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Global Matters|Monthly

Market Update

November 2021

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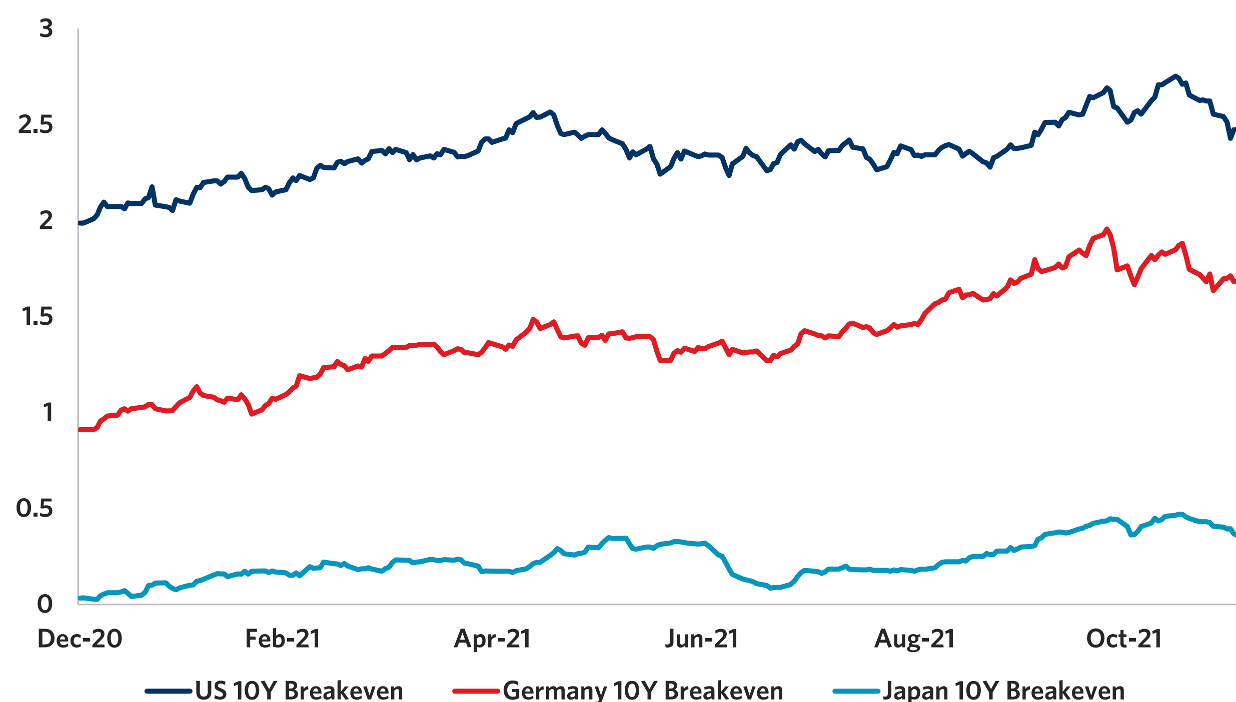
Global Market Review & Outlook

The buoyant markets of October continued through most of November, taking several equity indices to new all-time highs, until news of the new Covid variant, Omicron, at the end of the month reverberated globally and sent equity markets into their sharpest one-day falls of 2021, pushing all major markets into negative territory for the month.

The sudden risk aversion led to a tumble in bond yields, with 10-year US Treasury yields falling from the high for the month of 1.7% to 1.4% in a few days. With governments around the world immediately introducing travel and other restrictions, fears that a potentially more dangerous variant would damage growth in turn pushed down inflation expectations: the US 10-year breakeven inflation rate fell from 2.8% in mid-month, the highest since before the global financial crisis, to 2.5% by month end.

These relatively subdued longer term inflation expectations should be seen in the context of a continuing surge in inflation globally, which is proving to be much less transitory than central banks and many other forecasters had anticipated. Nearly all inflation data released during November exceeded expectations and reached multi-decade highs. In the US, October CPI came in at 6.2%, with core CPI of 4.6%, the highest for 30 years. The Fed's closely watched PCE deflator increased to 5.0% yoy, up from 4.4% in September, while the Producer Price Index was 8.6%. In Europe, CPI inflation reached 4.9% and core CPI 2.6%, both the highest since the creation of the single currency in 1999. And in China, while the CPI is only 1.5%, the PPI is 13.5%. It is notable that the last time US inflation reached current levels was in the early 1990s, when the yield on 10-year Treasuries was 8%, an illustration of the very poor value in safe haven bonds currently.

