

Monthly Review and Outlook

October 2022

Review

Developed market shares made strong gains in the month, but emerging markets fell.

Chinese equities were weak as the Communist Party Congress signalled maintenance of the zero-Covid policy and reinforced President Xi's authority.

In the UK, bond prices rose as markets welcomed the appointment of Rishi Sunak as prime minister.

Company shares

UK assets reacted positively to Sunak becoming prime minister. His fiscally conservative reputation and experience as chancellor helped stabilise gilt prices. Sectors of the market focusing on non-essential consumer goods performed relatively strongly. Energy companies performed well, due to renewed strength in oil prices.

US equities rose despite the US central bank, the Federal Reserve (Fed), confirming that further interest rate rises may be needed to contain inflation. All sectors made gains, but these gains were variable. Energy stocks were broadly stronger following especially robust earnings.

Eurozone shares moved higher in October. All sectors gained, with energy and industrials leading the way. The European Central Bank acknowledged that the eurozone economy may be heading for recession. Markets took this as a sign that interest rate rises could soon ease, which supported appetite for shares.

The Japanese stock market regained some ground in October, ending the month with a total return of 5.1% in local terms. Asian equities (excluding Japan) were weaker in October, driven by sharp sell-offs in China and Hong Kong. This followed confirmation that Chinese Premier Xi Jinping would remain as leader for an historic third five-year term. News that China would not relax its zero-Covid policy anytime soon also weakened investor sentiment. Emerging market equities didn't participate in the rally seen across developed market equities during October.

Bonds

US government bonds (Treasuries) performed more weakly than other major bond markets, with investors expecting further interest rate rises from the Fed. Bond prices often fall when interest rates rise. The yield on US government bonds with a 10-year expiry date rose from 3.83% to 4.05% (bond yields rise when bond prices fall), while yields on US government bonds with a two-year expiry date rose from 4.28% to 4.49%. In the UK, a shift in government economic strategy brought some stability. UK government bond (gilt) yields

remained high but fell compared to September. The UK 10-year yield decreased from 4.15% to 3.51% and the two-year fell from 3.92% to 3.27%. The yield on 10-year German government bonds edged up from 2.11% to 2.14%.

Commodities





The S&P GSCI Index (a benchmark for investments in global commodity markets) performed positively in October, with higher energy prices offsetting weaker prices for agriculture and precious metals. Energy was the best-performing component of the index, with sharply higher prices for heating oil, gas oil and unleaded gasoline offsetting a fall in the price of natural gas. Within agriculture, cotton and coffee prices were sharply lower, while sugar, soybeans and corn achieved modest price gains. Regarding precious metals, silver achieved a small price gain while the price of gold was modestly lower. Turning to industrial metals, higher prices for aluminium, lead and nickel helped offset weaker prices for zinc and copper.




Outlook

Yields have generally risen on government bonds and high-quality (investment grade) bonds from companies, but we retain a neutral stance. This is because we expect the Fed to continue to raise interest rates and bond prices often fall when interest rates go up. We retain our cautious stance on equities, as we believe rising interest rates will continue to negatively impact company valuations while recessionary risks will negatively affect company earnings. Turning to commodities, we remain positive on energy and agriculture as supplies remain limited.

Asset overview

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

Equities		We remain negative on equities: prices have fallen, but we expect a further deterioration in corporate earnings given recessionary risks.
Government bonds		We have yet to see evidence of a weakening employment market, which would allow the Fed to ease its interest rate stance. So we remain neutral.
Corporate bonds		The outlook for bonds from companies is looking brighter due to falling bond prices and rising yields. But we need to see more price stability before we upgrade to positive.
Commodities		Demand for commodities is falling, but limited supply is supporting commodity prices, particularly in the energy and agricultural sectors.

Legend	
	Positive outlook
	Negative outlook
	Neutral outlook

Source: Schroders, 9 November 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.

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