momentum
global investment management

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Global Matters | Monthly

Market Update

November 2022

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Contents

Global Market Review & Outlook

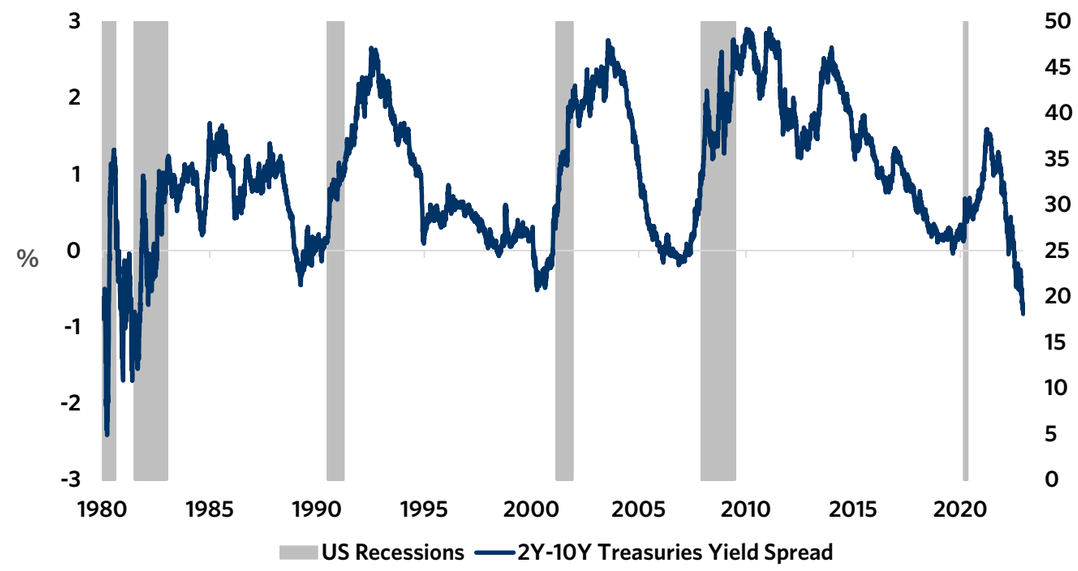
"The best returns came from emerging markets, up 14.8% in November, driven by an extraordinary rise in China of 30%"

The rally in risk assets in October broadened out in November, with strong returns across nearly all major asset classes and markets. MSCI indices showed developed equity markets returned 7.0% in the month, taking the gain from the mid-October low to 15%, while the best returns came from emerging markets, up 14.8% in November, driven by an extraordinary rise in China of 30%. Bond markets also enjoyed a strong month, with US Treasuries returning 2.6%, while investment grade credit produced a return of 5.2%, almost keeping pace with US equities, +5.5% on the S&P 500 index. Arguably the most significant move, however, was a steep fall in the dollar, down 4% in November on a trade weighted basis, taking it back to mid-year levels. The euro and sterling rose by over 5%, the yen by almost 8%, and gold benefitted with a rise of 8.3%. The weaker dollar led to double-digit gains in UK, European and Japanese equities, and mid-single digit returns in their respective bond markets.

The key developments triggering the rally were an unexpectedly large fall in the inflation rate in the US in October and a dovish tilt by the Fed. Headline CPI rose by 0.4% month-on-month and core CPI 0.3%, bringing year-on-year rates down to 7.7% and 6.3% respectively, along with core Producer Price inflation unchanged over the month, while the Fed delivered a more dovish signal alongside the expected 75bps rise in the Fed Funds policy rate, noting that although policy is likely to remain tighter for longer 'the time is approaching for a slower pace of tightening'. Increasing confidence that the tightening cycle would soon slow and was close to a peak was further boosted by Chairman Powell's unambiguous signal late in the month that the policy setting meeting in December would move to a 50bps rise after four successive rises of 75bps. Although there is still considerable caution in the Fed's statements around the pace of the fall in inflation and the risks of recession in 2023, the markets have interpreted the shift as a key turning point in the monetary cycle.

