Schroders personalwealth
We Change Lives

Monthly Review and Outlook

November 2022

Review

Equities (shares) rose in November, with emerging markets performing more strongly than developed markets.

Further support for shares came from signs of China loosening its strict Covid rules, which have dampened economic activity.

In fixed income, government bond prices rose, meaning that yields fell.

Company shares

UK equities performed well during the month. This was driven by good performances from larger companies in the areas of basic materials, financials and healthcare. There was also a strong performance from UK small and medium-sized companies, partly due to signs the UK economy is holding up better than expected, fuelling hopes for a milder recession.

US equities rose in November. Investors responded positively to data showing inflation had fallen slightly to 7.7 per cent and on the expectation that it will continue to fall. Jerome Powell, chair of US central bank the Federal Reserve (Fed), indicated that the pace of interest rate rises will likely be less aggressive from now on.

Eurozone shares rose on hopes that inflation may be moderating in the eurozone as well as in the US. All sectors registered positive returns, with more economically sensitive parts of the market, such as non-essential consumer goods and information technology, performing most strongly.

The Japanese stock market ended the month with a total return of 3.0 per cent in local currency terms. Equities in Asia (excluding Japan) rose, with robust share price growth in China, Hong Kong and Taiwan. The rally in Asian shares came after US President Joe Biden and Chinese leader Xi Jinping signalled a desire to improve US-China relations. Emerging market (EM) equities rebounded in November, and performed more strongly than developed market equities. Lower US inflation, a weaker US dollar and a signal from the Fed that interest rate rises may be slower from December all contributed to positive market sentiment.

Bonds

There was a robust overall recovery in bond markets due to the improved outlook on inflation and on the pace of interest rate rises. Prices of higher risk bonds generally rose more strongly than prices of lower risk bonds. Yields on US government bonds with 10-year expiry dates fell from 4.05% to 3.61% (bond yields fall when bond prices rise), with yields on two-year US government bonds dropping from 4.49% to 4.34%. In the UK, positive market sentiment about the new prime minister appeared to hold. The UK 10-year government bond yield fell from 3.51% to 3.16% and the two-year from 3.27% to 3.26%. Germany's 10-year yield dropped from 2.14% to 1.93%.

Commodities

There was a fall in the S&P GSCI Index (a benchmark for investment in global commodity markets), with price gains in industrial metals and precious metals failing to offset weaker prices for energy and agriculture. Energy was the worst-performing component of the index. In agriculture, prices for wheat and corn were lower, while cotton, sugar and cocoa all had robust price growth. In industrial metals, all sectors achieved growth. In precious metals, silver prices rose significantly, while gold price gains were more muted.

Outlook

We have moved to a positive stance on high yield bonds and emerging market bonds (in local currency terms), both higher risk categories of bonds, due to their attractive yields. These asset classes look cheap relative to equities and we believe offer some cushion against weaker economic growth. We have also moved to a neutral stance on equities but remain cautious on the equity outlook heading into 2023 due to recessionary risks and the threat these pose to company earnings. We remain positive on commodities (focused on energy and agriculture) due to their limited supply. We still see some risks in 2023. In particular, expectations of Fed rate cuts in the second half of the year might be too optimistic and the potential for a rate-induced recession remains.

Asset overview

Our general view of assets in the coming months is summarised as follows:

Equities	🟡	We have upgraded to a neutral stance. But we are cautious heading into 2023, given recessionary risks and possible over-optimistic earnings expectations.
Government bonds	🟡	We retain our neutral outlook. We don't think US inflation rates will fall by as much as markets expect and believe a 'higher for longer' approach will be needed for most of 2023.
Corporate bonds	🟢	We have upgraded company bonds to positive, as their valuations look compelling.
Commodities	🟢	No change. Demand for commodities is slowing, but their supply remains limited, particularly for energy and agricultural goods.

	Legend
🟢	Positive outlook
🔴	Negative outlook
🟡	Neutral outlook

Source: Schroders, 9 December 2022

Important information

Forecasts of future performance are not a reliable guide to actual results, neither is past performance a reliable indicator of future results. The value of investments and the income from them can fall as well as rise and are not guaranteed, and the investor might not get back their initial investment.

Any views expressed are our in-house views as at end-November 2022. Investment markets and conditions can change rapidly, and the views expressed should not be taken as statements of fact nor relied upon when making investment decisions. This content may not be used, copied, quoted, circulated or otherwise disclosed (in whole or in part) without our prior written consent.

Schroders Personal Wealth (ACD) is a trading name of Scottish Widows Schroder Personal Wealth (ACD) Limited. Registered Office: 25 Gresham Street, London EC2V 7HN. Registered in England and Wales No. 11722983. Authorised and regulated by the Financial Conduct Authority under number 834833.

Claims may be protected by the Financial Services Compensation Scheme. We are covered by the Financial Ombudsman Service.