

Hymans Robertson Investment Services (HRIS)

# Monthly Market Commentary

October 2022

For professional use only.

## October's highlights

- Q3 Gross domestic product (GDP) data was better than expected, but the longer-term economic outlook continued to deteriorate with expectations for global growth in 2023 falling further, whilst inflation expectations continued to rise.
- UK government bonds rallied as Rishi Sunak was appointed Prime Minister while new Chancellor, Jeremy Hunt, reversed many of the previously proposed tax cuts and promised further spending cuts in the mid-November budget.
- Global bond prices fell on the expectation of further interest rate hikes to stabilise and reduce inflation from current high levels.
- Developed market equities registered healthy returns in October, although emerging market equities continued to fall.
- Sterling rallied as worries around loose fiscal policy abated following the appointment of Rishi Sunak

## Market Performance

| UK                   | October | Quarter to date | Year to date | GLOBAL             | October | Quarter to date | Year to date |
|----------------------|---------|-----------------|--------------|--------------------|---------|-----------------|--------------|
| UK                   | 3.1     | 3.1             | -5.0         | UK                 |         |                 |              |
| GLOBAL               | 2.7     | 2.7             | -6.7         | Conventional gilts | 3.1     | 3.1             | -22.8        |
| US                   | 4.7     | 4.7             | -4.4         | Index-linked gilts | -4.4    | -4.4            | -32.4        |
| Dev. Europe ex UK    | 4.3     | 4.3             | -13.9        | Corporate          | 3.9     | 3.9             | -19.0        |
| Japan                | -0.6    | -0.6            | -9.8         | GLOBAL             |         |                 |              |
| Dev. Asia ex Japan   | -0.4    | -0.4            | -9.3         | Government Bonds   | -0.1    | -0.1            | -10.8        |
| Emerging Markets     | -7.0    | -7.0            | -13.9        | High Yield         | 2.6     | 2.6             | -12.7        |
| Sterling v US dollar | 3.1     | 3.1             | -15.0        | Emerging market    | -3.3    | -3.3            | -11.6        |

Source: Morningstar. Percentage returns in sterling terms. All data as at 31/10/2022. Emerging market bond returns are a composite of 50% hard currency and 50% local currency bonds.

## Economic background

Q3 GDP data released in October was better than expected. However, as high inflation and higher interest rates impact consumers and businesses, expectations are that growth in the major advanced economies will slow considerably in 2023, with many European economies already flirting with recession. The labour market remains resilient, however, with job creation still positive despite the mounting headwinds.

Headline Consumer Price Index (CPI) inflation remains high at 10.1% in the UK. There is also evidence of inflation pressures becoming even more long term, as tight labour markets place upwards pressure on wages, causing more concern for central banks. Inflation is forecast to moderate in 2023 but remain well above target in most major economies. Against this backdrop, the European Central Bank raised its key interest rate by 0.75% p.a. in October, with the US Federal Reserve and the Bank of England (BoE) delivering similar increases in the first week of November. Further rate rises are expected but UK interest rate expectations have fallen back from recent highs touched in the wake of the “mini” budget, although the base rate is still expected to reach over 4.5% p.a. in 2023.

## Equity markets

Global equities performed reasonably well in October, rising by 6%, despite the worsening of economic conditions. However, after accounting for a stronger pound, the return for UK investors moderated to 2.7%. Q3 average earnings have been heavily supported by the energy sector, which massively outperformed other sectors. Excluding the energy sector, US Q3 earnings would have declined year-over-year by 5.1%, instead of increasing by 2.2%, based on the earnings released to date. Aggregate global earnings growth forecast over 2022 and 2023 fell from 8.6% to 7.4% in October, as forecasters increasingly factored in the weaker outlook, which will impact on global equity returns.

Energy, industrials, healthcare, telecoms, and financials all outperformed, in that order, while utilities, consumer discretionary, technology, basic materials, and consumer staples underperformed. North America, Europe and the UK provided positive returns, while Asia and Japan were in negative territory for the month. Heavy falls in Chinese stocks led emerging and Asian markets to fall as President Xi Jinping’s re-appointment and replacement of the Politburo Standing Committee with close associates raised concerns about China’s focus on economic growth and the potential impact of redistributive policies on large companies.

## Developed market government and investment-grade corporate bonds

Global bonds fell slightly as interest rate expectations and yields increased (bonds fall in value as yields rise). In contrast, UK government bonds rose sharply in October: the BoE supported markets in the first half of the month before the replacement Chancellor unwound almost all of September’s proposed fiscal loosening and Rishi Sunak was appointed Prime Minister, leading to a more meaningful rally. UK index-linked gilts were the exception however, as they fell in line with waning inflation expectations. Meanwhile, investment grade credit spreads (the additional rate received for investing in corporate rather than government bonds) in the UK fell slightly as liquidity-driven selling pressure from the pension scheme market abated, helping to boost the prices of corporate bonds.

## Alternative bonds

Global high-yield credit spreads also fell which raised the value of high-yield bonds. Local currency emerging market debt returned –3.9% as a weakening of emerging market currencies against the pound, offset any income generated. Hard currency debt (bonds that are denominated in US dollars) returned -2.6% owing primarily to currency effects.



**Jack Richards**

**Investment Manager**

### Risk warning

*This communication is issued and approved by Hymans Robertson Investment Services LLP. It is based on its understanding of events at the time of the relevant preparation and analysis. The information and opinions contained in this document are provided by HRIS and are subject to change without notice and should not be relied upon when making investment decisions. The value of your investments and the income from them may go down as well as up and neither is guaranteed. Investors could get back less than they invested. Past performance is not a reliable indicator of future results. Changes in exchange rates may have an adverse effect on the value of an investment. Changes in interest rates may also impact the value of fixed income investments. The value of your investment may be impacted if the issuers of underlying fixed income holdings default, or market perceptions of their credit risk change. There are additional risks associated with investments in emerging or developing markets. The information in this document does not constitute advice, nor a recommendation, and investment decisions should not be made on the basis of it. The material provided should not be released or otherwise disclosed to any third party without prior consent from HRIS.*