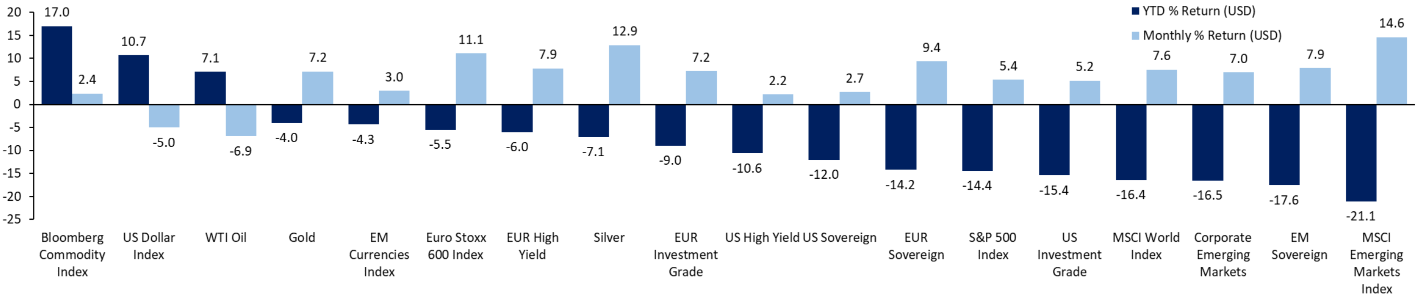
December 5, 2022

Monthly Market Wrap, November 2022

As peak interest rate approaches and the yield curves remains deeply inverted, the inflation narrative is soon going to give to way to the recession one. Consumer spending is declining. Real US retail sales were down -0.3% YoY. US personal savings rate is down to a seventeen year low at 2.3%. Consumers at the lower-end of the income spectrum are suffering the most from the tightening of financial conditions. But it is not exclusive to the consumer. Companies are now beginning to meaningfully reduce headcounts with tech jobs particularly impacted. Tech had the second highest number of layoff announcements since the data series started in 1993.

Chart 1. Asset Class Return YTD (USD Base)



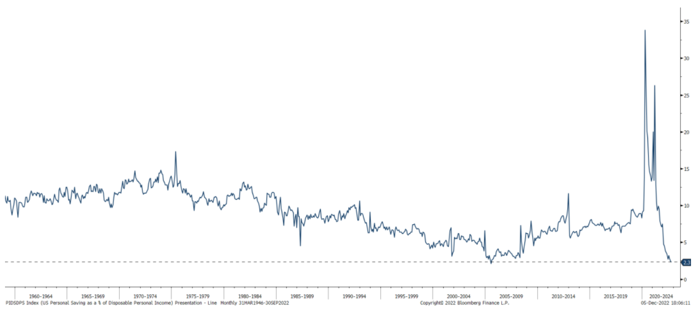
Equities

The bear market rally pursued its course in November, with the MSCI World up 18.% from the lows. The risk-on sentiment has been fuelled by a softer than expected US CPI print, coming in at +7.7% YoY (vs. 7.8% expected), and hints of downshifts in the pace of rate hikes starting as early as the December meeting (50bps instead of 75bps in previous instances). The MSCI World closed up +6.9% (-14.5% YTD).

The S&P 500 paired back some of the YTD losses, up 5.6% MoM (-13.1% YTD). The Nasdaq was up 5.6% MoM (-25.7% YTD). The Russell 2000 was up 2.3% MoM (-14.9 YTD). Economic data was mixed, but signs of a weakening in economic output were clear. However, "bad news is good news" mentality (and vice versa) raged, supporting markets with hopes of a Fed pivot. S&P flash composite new orders fell to its lowest level in two years. Initial jobless claims increased to the highest level in three months (still low on a historical basis). The personal savings rate is at the lowest point since 2005. At the sector level, materials was the best performing one (+11.7% MoM) with news of a potential easing of zero-covid in China supporting higher industrial metal and other commodity prices. Unsurprisingly, the more cyclical consumer discretionary sector continued to underperform amid an uncertain economic outlook, up a mere 0.9% MoM.