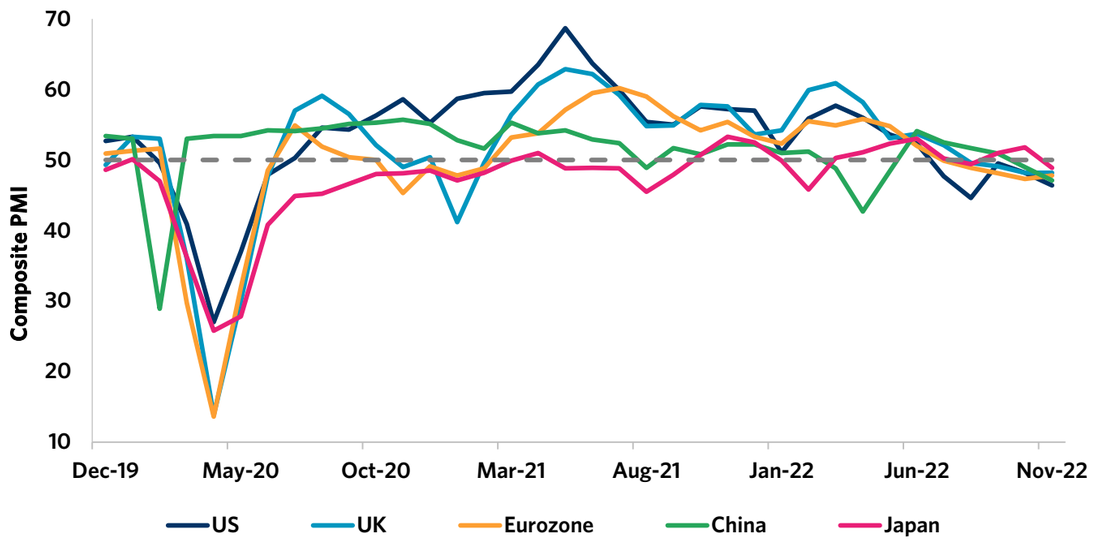
Recession warning lights flash red

US Treasuries 2Y-10Y yield spread widest for 40 years



Source: St Louis Fed, Momentum Global Investment Management. Data to 6 December 2022.

Recession warning lights flash red
leading indicators in contractionary territory



Source: Bloomberg Finance L.P., Momentum Global Investment Management. Data to 6 December 2022

As a result, bond yields fell sharply, especially at longer maturities. US 10-year Treasury yields fell from 4.05% to 3.61% over the month, with real yields and inflation expectations both declining. Other government bond markets followed, while credit markets rallied strongly, and emerging market debt enjoyed a gain of over 8% after a period of sustained poor performance.

In the current environment, where the taming of inflation is paramount, bad news on the economy is interpreted as good news for markets as it will hasten the decline of inflation and lead to an easing in monetary policy. November brought no shortage of such 'good news', with leading indicators of activity across the world pointing to a sharp slowdown and probable recession, while the US 2Y-10Y yield spread moved to its steepest inversion since 1982, with the 2Y yield 70bps higher than the 10Y yield at the end of November. An inverted curve is regarded as one of the bond market's most reliable indicators of recession ahead, and has preceded all post-war recessions in the US. It is also a signal that the peak in policy rates is coming.

China has been a significant headwind for markets this year, its zero-Covid policy, regulatory crackdown on its digital economy, the shake-out in the highly leveraged property development industry and the increasingly hard-line approach taken by the Xi regime, combining to undermine growth and longer-term investment prospects. However, support has been offered to the beleaguered property sector in the past month, and more widely to smaller private firms in the face of the steep economic slowdown, and the Covid restrictions have been very gradually eased, despite widespread protests which many commentators thought would delay easing measures that could potentially be seen as a sign of weakness. Although still down by over 25% this year, the Chinese equity market recovered by almost 30% in November and provided a welcome boost to regional and global markets.

A year of sharply tightening policy and reduced liquidity inevitably brings casualties as excesses are exposed. November saw another example with the collapse of crypto exchange FTX and subsequent further sell-off in crypto currencies. While of no direct interest to investors in our funds as we have never owned crypto currencies and continue to see no value in doing so, the collapse led to contagion fears beyond the crypto world, possibly of a systemic nature. While individual investors have exposure to this area and have suffered sizeable losses from the peak, and some hedge funds, private equity firms and institutions are exposed to the $8bn funding shortfall of FTX, the sums involved are not sufficiently large, nor are banks exposed in any meaningful way, to lead to wider damage. Events of this nature are a necessary consequence of a steep cyclical downturn, resulting ultimately in more appropriate and rewarding allocations of capital.

After an exceptionally difficult year for investors, the recovery in markets over the past few weeks is both welcome and encouraging. There are still material risks and uncertainties ahead, around the pace at which inflation will fall; the resilience of the labour market in the US and elsewhere which adds to inflation risks and second-round effects on prices if wage inflation fails to decline; the length and depth of the economic slowdown underway, with the pain still largely ahead; the uncertainties in China and wider impact of its inexorable long-term slowdown; and the evolution of Russia's war on Ukraine.

