



Monthly market review – October highlights

To 31 October 2023

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October highlights

- Equities fell given investors' concerns about the interest-rate outlook and the Israel-Hamas war
- US technology giants reported mixed results as investors weighed up artificial intelligence (AI)'s prospects for the largest companies
- The European Central Bank (ECB) and US Federal Reserve (Fed) held rates as annual inflation continued to slow

Equities

Markets dropped again in October given investors' concerns about the war in the Middle East, the outlook for interest rates and a sluggish global economy. Stocks fell in the US, Europe, UK, Japan and emerging markets. The MSCI World Index returned -2.88% in October (total return in US dollars).

Markets fell in October amid a gloomy economic outlook. Investors are concerned about the outlook for interest rates, Israel's war with Hamas and slowing economic conditions. The US was one of the better markets over the period, falling by less than the global average. The technology-oriented NASDAQ Composite Index underperformed the S&P 500 Index. There was volatility when, early in the period, US House Speaker Kevin McCarthy was ousted in a Republican party coup, to be replaced weeks later by conservative Mike Johnson. Company earnings in the month have shown a mixed picture. In the technology sector, annual revenues rose at Amazon, while Microsoft performed well as investors remained optimistic that AI would drive financial performance. However, investors were less impressed by the outlook for Alphabet, Meta and Tesla.

European indices fell over the month; the Netherlands and Italy performed relatively well, while France, Germany, Spain and Switzerland lagged. The war in the Middle East, which could cause disruption, particularly to energy supplies, has been a concern for investors in the region. UK companies also struggled, as oil stocks drove the index lower. Energy producer BP fell as the company missed analysts' earnings predictions. Emerging-market indices also declined, with falls in China, India and Latin America. In aggregate, commodities fell back over the month, although natural gas prices rose sharply. Brent crude initially rose over \$90 per barrel after Hamas militants attacked Israel. However, oil prices then fell back as traders judged that the conflict was unlikely to affect the wider region. Precious metals finished the month higher.

Bonds and economics

The ECB and Fed held rates at their most recent meetings, as annual inflation fell. The Bank of England (BoE) is expected to skip a raise in its early-November meeting. Sovereign bonds fell globally and corporate bonds underperformed.

The ECB kept interest rates unchanged in October, the first meeting in ten without a hike. While President Christine Lagarde noted a weak economy, inflationary pressures remain and she indicated there may be more hikes in the coming meetings. Data from Eurostat showed the eurozone economy shrank by 0.1% in the third quarter, below expectations. GDP grew in France, Spain and Germany, and was flat in Italy, but contracted in Austria, Portugal, Ireland and the Balkan states. Annual inflation in the eurozone came in at a lower-than-expected 2.9% in October (according to a preliminary estimate), the lowest reading in over two years. The yield on 10-year German Bunds fell slightly in October, meaning prices rose, although corporate bonds sold off.

The Fed announced at the start of November that it would keep rates unchanged. The Core Personal Consumption Expenditures Price Index rose by 3.7% in September, slightly down from the previous month but still above the bank's target. US economic data has generally been resilient, with GDP expanding by an annualised 4.9% in the third quarter. Labour costs accelerated in the same period. The BoE is also expected to leave rates unchanged when its Monetary Policy Committee meets in early November. While analysts predicted a fall in annual inflation in September, the UK's Consumer Price Index remained unchanged at 6.7%, due to the recent rise in petrol prices. However, purchasing managers' index data indicates that the UK's manufacturing sector remains in stagnation. US Treasuries and Gilts both fell in October, with further falls in global corporate bonds.

Real Estate

According to the MSCI Monthly Index, total returns for September (the latest data available) were -0.2%, having been 0.1% in August. The industrial and hotel sectors were the strongest over the month, returning 0.6% and 0.2%, respectively. In contrast, the office and retail sectors were relatively weak, returning -1.3% and -0.8%, respectively.

Occupier demand for logistics space in the third quarter of 2023 reached 11.1 million square feet, an increase of 12% from the second quarter. Manufacturing-linked tenants from the housebuilding/construction, food and automotive sectors were particularly active. The higher take-up could be attributed to

nearshoring operations or as part of improving supply chain resilience. However, occupier interest was still subdued compared to the levels of activity during the Covid-19 pandemic and was 25% lower than a year ago. Overall availability rates went up from 5.4% in the second quarter to 5.9% in the third quarter, driven by the additional speculatively built stock rather than an increase in unwanted second-hand space.

In the retail sector, the GfK UK consumer confidence indicator fell nine points in October to -30, mainly due to the cost-of-living crisis. Meanwhile, UK retail sales volumes fell by an estimated

0.8% between the second and third quarters of this year. On a monthly basis, retail sales volumes declined 0.9% in September, a reversal from the 0.4% increase in August. Non-food stores sales volumes fell by 1.9% in September due to cost-of-living pressures and as unseasonably warm weather reduced sales of autumn-wear clothing. The proportion of online sales declined from 27.0% in August to 26.7% in September but continued to exceed the pre-pandemic level of 19.7% from February 2020. Food store sales volumes fell by 1.3% between the second and third quarters. On a monthly basis, food store sales volumes edged up by 0.2% in September, having increased by 1.4% in August.

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