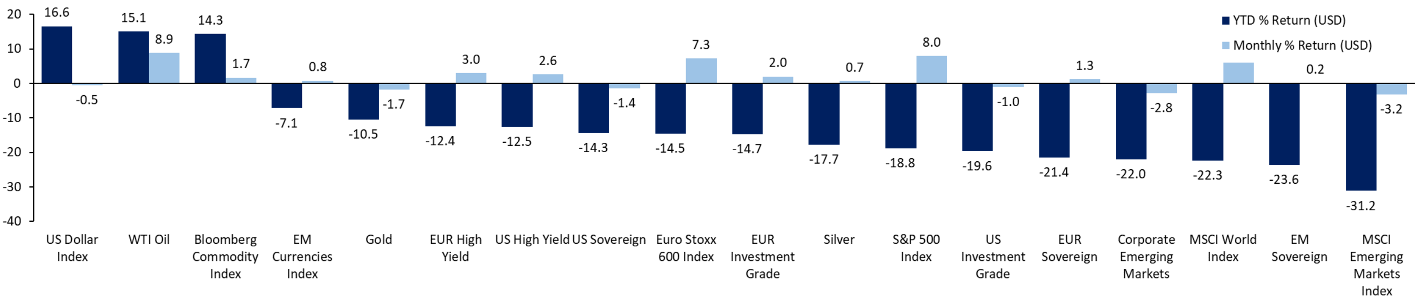
November 3, 2022

Monthly Market Wrap, October 2022

The global economy is slowing and weighting on businesses. All but one G7 country are seeing contractionary manufacturing PMIs. Consumers are feeling the pain. Personal savings hit a fifteen years low at 3.1%. Credit card debt is expending at the fastest pace since 2009 (+18.6% YoY). Mortgage rates are at their highest in two decades. At the corporate level, margin compressions are more evident. 3Q22 sales are up 11%, while earnings are merely up 3.7%. Companies are starting to cut costs, freeze hiring, and reduce headcounts. Guidance is not showing any sign of relief. It does not bode well for the holiday season ahead (a key quarter for many).

Chart 1. Asset Class Return YTD (USD Base)



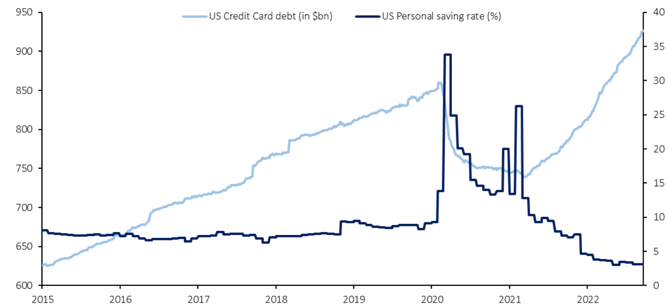
Equities

October was marked by yet another bear market rally, albeit at a lesser degree than some previous ones. The risk on sentiment was fuelled by softer economic data and talks of a walk back in the hawkish rhetoric from central banks. Good new is bad news (and vice versa) was the motto. Generally better-than-expected earnings (ex-FANG+) supported the market. Yet, as always, the beats were from a base of lowered expectations from a month ago. The MSCI World closed up +7.2% (-20.1% YTD).

The S&P 500 paired some losses, +8.1% MoM (-17.7% YTD). The Russell 2000 bounced even more, up +11% (-16.9% YTD), while the Nasdaq underperformed, up +4.0% (-29.6% YTD), following worse-than-expected earnings reports and guidance by mega-cap technology companies. Alphabet missed on earnings by 16%, with lower ad revenues contributing to the miss. Amazon results reflected a slowing economy with the lowest revenue growth forecast in the company's history. Sector-wise, energy was, by far, the best performing sector (+24.9%), carried by the Government's efforts to refill the Strategic Petroleum Reserve, with plans to allow fixed-price forward purchases of crude oil, the OPEC+ production cut, and better-than-expected earnings (11% EPS surprise). Weighting heavily across indices, it was no surprise to see both consumer discretionary (+0.2% MoM) and telecommunication (+0.1%) at the bottom of the leader board.

