investment Services (HRIS)

Monthly Market Commentary

November 2022

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November's highlights

- Despite the gloomy outlook, economic data released in November generally held up, particularly in the US
- Amidst ongoing high inflation, the US Federal Reserve (Fed) and Bank of England (BoE) both raised interest rates by 0.75% p.a., to 4% p.a. and 3% p.a., respectively
- Despite the expected drag on economic activity from higher interest rates, market sentiment improved as US and eurozone inflation for October were below forecast, sparking hopes of an easing in the pace of interest rate rises
- This supported both equities and sovereign bonds, with global equities gaining 4.3% over the month. US and UK government bonds also increased in value.
- Emerging market and Asian stocks rallied strongly, up 10.2% and 10.5% respectively, as widespread protests and a vaccination drive spurred hopes that China may slowly be moving towards ending its zero-COVID policy
- Signs of easing US inflationary pressures saw the dollar weaken versus the pound and other currencies

Market Performance

UK	November	Quarter to date	Year to date	GLOBAL	November	Quarter to date	Year to date
UK	7.1	10.5	1.8	UK			
GLOBAL	4.3	7.1	-2.8	Conventional gilts	2.8	6.0	-20.6
US	2.0	6.7	-2.6	Index-linked gilts	3.6	-1.0	-30.0
Dev. Europe ex UK	7.9	12.5	-7.1	Corporate	3.4	7.5	-16.3
Japan	5.9	5.3	-4.4	GLOBAL			
Dev. Asia ex Japan	10.5	10.1	0.3	Investment grade	2.5	2.0	-11.4
Emerging Markets	10.2	2.6	-5.1	High Yield	2.4	5.0	-10.6
Sterling v US dollar	3.4	6.7	-12.1	Emerging market	4.1	0.7	-8.0

Source: Morningstar. Percentage returns in sterling terms. All data as at 30/11/2022. Emerging market bond returns are a composite of 50% hard currency and 50% local currency bonds.

Economic background

During the Autumn Statement, the Office for National Statistics, much like the BoE a few weeks prior, presented a gloomy outlook for the UK economy, where a protracted economic slump is expected to last until 2024. The picture is somewhat different in the US. Despite signs that the housing market is slowing sharply, the labour market continues to generate job

numbers above expectations. Inflation looks to have peaked in the US. The October figure of 7.7% undershot expectations of 8.0% and is now well below the 9.1% reached in June. Although inflation is expected to fall further in the coming months, a slowdown in the labour market, which remains strong, is likely to be necessary to get back to the 2% target. Following the release of the lower-than-expected October inflation rate, markets tapered their expectations for the December Fed meeting to a 0.5% interest rate increase, following 0.75% hikes in the four previous meetings. As the pace of interest rate hikes slows, investors are now focusing on what level central banks will peak at and for how long this peak rate will be sustained.

Equity markets

Global equities had a strong month, despite a stronger pound which tends to weaken returns on overseas assets. The main catalyst for these gains was the lower-than-expected inflation data from the US. Investors have begun to believe that the Fed won't need to tighten monetary policy as much as previously anticipated, despite the Fed repeatedly reinforcing their commitment to fighting inflation. In addition, Asian and emerging markets rallied significantly in November, as widespread protests, and a vaccination-drive amongst the elderly spurred hopes that China is slowly moving towards ending its zero-COVID policy, which would provide an economic boost for the whole region.

Basic material stocks continued to perform well as the prospect of China's economy opening up boosted some commodity prices. Shares in technology companies also had a strong month as this sector tends to be more interest rate sensitive and therefore benefitted from the perception that central banks may slow down their pace of rate hikes.

Developed market government and investment-grade corporate bonds

Both UK and global bonds rose after a fall in expected longer term interest rates and the ensuing fall in yields (bond prices move inversely to yield movements). In the US, bond investors leapt at the lower-than-expected inflation reading and a dovish set of minutes from the November meeting, where Fed officials hinted at a slowdown in the pace of rate hikes, driving bond markets higher. The BoE was more explicit in signalling that the market's current expectations of where interest rates will peak was too high, lowering expectations for the path of interest rates.

Investment grade credit spreads (the additional rate received for investing in corporate rather than government bonds) in the UK fell again, meaning corporate bonds outperformed government bonds.

Alternative bonds

Global high-yield credit spreads also continued to fall, boosting the returns of high-yield bonds. Emerging market debt had a strong month, meaning EM bonds outperformed developed market bonds.



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Risk warning

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