Monthly Review and Outlook November 2023

Review

- **Equities (shares) and bonds rose** in November.
- Slowing inflation in the US and other regions gave rise to hopes that **interest rates may have reached their peak**.
- **Commodities fell** amid weakness in energy prices.

Company shares

- **UK equities rose** but lagged behind several other developed markets. Internationally exposed larger UK companies were held back by sterling's strong performance. Information technology and real estate industry sectors performed relatively strongly overall, given their sensitivity to interest rates expectations. But companies in the energy sector, healthcare and essential consumer goods generally performed relatively weakly.
- **US equities rose strongly**. Gains were supported by the publication of October's inflation data, which showed the consumer price index (CPI) had fallen to 3.2 percent. This raised hopes that further interest rate hikes may not be needed and boosted areas of the market sensitive to interest rates, such as real estate, technology and non-essential consumer goods.
- **Eurozone shares rose** as steeper-than-expected drops in inflation led to hopes of imminent rate cuts. Top gainers included real estate, information technology and industrials. The energy sector performed relatively weakly, as did less economically sensitive sectors such as healthcare.
- The **Japanese equity market rebounded strongly**. Large companies with perceived high growth potential drove the market higher in the first half of November. But small companies lagged as weakness in the domestic economy weighed on these more domestically oriented businesses.
- **Asian equities (excluding Japan) achieved strong gains** as hopes that US interest rates may have peaked led to renewed investor appetite for riskier assets across the region. All markets in the MSCI Asia (ex Japan) index ended the month in positive territory. South Korea, Taiwan and the Philippines performed particularly strongly, while Hong Kong, Thailand and Singapore made more modest returns. Chinese stocks failed to match the gains achieved by some of their regional peers due to ongoing concerns over weaker Chinese economic growth.
- **Emerging markets (EM) rose strongly**, albeit slightly behind developed markets. Egypt was the top-performing market in the index, followed by Korea (where technology related stocks rallied strongly). Mexico and Brazil also posted double-digit growth (in US dollar terms). Weaker-than-expected third-quarter economic data led Thailand to become the weakest market in the index.

Bonds

- **Prices rose overall for government bonds, high-quality (investment grade) and higher risk (high yield) corporate bonds** amid speculation that central banks might be very close to ending interest rate rises.
- Bond yields fall when bond prices rise and the **yield on US government bonds with a 10-year expiry date fell** by 0.57 percentage points to 4.34 percent. Meanwhile, the **UK 10-year government bond yield fell** by 0.34 percentage points to 4.18 percent and **Germany's 10-year yield dropped** by 0.36 percentage points to 2.45 percent.
- **Upbeat market sentiment drove global corporate bond markets to perform more strongly than government bond markets.**

Commodities

There was a fall in the Bloomberg Commodity index, which is a benchmark for investment in global commodities. Energy and livestock performed particularly poorly, while precious metals, industrial metals and agriculture made modest gains. In precious metals, silver rose sharply higher, while gold achieved a more modest price increase.

Outlook

We believe interest rates are reaching a peak and we expect economic growth to be maintained in the short term. Our stance on corporate bonds is positive, given our outlook for an economic slowdown. We are positive on equities, due to the outlook for Japanese equities, and we continue to favour commodities for the role they can play as an investment diversifier.

Asset overview

Our general view of assets in the coming months is summarised as follows. These are our in-house views as at the end of November 2023.

Equities	🟢	We currently believe there could be persistently lower turbulence in bond markets and that this could have a positive impact on equities.
Government bonds	🔴	We continue to remain slightly cautious and prefer corporate bonds, given that we expect economic growth to be maintained in the short term.
Corporate bonds	🟢	In our view, yields (income) on corporate bonds look attractive in the current market environment.
Commodities	🟢	We are particularly positive on gold and energy. Commodities can offer some protection against geopolitical risks and against the potential scenario of a stagnant economy combined with high inflation.

	Legend
🟢	Positive outlook
🔴	Negative outlook
🟡	Neutral outlook

Source: Schroder Investment Management and Schroders Personal Wealth, 5 December 2023

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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