



Weekly Investment Update

28th October 2022

News Headlines

Sunak appointed – After a short vote by Conservative MPs, it was announced that Rishi Sunak would take over as leader of the Conservative Party and prime minister. Sunak aims to reunite the party after months of infighting and political turmoil. His first priority is to restore faith in the government's ability to manage the economy correctly and undo the damage caused by Liz Truss' unfunded tax cut announcement. Major appointment for the new cabinet included Jeremy Hunt as Chancellor of the Exchequer, James Cleverly as Foreign Secretary, and controversially, Suella Braverman as Home Secretary after she was sacked last week for breaking ministerial code.

Xi Jinping (China) – History was made earlier this week as Xi Jinping secured an unprecedented third term as the general secretary of the ruling Communist Party. Xi also remained Chairman of the Central Military Commission, affirming his status as the most powerful Chinese leader since Mao Zedong. Chinese markets reacted negatively to the result as investors do not appear to believe a rejuvenation of private enterprise under Xi's rule is possible, pushing an index of Chinese technology stocks in sight of record lows.

Central bank divergence – The European Central Bank (ECB) chose to increase its interest rate by 0.75% on Thursday, pushing the key rate up to its highest levels in more than a decade at 1.5%. The bank looked past fears of recession in an effort to tackle record euro-zone inflation. At the other end of the spectrum, the Bank of Japan (BoJ) remained dovish and decided to keep its rates in negative territory (-0.1%) as committee members speculate that inflation will cool to around 2% next year.

Market Summary

Global Equities – Among a flurry of global corporate earnings reports, dovish rhetoric from key central banks saw equity markets rally strongly throughout the week, another of many interest rate pivot anticipation trades we have seen over the past 12 months. The MSCI World index returned 2.49% for the week as at Thursday's close. The strongest rally came in Europe, as the STOXX 600 rose 3.53%. the rally came on the back of improved investor sentiment in the region after European natural gas prices slumped. In the US, the S&P 500 rallied and maintained those gains, however, the Nasdaq composite index lost gains made at the start of the week, falling into negative territory as key tech earnings disappointed. Equities in Asia fell sharply after Xi Jinping started his third term as China's President.

Commodities – Oil prices are headed for a weekly gain of around 3%, with prices pushed higher due to strong US economic data, tight supply, and hopes of a recovery in demand from China.

European natural gas prices fell to 4-month lows, falling 70% since highs seen in August as EU gas storage facilities sit close to full.

Fixed Income – Rishi Sunak's appointment as the UK's new prime minister saw UK gilts become the standout performer in the sovereign bond market. Sunak is seen by investors as somebody who can instil greater financial discipline in the UK economy, which led to markets repricing the interest rate hikes by the Bank of England in the next couple of meetings. Gilt prices returned to pre-mini budget levels, with short dated (2-year) gilts seeing their largest gain in 30 years as Sunak was appointed. Although confidence is coming back to the UK market, research by Collidr Asset Management has shown that the sell-off of UK debt in 2022 has seen £1.3 trillion erased from the value of UK bonds.

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Chart of the Week

Gilt Yields Retrace Outperform broad bond rally, BOE meets Nov. 3



Source: Bloomberg – UK gilts rally as Sunak is appointed UK prime minister

Key Economic Releases Next Week

Monday	Tuesday	Wednesday	Thursday	Friday
<ul style="list-style-type: none"> - China NBS manufacturing PMI - European inflation yy 	<ul style="list-style-type: none"> - Australia cash rate decision - US ISM manufacturing PMI 	<ul style="list-style-type: none"> - Germany unemployment rate - US FOMC rate announcement 	<ul style="list-style-type: none"> - UK BoE rate decision - US jobless claims 	<ul style="list-style-type: none"> - US employment rate - US non-farm payrolls

Market Performance – 28/10/2022

Global Market Indices	2022 YTD %*
FTSE 100	-2.78%
S&P 500	-19.57%
STOXX 600	-14.38%
Nikkei 225	-4.88%
Hang Seng	-31.59%
Fixed Income	Yield %
UK 10 Yr Gilt	3.43%
US 10 Yr Treasury	3.92%
Commodities	2022 YTD %
Gold	-9.74%
Currency	
GBP/USD	1.16 (28/10/2022)
GBP/EUR	1.16 (28/10/2022)

Source: FE Analytics/ Bloomberg.com

*Total Return/Local currency

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