M&G **Insights**

M&G Investments

M&G Investments
M&G Investments
November 2022

Market overview: October 2022

ARTICLE SUMMARY

Our Market Snapshot provides an overview of key events that influenced financial markets over the course of October 2022.

Global equity markets were broadly positive in October, rebounding after a sharp two-month sell-off. In the US, earnings season was in full swing with several mega-cap technology companies reporting disappointing results, fuelling concerns about slowing global growth. The benchmark US 10-year Treasury Note peaked at 4.34% in October, before tracing back to around 4.10% at month-end. Meanwhile, International Monetary Fund (IMF) Managing Director Kristalina Gerogieva encouraged central banks to keep raising rates to fight inflation until they hit a "neutral" level. In the UK, Rishi Sunak became the 57th prime minister following Liz Truss's resignation in the wake of her failed economic plan that wreaked havoc on the UK gilt market. In China, Xi Jinping secured a third term as leader of the Chinese Communist Party, while the yuan continued to weaken due to the country's strict zero-Covid policy and a divergence in monetary policy with other major economies. Turning to South Africa, Finance Minister Enoch Gonongwana tabled his 2022 Medium-Term Budget Policy Statement (MTBPS), reporting an improved debt outlook and a continued commitment to fiscal consolidation.

Looking at global equity market returns (all in US$), the MSCI All Country World Index returned 6.1% for the month. Developed markets outperformed emerging markets, with the MSCI World Index returning 7.2% and the MSCI Emerging Markets Index -3.1%. The Bloomberg Global Aggregate Bond Index (US$) returned -0.7%, while the EPRA/NAREIT Global REIT Index (US$) produced 3.9%.

The spot price of Brent crude oil was up 7.8% for the month, closing at around US$95 per barrel. Amongst the precious and industrial metals, palladium returned -11.9%, zinc -7.7%, gold -1.2%, lead 4.1% and platinum 8.1% (all in US$).

US

Equity markets rebounded in October, with the Dow Jones Industrial Average delivering its best monthly performance since 1976. The S&P 500 and technology-heavy Nasdaq Composite indices posted more modest returns as mega-cap technology stocks such as Alphabet and Microsoft reported disappointing earnings, fuelling concerns about slowing global growth.
In other news, US consumer spending proved robust, rising 0.6% m/m in September despite persistently high inflation and rising borrowing costs. Meanwhile, the US economy grew by an annualised 2.6% in Q3 2022, rebounding after back-to-back contractions in Q1 and Q2 that dragged the country into a technical recession. Annual inflation printed at 8.2% in September, below the 8.3% recorded in August, but above market forecasts of 8.1%. Looking forward, the Federal Reserve (the Fed) is widely expected to deliver its fourth straight 75 bps rate increase in November, with market participants speculating that the central bank may temper the pace of hikes later in the year.

Equities rallied over the course of the month, with the S&P 500 returning 8.1%, the Dow Jones Industrial Average 14.1%, and the technology-heavy Nasdaq Composite 3.9% (all in US$).

South Africa

Finance Minister Enoch Godongwana delivered his 2022 Medium-Term Budget Policy Statement (MTBPS), reporting an improved fiscal and debt outlook on the back of better-than-expected revenue collections across most major tax categories, particularly corporate taxes. The government announced plans to provide relief to Eskom by assuming a portion of the ailing power utility's approximately R400bn debt in order to ensure its long-term financial viability. Meanwhile, SA GDP growth for 2022 was revised down to 1.9%, from 2.1% in February. In other news, the end of the Transnet strike brought relief to local miners and fresh produce exporters alike as the state-owned enterprise reached a three-year wage agreement with majority union UNTU, while on the Highveld, Rand Water was forced to implement water restrictions in parts of Gauteng as a result of failing infrastructure. Manufacturing PMI rose to 50 in October from 48.2 in September, with the Transnet strike and continued load-shedding tempering the recovery. Equities tracked global markets higher, with the FTSE/JSE All Share Index returning 4.9% in October. Financials and Listed Property (as measured by the FTSE/JSE All Property Index) were the stand-out sectors, delivering 13.2% and 11.0% respectively, while returns were more muted for Resources (3.7%) and Industrials (1.7%). The FTSE/JSE Capped SWIX All Share Index, which we use as the equity benchmark for most of our client mandates, returned 5.3%. SA bonds (as measured by the FTSE/JSE All Bond Index) delivered 1.1%, SA inflation-linked bonds returned -1.3%, and cash (as measured by the STeFI Composite) delivered 0.5%.