But critically the peak of inflation is in sight, and by the end of the year most of the Fed's rate hiking will be behind us. This will substantially diminish the two biggest headwinds for markets of the past year, during which the steep falls in asset prices have created some excellent valuation opportunities in both bonds and equities. The recovery in November might not mark the turning point, and some disappointments and setbacks are likely, but the recovery and upside potential is significant, and any such setbacks will create buying opportunities for longer-term investors.

Market Performance - *Global (local returns) as at 30 November 2022*

Asset Class / Region	Index	Ccy	1 month	3 months	YTD	12 months
Developed Markets Equities						
United States	S&P 500 NR	USD	5.5%	3.5%	-13.5%	-9.6%
United Kingdom	MSCI UK NR	GBP	6.4%	4.2%	8.3%	13.8%
Continental Europe	MSCI Europe ex UK NR	EUR	7.1%	7.0%	-9.5%	-4.7%
Japan	Topix TR	JPY	3.0%	2.3%	2.2%*	5.7%
Asia Pacific (ex Japan)	MSCI AC Asia Pacific ex Japan NR	USD	17.6%	-1.5%	-17.1%	-15.5%
Global	MSCI World NR	USD	7.0%	4.0%	-14.5%	-10.9%
Emerging Markets Equities						
Emerging Europe	MSCI EM Europe NR	USD	16.6%	20.9%	-72.8%	-72.9%
Emerging Asia	MSCI EM Asia NR	USD	18.7%	-3.0%	-20.5%	-19.3%
Emerging Latin America	MSCI EM Latin America NR	USD	0.5%	6.6%	13.5%	20.3%
China	MSCI EM China NR	USD	17.5%	-4.4%	-22.0%	-22.8%
BRICs	MSCI BRIC NR	USD	29.7%	-7.8%	-25.8%	-28.1%
Global emerging markets	MSCI Emerging Markets NR	USD	14.8%	-1.8%	-19.0%	-17.4%
Bonds						
US Treasuries	JP Morgan United States Government Bond TR	USD	2.6%	-2.0%	-11.5%	-12.1%
US Treasuries (inflation protected)	BBgBarc US Government Inflation Linked TR	USD	1.9%	-3.9%	-11.7%	-11.4%
US Corporate (investment grade)	BBgBarc US Corporate Investment Grade TR	USD	5.2%	-1.4%	-15.4%	-15.5%
US High Yield	BBgBarc US High Yield 2% Issuer Cap TR	USD	2.2%	0.7%	-10.6%	-9.0%
UK Gilts	JP Morgan UK Government Bond TR	GBP	2.8%	-2.7%	-21.3%	-23.4%
UK Corporate (investment grade)	ICE BofAML Sterling Non-Gilt TR	GBP	3.4%	-1.1%	-16.3%	-17.3%
Euro Government Bonds	ICE BofAML Euro Government TR	EUR	2.4%	-1.4%	-14.6%	-16.0%
Euro Corporate (investment grade)	BBgBarc Euro Aggregate Corporate TR	EUR	2.8%	-0.5%	-12.1%	-12.2%
Euro High Yield	BBgBarc European High Yield 3% Constrained TR	EUR	3.6%	1.3%	-10.0%	-9.2%
Japanese Government	JP Morgan Japan Government Bond TR	JPY	-0.5%	-1.8%	-4.4%	-4.6%
Australian Government	JP Morgan Australia GBI TR	AUD	1.5%	1.3%	-8.4%	-8.4%
Global Government Bonds	JP Morgan Global GBI	USD	4.4%	-1.3%	-17.3%	-17.8%
Global Bonds	ICE BofAML Global Broad Market	USD	4.8%	-1.4%	-17.1%	-17.3%
Global Convertible Bonds	ICE BofAML Global Convertibles	USD	3.3%	-0.8%	-16.9%	-17.1%
Emerging Market Bonds	JP Morgan EMBI+ (Hard currency)	USD	8.3%	1.2%	-24.7%	-23.3%