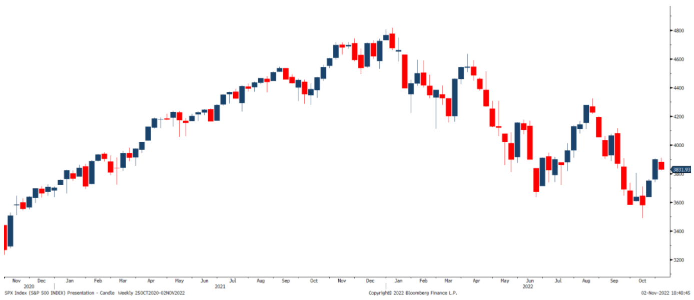
European equities faced similar tailwinds. Mild weather forecast resulted in lower energy prices meanwhile better than expected earnings eased some of the concerns and improved an overly negative sentiment on the region. The EuroStoxx 600 bounced as much as +6.4% (-13.5% YTD). Regionally, Germany was one of the best performers, +9.4% (-16.6% YTD).

Chart 2. US Credit Card debt and Personal saving rate



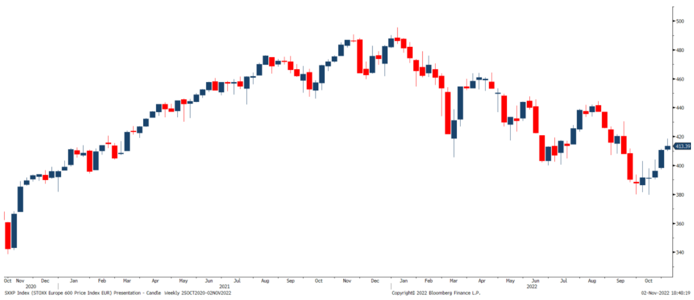
Source. MAM Research, Bloomberg

Chart 3. S&P 500 Index (Weekly)



Source. Bloomberg, MAM Research

Chart 4. EuroStoxx 600 Index (Weekly)



Source. Bloomberg, MAM Research

Fixed Income

The US economic data continues to display a slowing economy. Despite a reacceleration in GDP growth in 3Q, PMIs continued to deteriorate, now in contraction territory. Services are at 46.6 while Manufacturing dropped to 49.9. Housing data remains particularly weak across the board. The Case-Shiller House price index was down -1.6% MoM, its fastest decline since 2009. NHS and PHS were both down more than 10% MoM. The inflation expectations picked up on multi-duration bases. 1-Year inflation expectations rose to 5.1% from 4.7%. 5-Year expectations rose to 2.9% from 2.7%. Unsurprisingly, US Treasuries sold-off more. Yields are up +20bps at 4.48% on the 2-Year, above 4.0% on the 10-Year, and up +39bps to 4.16% on the 30-Year.

In Europe, the picture remains bleak as inflation accelerated in the month of September across all but one country. Eurozone inflation reach a new record high at 10.7%. German PPI reached yet another record high at +45.8% YoY, a +8 standard deviation. As a result, inflationary pressures are unlikely to ease off soon. Eurozone PMIs entrenched further into contractionary territory at 47.1 on the composite. Despite the poor macro outlook, the ECB raised interest rates by 75bps to fight inflation, and more rate hikes are to be expected. The ECB will continue to reinvest all maturing assets in its QE program as QT will not be discussed until later this year, in December.

