OCTOBER 2023 MARKET REPORT

Economic commentary

Having seen painful double-digit inflation in late 2022, it was something of a relief in October to see UK inflation data (for the 12 months to September) holding steady at 6.7% – the same as the month before. It was generally well-received by market participants and observers, who expected that this would reassure the Bank of England that the financial climate was beginning to stabilise. As a reminder, in its September policy meeting, the Bank finally decided to leave rates unchanged at 5.25%, following 14 consecutive interest rate rises. It continues to have a very difficult job to do – to combat inflation by keeping interest rates high and therefore discouraging borrowing and spending, but knowing that this will also hurt both individuals and enterprises at the same time.

Closely related to this is the UK residential property market, which seems to be giving mixed signals. Prices are remaining more robust than many have expected given the weak economic backdrop; October actually saw a modest 0.9% increase month-on-month, and prices have only fallen 3.3% in the last 12 months despite a sharp spike in borrowing costs, according to data from Nationwide. Further falls might be expected as elevated interest rates put further pressure on mortgage costs and affordability, but on the other hand, borrowers seem to be withstanding these pressures by agreeing to longer loan terms and running-down their savings accrued over the pandemic. How long they can withstand these conditions remains to be seen.

In the US, they saw a very similar turn of events, with inflation holding steady and the Federal Reserve choosing to hold interest rates at 5.5%. For the first time in this higher inflation period, the European Central Bank has also chosen not to raise their interest rates, holding them at 4%.

Market commentary

Despite the deeply sad humanitarian outcomes of the Israel/Gaza conflict so far, it has not yet had a catastrophic impact on markets. The oil price has been little affected, given that the region is not an oil producer and the conflict so far remains geographically contained. The gold price has risen sharply as some investors nervously moved into 'safe haven' assets (as is often the case in a period of geopolitical tension), but the conflict has had a relatively modest impact on stock markets.

Perhaps more impactful have been weak corporate earnings numbers that have disappointed market participants, sending the value of stocks down around the world. Added to this, some investors are still concerned that interest rates will remain at elevated levels, which has hit the prices of stocks in sectors that are particularly exposed to monetary conditions, like technology and real estate – these same concerns have impacted the prices of bonds around the world (providing a now less-attractive fixed income to investors), too.

Valuations of some well-known technology companies are still very stretched. Alphabet (which owns Google), despite announcing relatively strong quarterly profits, saw its stock price fall 10% in a day on the fact that growth was not as strong as hoped-for in some areas. Stories like this remind us to focus on investments with genuine long-term value, rather than be tempted to chase popular trends (like AI, which occupies many 'column inches'). We continue to do this – carefully comparing the relative risks and rewards available to our clients given the prices of various investments today, and making infrequent but meaningful changes to your portfolios in response.

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investment clarity

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	1m	3m	6m	YTD	1yr	3y pa	5y pa	10y pa
Equity Markets (£)								
UK	-4.1%	-4.8%	-5.9%	0.3%	5.9%	11.8%	4.0%	4.7%
US	-1.6%	-2.8%	4.8%	9.3%	4.0%	12.2%	11.3%	13.6%
Global	-2.3%	-3.9%	1.9%	6.9%	4.8%	10.4%	9.3%	10.4%
Emerging Markets	-3.3%	-6.9%	-1.7%	-3.4%	4.6%	-2.2%	2.1%	3.6%
Europe ex UK	-3.0%	-6.6%	-6.7%	2.6%	11.2%	9.5%	6.9%	7.0%
Japan	-3.9%	-2.7%	2.8%	4.8%	10.9%	3.5%	3.3%	6.6%
China	-2.9%	-11.0%	-8.4%	-11.9%	14.2%	-15.6%	-2.3%	3.4%
UK Smaller Companies	-9.2%	-11.8%	-11.2%	-7.6%	0.4%	-0.6%	-2.0%	2.3%
Bonds (£)								
Sterling Corporate Bonds	0.3%	0.7%	-1.0%	0.9%	1.5%	-6.3%	-1.4%	1.4%
Global High Yield (Hedged)	-3.6%	-4.0%	-2.2%	1.0%	2.7%	-0.2%	1.0%	2.0%
Global Bonds (Hedged)	-0.8%	-3.1%	-3.9%	-0.9%	0.3%	-5.6%	-1.0%	0.7%
Other (£)								
Global Listed Property	-4.2%	-8.4%	-8.7%	-10.5%	-10.9%	2.2%	-0.5%	
UK Listed Property	-3.7%	-9.4%	-15.1%	-10.6%	-9.5%	-3.7%	-4.9%	-0.1%
Physical Gold	7.9%	7.1%	3.6%	8.5%	15.0%	4.0%	11.3%	6.9%

Economic Data	At date	3m ago	6m ago	1y ago	3y ago	5y ago	10y ago
Sterling/Dollar Rate	$1.21	$1.29	$1.26	$1.15	$1.29	$1.28	$1.61
Bank of England Base Rate	5.25%	5.00%	4.25%	2.25%	0.10%	0.75%	0.50%
UK CPI YoY		6.8%	8.7%	11.1%	0.7%	2.4%	2.2%
US Unemployment Rate	3.9%	3.5%	3.4%	3.7%	6.9%	3.8%	7.2%
UK Unemployment Rate			4.0%	3.7%	5.1%	4.0%	7.2%

Bond yields	At date	3m ago	6m ago	1y ago	3y ago	5y ago	10y ago
UK 10-Year Gilt Yield	4.5%	4.3%	3.7%	3.5%	0.3%	1.4%	2.6%
UK Corporate Bond Yield	6.4%	6.2%	5.7%	6.1%	1.8%	2.9%	3.7%

Data Sources: Data is at 31/10/2023. For the above asset class return data, we used passive funds to represent market returns, given that they represent an investible net-of-fee return achievable by an end client. Economic figures like unemployment and CPI rates may not have been available for latest month-end at the time of publication. All returns have been calculated by Fundhouse, with reference to data from Refinitiv, Morningstar and the Bank of England. This content cannot be distributed without the consent of Fundhouse.

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