Markets expect current inflation surge to moderate – 10 year inflation expectations



Source: Bloomberg Finance L.P., Momentum Global Investment Management.

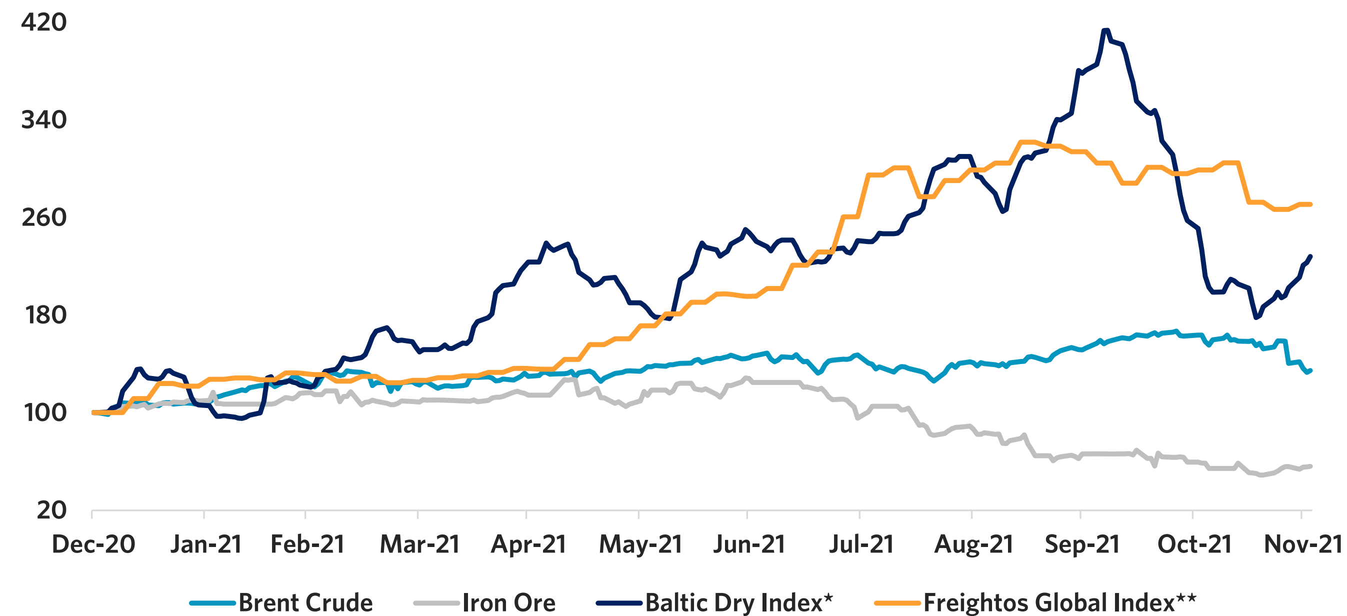
US Treasury 10 year bond yield vs. core PCE inflation since 1990

Source: Bloomberg Finance L.P., Momentum Global Investment Management.

The only major economy still flirting with deflationary risks is Japan, where the CPI in October was 0.1% yoy and the 10-year breakeven 0.4%; little wonder that the Bank of Japan reaffirmed its commitment to ultra-loose policy, with no intention to rein in its easing even if inflation were to reach 1%, a level not seen on a sustained basis since the early 1990s. And new Prime Minister Kishida moved rapidly to deliver a bigger-than-expected fiscal stimulus package amounting to 10% of GDP, without fear of a resultant inflationary surge.

