Market Monthly

October 2023

Highlights

- **Economics:** The focus in USA in October was on monetary policy. The Federal Reserve held steady on rates for a second-straight time at the conclusion of its November meeting. They have chosen to pause rates for the third consecutive meeting at Fed meeting which doesn't mean it would be more difficult for it to start raising rates again. The labor market continues to show signs of vigor, despite a year of monetary tightening. An employers added an impressive 336,000 jobs in September, marking the largest monthly gain since January. The unemployment rate held steady at a low 3.8% for that month. Eurozone Manufacturing PMI came in at 43.1, down from 43.4 in September and compared with a preliminary estimate of 43. This marked the sixteenth consecutive month that the Eurozone's manufacturing sector has been in contraction territory, and the sharpest in three months. Latest data in Europe indicates that unemployment rate was 6.0 % stable compared with August.

- **Inflation:** FED policy will need to stay "restrictive" until data shows inflation on a convincing trek back to the central bank's 2% goal. The FED unanimously agreed to hold the key federal funds rate in a target range between 5.25%-5.5%, where it has been since July. The Eurozone figure at the end of October was 3.6%, China 0.1%, Russia 6.7%, Brazil 4.82%, India 4.87%.

- **Central bank interest rates**: Inflation was running well below the central bank's 2% target at the time**.** The ECB's decision to pause on rate hikes brings to an end a run of 10 rises in a row. Eurozone inflation fell to a more than two-year low of 2.9% in October. This is far below the 4.3% recorded in September and down from 9.2% for the whole of 2022.

- **Capital market rates:** The yield curve trended toward normalcy in October. The benchmark 10-year Treasury yield was virtually flat at 4.41%, after falling earlier to 4.369%, its lowest level since September 20th. The 2-year note yield, meanwhile, rose by more than 1 basis point to 4.9%.

Tactical Asset Allocation

- **Forex:** The dollar index hit a low of 103.37, its weakest level since Sept. 1, 2023 after a tumble of nearly 2%, which marked the biggest weekly percentage drop since mid-July. The EUR/US held $1.09 remaining to its highest since August, 2023.

- **Bonds incl. High Yields (N[i]):** A benchmark for the bond market worldwide, has tumbled 11% from its peak in January 2021, equating to a drop of $2.6 trillion in the index's market value.

- **Equities (N):** The S&P 500 was down 2.20% for October, continuing September's downward trend (-4.87%), which started in August (-1.77%). In the U.S., analysts expect to see a more challenging macro backdrop for stocks in the second half of 2023. European equity markets fell due to weakening growth and diminishing consumer confidence. Underperforming sectors were health care and consumer discretionary.

- **Commodities (U):** OPEC+ is likely to extend or even deepen oil supply cuts into next year, after a more than 15% drop in Brent prices from a peak in September, a majority of eighteen analysts polled have predicted. The latest barrel price on November 29 was $82.75 compared with $84.16 in the day before.

Investment Ideas[ii]

- Selective entries into emerging market stocks, with focus on India, with temporary increasing equity exposure during the summer months.

Performance Equity Markets MSCI World 5Y[iii]
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EURUSD Technical Chart 5y, Bloomberg

[i] How to read: (U) underweight; (N) neutral; (O) overweight
[ii] See rationales on our web page www.aspermontcapital.ch
[iii] Return for the last rolling 12m