Asset Class / Region	Index	Ccy	1 month	3 months	YTD	12 months
Property						
US Property Securities	MSCI US REIT NR	USD	5.7%	-2.8%	-21.2%	-14.4%
Australian Property Securities	S&P/ASX 200 A-REIT Index TR	AUD	5.8%	0.3%	-19.5%	-16.4%
Asia Property Securities	S&P Asia Property 40 Index NR	USD	16.8%	-1.5%	-10.2%	-9.8%
Global Property Securities	S&P Global Property USD TR	USD	8.2%	-3.5%	-21.4%	-16.7%
Currencies						
Euro		USD	5.3%	3.5%	-8.5%	-8.2%
UK Pound Sterling		USD	5.1%	3.8%	-10.9%	-9.3%
Japanese Yen		USD	7.7%	0.7%	-16.6%	-18.0%
Australian Dollar		USD	6.1%	-0.8%	-6.5%	-4.8%
South African Rand		USD	6.7%	-0.4%	-7.3%	-7.6%
Commodities & Alternatives						
Commodities	RICI TR	USD	2.3%	-1.2%	20.7%	28.8%
Agricultural Commodities	RICI Agriculture TR	USD	1.3%	-1.8%	7.7%	13.2%
Oil	Brent Crude Oil	USD	-9.9%	-11.5%	9.8%	21.1%
Gold	Gold Spot	USD	8.3%	3.4%	-3.3%	-0.3%
Hedge funds	HFRX Global Hedge Fund	USD	0.0%*	-0.9%*	-4.5%*	-4.0%*

Interest Rates	Current Rate
United States	4.00%
United Kingdom	3.00%
Eurozone	2.00%
Japan	-0.10%
Australia	2.85%
South Africa	7.00%

Source: Bloomberg Finance L.P. , Momentum Global Investment Management. Past performance is not indicative of future returns.
**estimate.*

Market Performance - *UK (all returns GBP) as at 30 November 2022*

Asset Class / Region	Index	Local Ccy	1 month	3 months	YTD	12 months
Equities						
UK - All Cap	MSCI UK NR	GBP	6.4%	4.2%	8.3%	13.8%
UK - Large Cap	MSCI UK Large Cap NR	GBP	6.9%	4.6%	16.4%	22.0%
UK - Mid Cap	MSCI UK Mid Cap NR	GBP	8.2%	3.8%	-21.2%	-17.5%
UK - Small Cap	MSCI Small Cap NR	GBP	7.5%	0.2%	-21.1%	-17.6%
United States	S&P 500 NR	USD	1.3%	0.7%	-2.0%	0.3%
Continental Europe	MSCI Europe ex UK NR	EUR	7.3%	6.9%	-7.1%	-3.5%
Japan	Topix TR	JPY	5.4%	-0.9%	-4.6%*	-4.7%
Asia Pacific (ex Japan)	MSCI AC Asia Pacific ex Japan NR	USD	12.9%	-4.1%	-6.0%	-6.2%
Global developed markets	MSCI World NR	USD	2.7%	1.2%	-3.1%	-1.0%
Global emerging markets	MSCI Emerging Markets NR	USD	10.3%	-4.4%	-8.1%	-8.3%
Bonds						
Gilts - All	ICE BofAML UK Gilt TR	GBP	3.0%	-2.6%	-21.6%	-23.8%
Gilts - Under 5 years	ICE BofAML UK Gilt TR 0-5 years	GBP	0.6%	-0.1%	-4.1%	-4.5%
Gilts - 5 to 15 years	ICE BofAML UK Gilt TR 5-15 years	GBP	3.1%	-2.2%	-14.8%	-15.9%
Gilts - Over 15 years	ICE BofAML UK Gilt TR 15+ years	GBP	4.6%	-5.0%	-34.6%	-37.9%
Index Linked Gilts - All	ICE BofAML UK Gilt Inflation-Linked TR	GBP	3.9%	-8.2%	-30.9%	-34.8%
Index Linked Gilts - 5 to 15 years	ICE BofAML UK Gilt Inflation-Linked TR 5-15 years	GBP	4.5%	-5.0%	-12.2%	-14.9%
Index Linked Gilts - Over 15 years	ICE BofAML UK Gilt Inflation-Linked TR 15+ years	GBP	4.2%	-11.3%	-42.3%	-46.5%
UK Corporate (investment grade)	ICE BofAML Sterling Non-Gilt TR	GBP	3.4%	-1.1%	-16.3%	-17.3%
US Treasuries	JP Morgan US Government Bond TR	USD	-0.8%	-4.3%	0.6%	-2.3%
US Corporate (investment grade)	BBgBarc US Corporate Investment Grade TR	USD	1.7%	-3.6%	-3.8%	-6.1%
US High Yield	BBgBarc US High Yield 2% Issuer Cap TR	USD	2.2%	0.7%	-10.6%	-9.0%
Euro Government Bonds	ICE BofAML Euro Government TR	EUR	2.4%	-1.4%	-14.6%	-16.0%
Euro Corporate (investment grade)	BBgBarc Euro Aggregate Corporate TR	EUR	2.8%	-0.5%	-12.1%	-12.2%
Euro High Yield	BBgBarc European High Yield 3% Constrained TR	EUR	3.6%	1.3%	-10.0%	-9.2%
Global Government Bonds	JP Morgan Global GBI	GBP	0.2%	-3.9%	-6.3%	-8.7%
Global Bonds	ICE BofAML Global Broad Market	GBP	4.8%	-1.4%	-17.1%	-17.3%
Global Convertible Bonds	ICE BofAML Global Convertibles	GBP	3.3%	-0.8%	-16.9%	-17.1%
Emerging Market Bonds	JP Morgan EMBI+ (Hard currency)	GBP	3.9%	-1.5%	-14.6%	-14.8%