Although the immediate concern of investors is the impact of Omicron, a more persistent rise in inflation, triggering earlier monetary tightening, remains the pre-eminent risk overhanging markets. However, some of the biggest contributors to the inflation surge have been energy, +30% yoy in the US, and used car prices, +26% yoy. Some of these moves have been due to base effects which will soon begin to fall away, while a continuing price surge, especially in used cars, seems very unlikely. There are early signs that some of the supply chain dislocations and shortages which have been pushing up prices are beginning to correct. The shortage of semi-conductors globally, especially damaging for the auto industry, is beginning to ease, with several of the world's biggest motor manufacturers indicating a return to more normal levels of production in coming weeks. Shipping rates, which soared earlier in the year, have fallen in recent weeks; the Baltic Dry Index, which measures the costs of shipping dry bulk materials, is down by almost 50% from early October levels (although still more than double the level at the beginning of the year), while the costs of container shipping, which had risen by almost 7x this year at the peak in September, have fallen by 16%, still very high but an encouraging change in trend. The iron ore price has fallen sharply, while the Omicron news triggered an immediate fall of over 10% in crude oil prices on fears of a drop in demand due to reimposed travel restrictions. While recognising that the decline in inflation is likely to be gradual and will remain well above most central banks' targets through 2022, we are probably at or approaching peak levels, an important development for markets in coming months.

Signs of easing in shipping rates and some key commodities

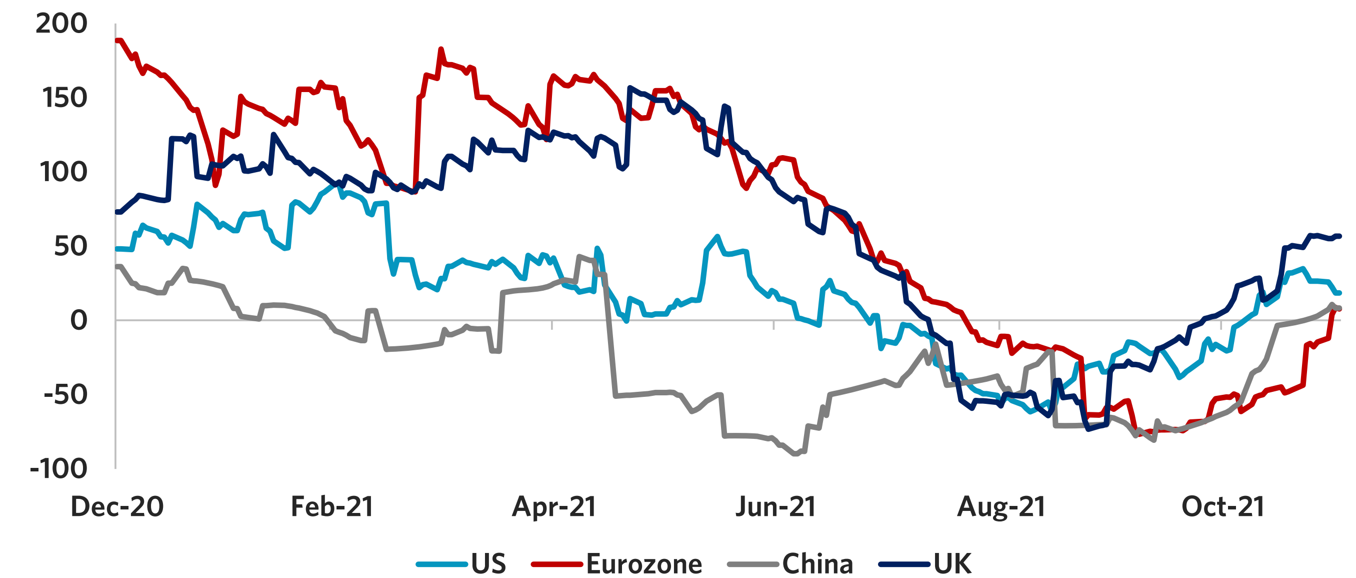


*Source: Bloomberg Finance L.P., Momentum Global Investment Management. *The Baltic Dry Index measures changes in the cost of shipping various dry bulk materials. **The Freightos Global Index measures changes in container shipping rates.*

While inflation has been surging, the deceleration in growth during Q3, partly resulting from reimposed restrictions in the face of rapidly rising Covid cases in Europe and parts of Asia, has shown signs of accelerating again. Leading indicators have moved higher in the US, Europe and China, employment data, retail sales and industrial production have been strong, especially in the US, the Citi Economic Surprises indices have picked up from their September/October lows, and the widely respected Atlanta Fed GDP Nowcast model of US GDP, a running estimate of real GDP growth based on available economic data for the current quarter, is indicating growth of 8.6% annualised.