Currencies

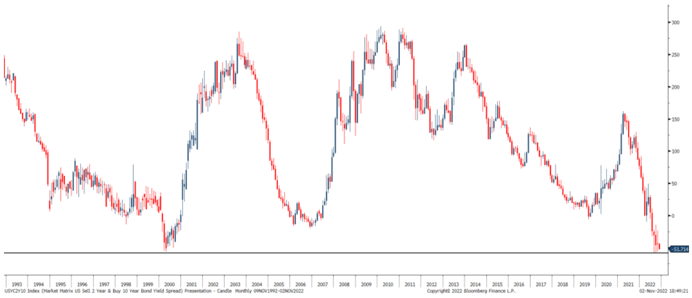
Rate hike expectations continue to show higher rates in the Fed Fund futures market with at least another 100bps in rate hikes for the remainder of 2022. Despite a less hawkish rhetoric from some Fed speakers, the real growth and rates differential is set to continue to support a stronger dollar in the near term. Yet, after reaching a new cycle high, the dollar gave back some of its gains to close the month down -0.5% (+16.6% YTD). Several key headwinds were at play to hold back the dollar, notably on the back end of the month as the Fed entered its blackout period.

The weaker dollar and ECB rate hike supported somewhat the Euro at the end of the month to be up 1.0% MoM (-13.2% YTD). The relative weakness of the European economy as well as the relative dovishness from the ECB given the need to manage a the impact of rate hikes on sovereign spreads within the union means headwinds to the Euro will persist.

The British Pound was two toned in October. After starting on the back foot amid concerns over the impact of the mini-budget on the balance of payments and Fitch downgrade, the currency paired some of its losses post-Truss resignation to end up 3.0%.

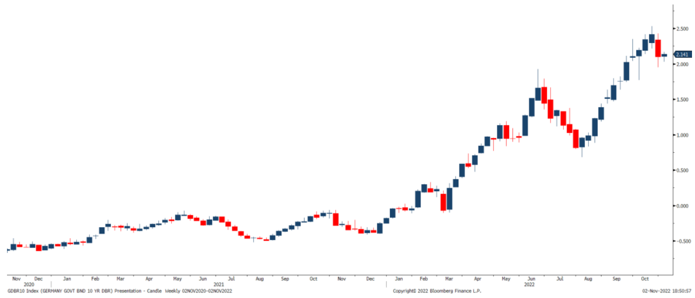
The Japanese Yen continued to weaken, hitting new lows at 151 before pairing back some of its losses after the BoJ intervened to support the currency. It closed down 2.7% (-29.2% YTD).

Chart 5. US 10-2 Treasury Spread (Monthly)



Source. Bloomberg, MAM Research

Chart 6. German 10-Year Bunds Yield



Source. Bloomberg, MAM Research

Chart 7. US Dollar Index (Monthly)

Source. Bloomberg, MAM Research

Chart 8. USD/Euro Spot Exchange Rate (Monthly)

Source. Bloomberg, MAM Research

Chart 9. USD/JPY Sport Exchange Rate (Monthly)

Source. Bloomberg, MAM Research

Commodities

Commodities remain the only asset class with positive returns this year with the broad index up 2.0% in October (+15.8% YTD).

Energy was the best performing sector, +4% MoM (+56% YTD). Crude oil was a key positive contributor, up +8.9% (+15% YTD). Despite demand concerns over low economic growth and China zero covid policy, oil performed strongly. The OPEC+ 2m bbl./d output cut, government need to replenish SPR around $70/bbl., and weaker dollar provided somewhat of a price floor. On the other hand, natural gas prices continued to decline, -6.1% MoM (+70.4% YTD), function of full storage capacity in Europe and a mild weather start to the autumn/winter season.

Industrial metals were down -0.6% (-16.7% YTD) as prospects of a global recession and lower economic output from China keep pressuring the demand side. Zinc fell to its lowest level since March 2021, down -9.7% MoM. Copper prices dropped for the 7th consecutive month, down -1.1% (-24.4% YTD).

Agriculture commodities were up +1.9% (+12.9% YTD) after the decision was made by Russia to pull out of a UN-brokered black sea grain deal that would allow exports to resume.