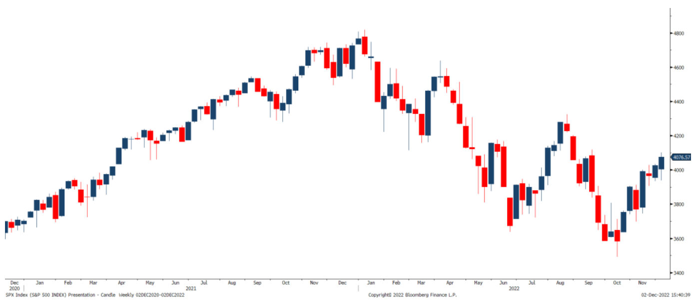
European equities face similar tailwinds, but were further aided by the rebound in optimism on China (higher relative exposure from a revenue standpoint). Mild weather, lower energy prices, and looser global financial conditions helped support prices as the EuroStoxx 50 rose for the 9th consecutive week, closing 22% above this year's lows. Regionally, Germany was one of the best performing regions, up 8.6% MoM (-9.4% YTD).

Chart 2. Savings Rate At All Time Lows



Source. Bloomberg, MAM Research

Chart 3. S&P 500 Index (Weekly)



Source. Bloomberg, MAM Research

Chart 4. EuroStoxx 50 Index (Weekly)

Source. Bloomberg, MAM Research

Fixed Income

Economic data continues to display a slowing global economy. Housing is seeing one of the fastest declines in recent decades. The NAHB Housing Market index fell for the tenth consecutive month, closing up on pandemic lows. Existing home sales are down -28.4% YoY to their lowest level since 2008. Homebuying conditions surged to the worst level, ever. Industrial production hit its lowest point for 2022. PMIs continue to be contractionary meanwhile median one and three year inflation expectations rose to 5.9% and 3.1% from 5.4% and 2.9%, respectively, for the month of November. With odds of a soft landing eroding as the data gets reporting, rates at the tail end of the curve dropped. US 10-Year yields are down -44bps. The US yield curve inverted even further, despite 2-Year yields declining -17bps to 4.31%. The 10-2 hit its lowest point in over four decades at -71bps.

The weak economic outlook and words of a slower pace of monetary policy tightening in Europe drove rates lower in the region. The 10-Year German Bunds dropped below 2.0%. Italian bond yields were down -38bps MoM. German-Italian sovereign bond spread dropped below 200bps for the first time since May and is at odds with the broader macroeconomic risks. Finally, the ECB took its first step towards unwinding its massive bond purchases by taking away a rate subsidy on loans made to European banks.

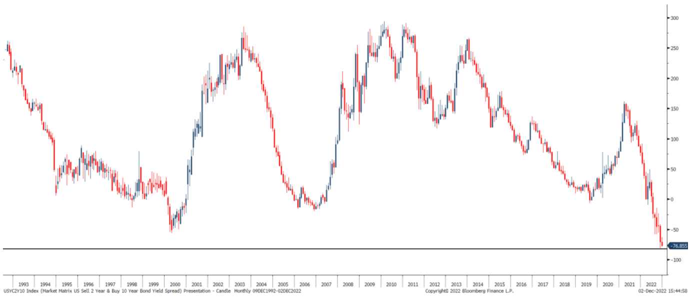
Currencies

The US Dollar was down -5.0% MoM (+10.8% YTD), marking its worst month since September 2010 amid easing inflationary pressures, expectations of smaller rate hike increments, and a rising potential differential to future monetary policy tightening relative to Europe and potentially Japan. Despite a less hawkish rhetoric from the Fed, the relatively weaker and more unstable economic outlook out of Europe (i.e., weather/geopolitical risk) means the dollar could very well have some room to appreciate further. Furthermore, talks about a new BoJ chair inclined to entertain the idea of ending the infinite stimulus may be driving a massive carry trade unwind, thus pressuring the dollar lower.

The Euro appreciated +4.3% in November (-9.4% YTD), breaking above the parity level. It was the best monthly performance in over twelve years and its first back-to-back monthly gain since May 2021. The union currency's strength was more reflective of a broader dollar weakness than Euro strength, underperforming most other G10 currencies.

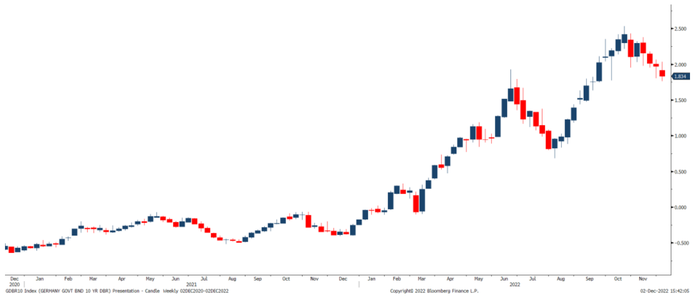
The Japanese Yen was the best performing currency against the dollar, up +6.2% (-21.2% YTD). The potential for a new BoJ chair to put and end to the current highly accommodative monetary policy is driving a massive carry trade unwinding where JPY has been the funding currency.

