Monthly Macro

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What were the biggest drivers of markets in October?

- October was marked by concerns over geopolitical risk following conflict breaking out in the Middle East and fears that this may spread into the wider region. The resulted in a volatile month with an unclear path for returns, a rise in gold prices, a flat US dollar and sovereign bond yields rising before losing some ground.
- Economic data in the US continued to come in relatively strong, with the US labour market more resilient than expected. There were also indications of inflationary pressures persisting with US core CPI at a five-month high, adding to fears of higher interest rates for longer.
- In the eurozone, a preliminary Q3 GDP reading for the single currency area showed a contraction of 0.1% quarter-on-quarter; the European Central Bank kept rates unchanged at 4.0%. UK GDP grew by 0.2% in August, in line with expectations.
- After some volatility, the US Treasury Index finished the month down 1.3% and UK government bonds fell 0.3%. German sovereign bonds recovered somewhat, finishing the month 0.3% up. Corporate bonds and high yield debt both declined as spreads widened, buffeted by macroeconomic headwinds. Emerging market debt also declined.
- Market moves in October largely continued the trend of the previous month, with yield increases originating from the US putting pressure on almost all major assets. Strong US macroeconomic data supported the higher interest rate narrative.
- Most developed market government bonds continued to weaken, though there was some resilience in Europe that also supported higher quality credit. This appeared to reflect a growing belief in the divergence between the US economy, which is continuing to see strong macroeconomic numbers, and Europe where there are more signs of pressure. However, increased issuance of debt in the US has also been put forward as a driver of US Treasuries' weakness.
- Equity market losses were relatively even across regions, although the US was slightly more resilient and Asia slightly weaker. US earnings have been relatively supportive; divergence across the largest technology stocks has gained most attention.
- The majority of commodities weakened, with oil unwinding most of the gains it had seen after the outbreak of violence in Israel and Gaza. Gold was an exception, as it unwound the losses of the previous two months in US dollar terms.

What will you be looking out for in November?

- The Federal Reserve left interest rates unchanged at October's meeting, but Chair Jay Powell's comments were deemed somewhat dovish, mentioning that the rise in r-star (the real long-term rate of interest) suggests financial conditions are now restrictive. Subsequently, markets priced the chance of another hike slightly lower.
- Looking ahead, the 2024 US Presidential election will become increasingly important. Markets may begin to consider the economic implications of Donald Trump winning. This includes unfunded tax cuts, which could prove inflationary and place pressure on the US credit rating.
- Geopolitical risks have understandably dominated the headlines, but have had a relatively muted impact on financial assets. Instead, what continues to dominate market attention is the role of interest rates, both those set by policy makers and those set by markets.
- There is talk of slowing economic activity, particularly outside of the US, but it does not have the intensity of a year ago. The interplay between 'higher for longer,' versus the real economic impact of those higher rates may play a role in coming months.

Key dates for the month ahead:

14 Nov: US inflation data **15 Nov:** UK inflation data **22 Nov:** Fed meeting minutes **24 Nov:** Japan inflation data

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