Finally, the rand depreciated against most major currencies, falling 2.1% against the US dollar, 3.1% against the euro, and 5.2% against the pound sterling.

UK

Rishi Sunak was sworn in as the UK's new prime minister following Liz Truss's resignation a mere six weeks after entering 10 Downing Street. Mr Sunak has promised to place economic stability and confidence at the heart of his government's agenda after the former PM's mini-budget sent the country's currency and gilt market into a tailspin. UK consumer confidence bounced back slightly to -47 in October, from September's all-time low of -49, as consumers continue to struggle with rising food and energy costs. Meanwhile, credit rating agency Moody's followed S&P Global Ratings in downgrading the UK's sovereign credit rating outlook to 'negative' from 'stable', citing the country's "heightened unpredictability in policymaking amid weaker growth prospects and high inflation." Annual inflation in UK returned to 10.1% in September, after unexpectedly dropping to 9.9% in August.

Turning to the Euro Area, the European Central Bank (ECB) raised interest rates by another 75bps at its October meeting as it continues to battle high inflation. Policymakers maintained that the hiking cycle is not over, and that rates will continue to rise despite the increased probability of a recession. The central bank also announced it would be changing the terms and conditions of its targeted longer-term refinancing operations (TLTROs) – a tool that provides European banks with longer-term loans at favourable costs to encourage lending – to make them less attractive. Meanwhile, annual inflation in the Euro Area reached a new record high in October, jumping to 10.7% from 9.9% the previous month, above expectations of 10.2%. Preliminary estimates indicate that the Euro Area economy grew by 0.2% in Q3 2022.

For the month, the UK's FTSE 100 returned 6.2%, Germany's DAX 10.4% and France's CAC 40 9.7% (in US$).

China and Japan

Xi Jinping secured a third term as China's leader, consolidating power at an eventful 20th Communist Party Congress. The government maintained its zero-Covid policy, instituting strict lockdown measures in several large cities to curb a rise in new cases. Meanwhile, the People's Bank of China (PBoC) again left its benchmark lending rates unchanged in October amid a depreciating yuan. The local unit weakened against the US dollar for an eighth straight month, despite suspected intervention by state-owned banks to prop up the currency in the face of a widening interest rate differential between the two economies. The strict Covid controls saw China's manufacturing PMI decline to 49.2 in October from 50.1 in September, while non-manufacturing PMI declined to 48.7 in October from 50.6 in September. The Chinese economy grew 3.9% in Q3 2022, while annual inflation increased to 2.8% in September from 2.5% in August, mainly due to a rise in food prices.

Turning to Japan, Prime Minister Kishida announced a stimulus package worth 39 trillion yen (c. US$ 260bn) aimed at alleviating the burden of a weak yen and high inflation. The Bank of Japan (BoJ) maintained its key short-term interest rate at -0.1% and kept 10-year bond yields around 0% at its October meeting, but raised its 2022 inflation forecast to 2.9%, from 2.3% previously. In other news, the consumer confidence index fell to 29.9 in October from 30.8 in September, its lowest reading since August 2020. Annual inflation, meanwhile, was unchanged from the previous month, printing at 3.0% in September due to the rising cost of food and raw materials, along with a weakening yen.

For the month, Japan's Nikkei 225 delivered 3.6% and Hong Kong's Hang Seng -14.7% (in US$).

https://www.mandg.co.za/insights/articlesreleases/market-overview-october-2022/