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 (Weekly)

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

Broad commodities were up +2.7% MoM (+19% YTD). Gains in precious and industrial metals offset the declines in both energy and agricultural prices.

After months of underperformance, industrials caught a bid on rumors of China easing its zero-Covid policy and progressively re-opening its economy while maintaining accommodative fiscal and monetary policies. Furthermore, commodities broadly have benefited from a weaker dollar. Industrials were up 14.5% MoM (-4.5% YTD). Copper jumped +10.5% to record its best monthly advance since March 2022 while Nickel closed up +23.8%.

Precious metals (in dollar terms) posted strong monthly gains, up +8.3% MoM (-5.3% YTD). Gold, out of favor for months, has benefited from a decline in inflation rates and expectations of a slower pace of rate hikes (improving carry dynamics). Silver had its best monthly gain in nearly two years, up 12.9% (-7.1% YTD).

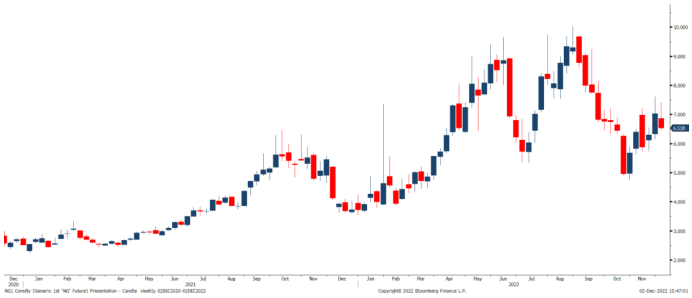
Energy commodities suffered from a rise in recession fears, outweighing benefits from a China re-opening on the back end of the month. Energy was down -0.7% (+55.2% YTD). All major contracts, except natural gas, were lower. Recession fears are likely going to remain in the driving seat for energy prices for some time with investors anticipating demand destruction to bring supply-demand dynamics back into balance but several factors (incl. SPR refills) will likely keep a floor near $70-80.

Emerging Markets

EM equities outperformed, up 14.8% MoM (-18.9% YTD). Despite a lack of improvement on the global macro front, EM performed relatively well last month. The rebound in Chinese assets as well as weaker dollar were supportive to the region in aggregate. Chinese stocks bounced swiftly from their cycle lows, up +29.7% MoM (-25.8% YTD). News of economic re-opening, zero-Covid policy easy, and new property sector reforms fuelled the rally. Turkish equities climbed higher, up 22.5% MoM in USD (+76.3% YTD), as yet another rate cut sends the Lira plunging for the 11th consecutive months and individuals revert to equities to hedge (partially) against inflation. Headline inflation declined for the first time in 18 months, at 84.4%. Food inflation rose to 102.5%, but headline eased on the back of energy and core goods. Base effects may drive a sharp fall in YoY inflation in coming quarters, but there are upside risks related to fiscal and credit stimulus ahead of elections.

The JPM Emerging Market Currency index rose +3.0% MoM, its largest monthly gain since March 2022, now down -4.4% YTD. The Chinese Renminbi rebounded against the dollar, up +3.4% (-11.6% YTD). The Brazilian Real was down -1.6% (+5.6% YTD). The Mexican Peso strengthened for the fourth month in a row, up +2.2% MoM (+5.4% YTD).

Chart 10. Natural Gas Continuous Futures (Weekly)



Source. Bloomberg, MAM Research

Chart 11. WTI Crude Oil Continuous Futures (Weekly)

Source. Bloomberg, MAM Research

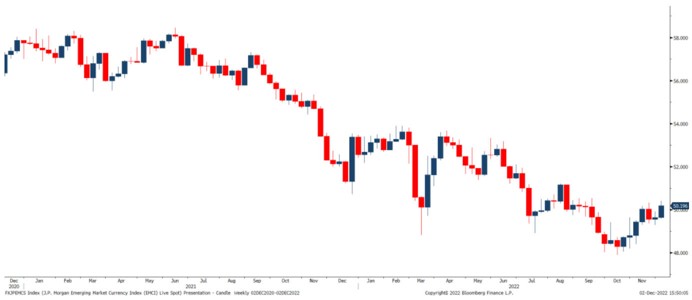
Chart 12. Gold Spot (Weekly)

Source. Bloomberg, MAM Research

Chart 13. MSCI EM Index (Weekly)

Source. Bloomberg, MAM Research

Chart 14. MSCI EM FX Index (Weekly)



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