BLACKFINCH
ASSET MANAGEMENT

Blackfinch Asset Management

Monthly Market Moves

October 2022

Market Overview

Market Performance 1st – 31st October 2022 (in GBP Total Return)

FTSE 100	**+2.99%**
S&P 500 (USA)	**+4.77%**
FTSE Europe Ex UK	**+4.37%**
Topix (Japan)	**-0.77%**
MSCI Emerging Markets	**-6.05%**

October was yet another remarkable month in UK politics. In the wake of the somewhat disastrous "kamikwasi" budget in September, the UK had its third prime minister in as many months. Liz Truss broke records for all the wrong reasons in terms of tenure, resigning from her post after just 44 days in power, but early signs pointed towards her successor being a positive for UK investment assets. Since their respective appointments as Prime Minister and Chancellor, Rishi Sunak and Jeremy Hunt have brought a degree of support and stability to UK investments and currency with their more conventional political and economic strategy. Despite this 'excitement' in the UK, the rest of the world remained largely focused on ongoing inflationary and recessionary concerns which continued to be the primary driver for investment portfolio returns.

Inflation remained hot...

- The UK's consumer price index (CPI) rate hit 10.1% against expectations of 9.9%, while Eurozone CPI printed at 10.7% against expectations of 10.4%.
- US inflation printed slightly cooler at 8.2% in October, down from September's reading of 8.3%.
- Third quarter US GDP was unexpectedly high at 2.6% which helped to temporarily abate recession fears.
- However, this pointed towards inflation being more of a structural rather than transitory issue in the US.

...so interest rates continued to climb

- These stubbornly high inflation prints equated to one obvious outcome: higher interest rates from central banks

- The European Central Bank added a record breaking 0.75% to its base rate while signalling further hikes would follow.
- Both UK and US central banks were expected to raise their base rates by 0.75% in early November.
- Markets now expect base rates in the US to reach 5% next year before falling back.
- Interest rate expectations moderated in the UK thanks to the new political regime. However rates are still predicted to hit 5% domestically.

A choppy China caused assets to fall...

- In China, and the broader Emerging Market and Asian regions, all eyes were on the five-year Communist Party congress, where President Xi cemented his hold on power for a record-breaking third term.
- Investors rushed for the exit after there were no signs that China's zero-COVID policy would be relaxed and no pledge of significant stimulus to prop up the slowing economy.
- Furthermore, after Xi appointed staunch loyalists into key positions within the Party, investors took that to mean little resistance would be offered to Xi's policies.

Oil price stages a recovery

- The oil price rallied through October, aided in particular by a weakening US dollar.
- This was the first monthly oil price gain since May, and has potentially damaging consequences for future inflation readings.
- Energy companies stayed in the spotlight after some announced very strong results during the month.

Summary

A slightly less tumultuous month for most asset classes helped bring an air of relative calm. However, taking a view of performance across the year highlights there have been virtually no places for investors to shelter from the market sell-offs. While most news flow remains gloomy, we take a degree of comfort that we have already seen a significant repricing of assets to reflect these widely documented challenges. Central banks are likely to continue struggling against inflation and, as we have been saying for some time, markets are unlikely to find a floor until there are reasonable signs that inflation in developed economies has peaked and is on the way back down.

Data prints in early November will provide initial signs here, paying particular attention to the press conferences delivered by central banks after rate decisions have been announced. However, the focus on "whatever it takes" to control inflation by central banks gives us no reason to see signs of any end to hikes this year. This is a view shared by markets generally, with the current 'base case' factoring in a recession of some degree in both the US and Europe moving in to 2023.

IMPORTANT INFORMATION

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