Central banks are thus presented with a difficult balancing act: ensuring that inflation returns to target levels without damaging the recovery in economic activity, and now wrestling with the unknowns of a new Covid variant of concern. To date, all the major central banks have erred on the side of caution in tightening policy, viewing the inflation rise as transitory, and have maintained exceptionally loose financial conditions. As widely flagged, the Fed began to rein in its massive asset purchases in November, but very gradually, reducing monthly purchases from the rate of $120bn per month by $15bn per month, while at the same time making clear that rate rises will not begin until the asset purchase programme is wound down. In Europe, the ECB's asset purchases continue to run at EUR90bn per month, and while the largest part of this, 70bn, is pandemic related and will be wound down in April next year, the expectation is that the remaining asset purchase programme will be stepped up to ensure there is no sudden, sharp reduction. Furthermore, the ECB has been reining in any expectations for rate rises, emphasising that its conditions for raising rates are very unlikely to be met next year. And the Bank of England, in a surprisingly dovish move, kept rates at 0.1%, despite expecting inflation to rise to 5% in the early months of next year.

Economic data surprise to upside after mid-year slide



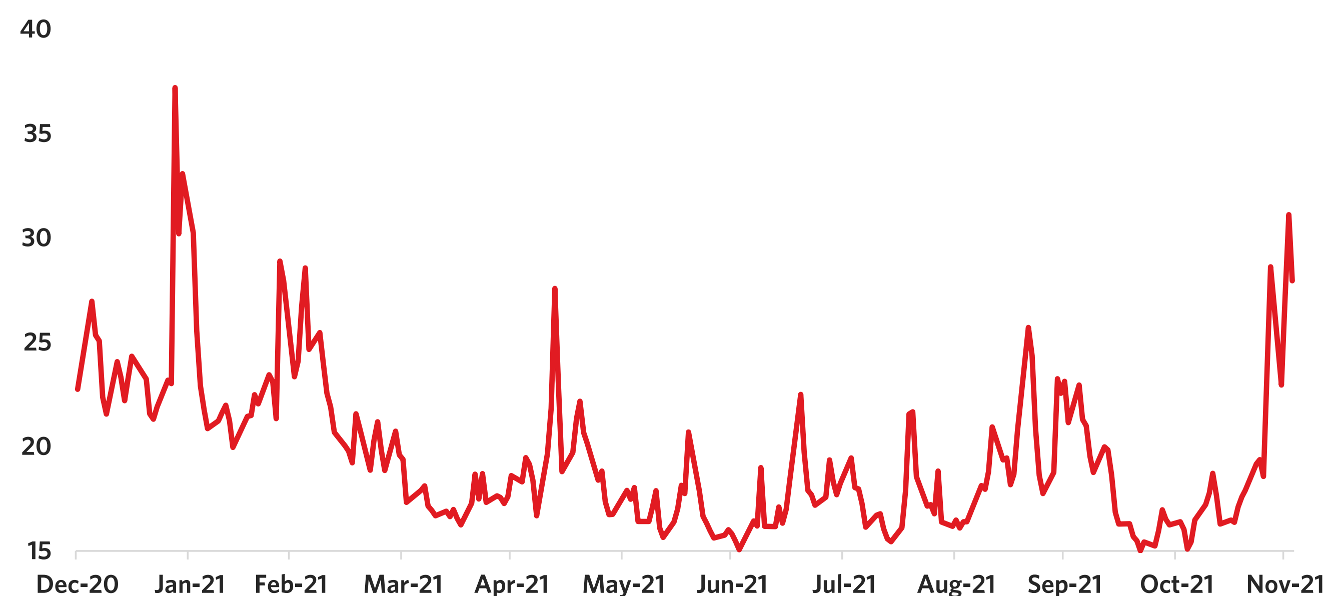
Source: Bloomberg Finance L.P., Momentum Global Investment Management.