Asset Class / Region	Index	Local Ccy	1 month	3 months	YTD	12 months
Property						
Global Property Securities	S&P Global Property TR	GBP	3.9%	-6.0%	-10.9%	-7.5%
Currencies						
Euro		GBP	0.1%	-0.2%	2.7%	1.2%
US Dollar		GBP	-4.9%	-3.6%	12.1%	10.3%
Japanese Yen		GBP	2.4%	-3.0%	-6.5%	-9.6%
Commodities & Alternatives						
Commodities	RICI TR	GBP	-1.8%	-3.8%	36.8%	43.1%
Agricultural Commodities	RICI Agriculture TR	GBP	-2.7%	-4.5%	22.1%	25.7%
Oil	Brent Crude Oil	GBP	-13.5%	-13.8%	24.5%	34.4%
Gold	Gold Spot	GBP	4.0%	0.6%	9.6%	10.7%

Interest Rates	Current Rate
United Kingdom	3.00%

Source: Bloomberg Finance L.P. , Momentum Global Investment Management. Past performance is not indicative of future returns.
**estimate.*

Asset Allocation Views

Main Asset Classes	Change	Negative	Neutral	Positive
Equities	-		●	
Fixed Income	-	●		
Alternatives	-			●
Cash	-			●

Our Overall View

We continue to favour equities over fixed income in recognition of their better return potential and inflation capture over time. Despite the recent sharp repricing, most fixed income remains expensive in real terms today but valuations have improved. Alternatives are attractive for their diversifying qualities as much as the return potential, while cash offers increasing return and optionality in the event of market weakness, as we have seen.

EQUITIES	Change	Negative	Neutral	Positive
Developed Equities	-		●	
UK Equities	-			●
European Equities	-		●	
US Equities	-	●		
Japanese Equities	-			●
Emerging Market Equities	-		●	

Equities offer improving return potential after recent weakness. Financial conditions have tightened, but by historical standards are not restrictive, and excess savings and strong labour markets should support the consumer in the near term. The UK continues to trade at a discount and is well positioned sectorally to benefit should a softer landing eventuate. We also favour Japan on valuation grounds and for the accompanying Yen exposure. European equities have cheapened but fundamental risks, notably around energy pricing, caution against increasing today.

FIXED INCOME	Change	Negative	Neutral	Positive
Government	-	●		
Index-Linked	-	●		
Investment Grade Corporate	▲		●	
High Yield Corporate	-		●	
Emerging Market Debt	-			●
Convertible Bonds	-	●		

Bonds remain expensive today despite sovereign yields having moved higher since June. Concerns around a slowdown in global growth have also improved their appeal. Inflation linked bond valuations have now largely normalised as anticipated inflation rolls over. In credit we prefer higher yielding, short duration bonds, including emerging markets. On the back of improved all in yields we upgrade investment grade corporates to neutral. Convertible bonds are less attractive with equities and credit presenting better opportunities today.

REAL ASSETS / ALTERNATIVES	Change	Negative	Neutral	Positive
Commodities	-		●	
Property	-		●	
Infrastructure	-			●
Liquid Alternatives	-			●
Private Equity	-		●	

Real assets and alternatives continue to look attractive on both fundamental and valuation grounds, and as portfolio diversifiers with quality bonds taking considerable interest rate pain. Commodities remain volatile but with a slowdown in growth further gains in aggregate will be harder to come by. Private equity offers an alternative source of portfolio growth but is being pulled lower by public market valuations. Discounts abound but may not close imminently. Infrastructure enjoys structural tailwinds from digitalisation and energy transition initiatives.

CURRENCIES *vs. USD*	Change	Negative	Neutral	Positive
GBP	-			●
EUR	-		●	
JPY	-			●
Gold	-		●	

Sterling and Yen are mildly favoured following their recent repricing lower. The latter's (usually) diversifying qualities also retain some added portfolio attractiveness. The Euro continues to struggle in the face of relative rate expectations and more localised economic and political considerations. Gold has inflation protection qualities vs. the fiat currencies, plus haven qualities that are attractive, but looks less good value today.

The Asset Allocation views are as of September 2022 and are updated quarterly unless otherwise stated.

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