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OUT OF THE ORDINARY

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Market reflection

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Overview

The show-stopping event in November was the release of the US inflation data for October. Although a headline print showing prices rising at an annual rate of 7.7% might not sound like a reason to celebrate in the context of past years of very low single digit inflation, it represented a meaningful drop from September's figure of 8.2% and was also below expectations – a rare outcome this year.

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The consequent one-day rise of 5.5% for the S&P500 Index was the stuff of which legends are made. Even so, equity markets have struggled to make much further progress, hampered by persistent hawkish comments from central bankers. They are adamant that they are not done with raising interest rates on the grounds that releasing the monetary pressure might untether new inflationary pressures and raise expected levels of future inflation. The promise of higher rates brings with it the threat of recession, and that, in turn, would put downward pressure on corporate earnings estimates.

Other notable events in November included the US mid-term elections, in which the Democrats retained control of the Senate and lost the House of Representatives. A split Congress provides little threat or opportunity as far as investors are concerned, but the disappointing performance of the Republican Party appeared to lower the probability of a debt ceiling crisis as well as to reduce the chances of a return to the White House for Donald Trump, both of which were seen as positive. The UK Autumn Statement was reassuringly boring, if austere, and further bolstered confidence in the Sunak government. Even so, with cost-saving measures back-loaded into the next Parliament, there is an element of trust here. There are no grounds for complacency

- Bloomberg consensus World GDP growth forecasts for 2022 have been flat at 2.9% since August, having been 4.4% at the start of the year. However, during that period the expectations for 2023 have continued to deteriorate from 2.7% to 2.1%. The forecast for 2024, also at its nadir of 2.9%, shows little in the way of hope for a meaningful recovery. No 2020-style "V"-shaped bounce here.

- The decline in economic growth will help to control inflation, which is exactly the central banks' intent when tightening monetary policy. But it will be a slow process. Whereas the global forecast for 2022 remains elevated at 7.45%, the outlook for next year is for a fall to 5.1%, still much higher than central banks and politicians would like. Even in 2024 the forecast is for 3.4%. Taken from the base of 2021, those three years represent a total cumulative increase of 17% in consumer prices

- The third quarter earnings season fizzled out with limited drama. In aggregate, and as customary, earnings surprised to the upside, although not as much as usual. Energy was the big winner and a major contributor to overall earnings growth, while some of the biggest losers were the large cap US technology platform companies. Growth companies turn out to be cyclical after all.

- Attention has lately turned to China and the protests against President Xi and his zero-Covid policy. We do not expect any hint of regime change, although a softening of restrictions is possible. Sentiment towards China is close to rock bottom, both diplomatically and investment-wise.

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