Precious metals underperformed further, -1.1% (-12.6% YTD). Gold declined for the 7th consecutive month, a new record, and is now down -10.5% YTD after dropping -1.7% MoM. Silver was able to catch a bid at the end to finish up +0.7%, but remains down -17.7% YTD. Unfortunately, the precious metal complex is struggling to perform once more… one of the key culprit being higher interest rate which despite elevated inflation and a lower growth, puts a lid on metals with their negative carry.

Emerging Markets

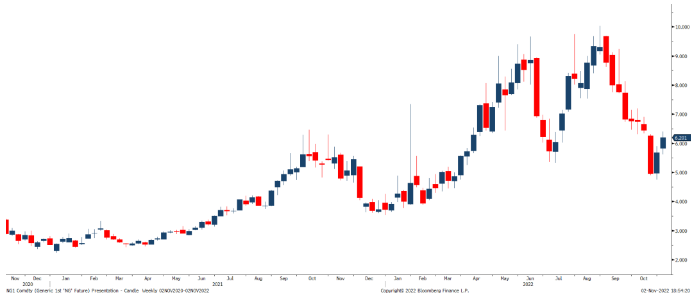
EM equities underperformed further, down -3.1% (-29.4% YTD).

Though most regions we cover were positive in October, China continue to decline and negatively contributed to the relative underperformance. US restriction of on semi equipment export to China, Xi's 3rd term confirmation solidifying his control, and the zero covid policy continued to weight on sentiment. Chinese equities were down -16.8% MoM (-42.8 YTD). The tech-heavy Hang Sang index dropped to a level last seen in 2005.

Turkey was the best performing region, up 23.3% in USD terms (+43.9% YTD) as yet another rate cut sent the Lira to a new ATL.

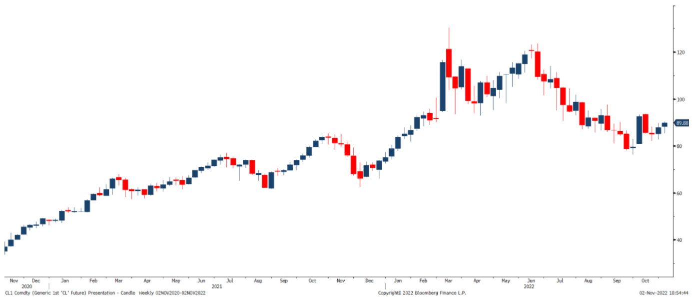
The MSCI Emerging Market Currencies index was up +0.8% last month (-7.1% YTD). The Chinese Renminbi continued to weaken against the dollar for the 8th consecutive month, down -2.9% to -15.4% YTD. The Brazilian Real was up +4.5% (+7.2% YTD) while the Mexican Peso was up +1.6% (+3.2% YTD).

Chart 10. Natural Gas Continuous Futures (Weekly)



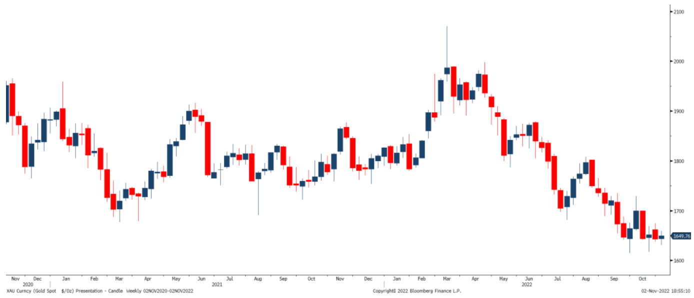
Source. Bloomberg, MAM Research

Chart 11. WTI Crude Oil Continuous Futures (Weekly)



Source. Bloomberg, MAM Research

Chart 12. Gold Spot (Weekly)



Source. Bloomberg, MAM Research

Chart 13. MSCI EM Index (Weekly)

Source. Bloomberg, MAM Research

Chart 14. MSCI EM FX Index (Weekly)

Source. Bloomberg, MAM Research

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