However, in his Senate testimony at month end Fed Chair Powell changed his tune on the transitory nature of inflation, recognising that the rise has been much sharper than anticipated and the risks of it becoming more persistent have risen. He flagged a likely acceleration in the tapering of its asset purchase programme in December, which could in turn lead to earlier rises in interest rates.

The emergence of Omicron complicates the picture. To the extent that the renewed restrictions on mobility and fear of extended lockdowns impact spending and confidence, this development could well delay any tightening moves, but by triggering falls in bond yields it has already had the effect of loosening financial conditions further. The unknowns, and hence fears, around Omicron are its transmissibility and virulence, and the effectiveness of current vaccines. We will know much more in the next few weeks, but early indications suggest that despite extremely high transmission rates, the new variant is not as deadly as earlier ones, while vaccines, especially for those who have received booster jabs, are likely to be effective, and even if they are not, scientists appear to be confident that redesigning vaccines can be done quickly. The risks are not to be underestimated but they seem manageable; the world is better prepared, and we know that vaccines will provide the solution in a short period of time. Businesses and individuals have learnt to live with the virus, and even if restrictions are tightened further, the subsequent bounce back is likely to be rapid.

Alongside the short term risks arising from Omicron, we are now at the stage of the cycle where monetary tightening is underway. At the same time, the path of economic recovery is transitioning from a post-lockdown boom to a lower, although still robust, rate of growth, while facing continuing supply chain challenges which are keeping inflation uncomfortably high, with an increasing risk of it becoming more persistent. We have been saying for several months that, following the extraordinary surge in equity markets in the past 18 months, returns will be harder to come by, and the sharp rise in volatility levels in November as shown in the VIX index indicate rising levels of uncertainty. There are clearly headwinds ahead for markets, but notwithstanding the immediate negative consequences of Omicron, we believe that the impact of the pandemic will progressively fade through 2022; supply chains, with the first evidence underway, will steadily normalise; monetary policy will at the margin be tighter but by any measure will remain extraordinarily loose; and fiscal policies will continue to support growth as governments across the developed world lift spending on a multi-year basis. This remains a broadly benign environment for the corporate sector, and we expect earnings to continue to expand in real terms, building on the huge recovery and growth of the past 12 months. We should be prepared for some periods of volatility, but we remain constructive about risk assets and believe we are in a long market cycle. We see periods of weakness as an opportunity to add to risk in portfolios and believe that with patience and diversification investors will be rewarded in the year ahead.

Volatility surges to highest levels since January



Source: Bloomberg Finance L.P., Momentum Global Investment Management.

"There are clearly headwinds ahead for markets, but notwithstanding the immediate negative consequences of Omicron, we believe that the impact of the pandemic will progressively fade through 2022"

Market Performance - *Global (local returns) as at 30 November 2021*

Asset Class / Region	Index	Ccy	1 month	3 months	YTD	12 months
Developed Markets Equities						
United States	S&P 500 NR	USD	-0.7%	1.2%	22.7%	27.4%
United Kingdom	MSCI UK NR	GBP	-2.4%	0.0%	13.7%	17.3%
Continental Europe	MSCI Europe ex UK NR	EUR	-2.4%	-1.6%	18.2%	20.7%
Japan	Topix TR	JPY	-3.6%	-0.8%	9.0%[e]	12.2%
Asia Pacific (ex Japan)	MSCI AC Asia Pacific ex Japan NR	USD	-4.3%	-6.5%	-4.7%	1.6%
Global	MSCI World NR	USD	-2.2%	-0.9%	16.8%	21.8%
Emerging Markets Equities						
Emerging Europe	MSCI EM Europe NR	USD	-10.6%	-4.8%	14.2%	26.3%
Emerging Asia	MSCI EM Asia NR	USD	-3.6%	-6.5%	-6.5%	0.1%
Emerging Latin America	MSCI EM Latin America NR	USD	-3.0%	-17.6%	-13.2%	-2.9%
China	MSCI EM China NR	USD	-5.4%	-7.7%	-10.4%	-5.7%
BRICs	MSCI BRIC NR	USD	-6.0%	-7.9%	-19.2%	-16.9%
Global emerging markets	MSCI Emerging Markets NR	USD	-4.1%	-7.0%	-4.3%	2.7%
Bonds						
US Treasuries	JP Morgan United States Government Bond TR	USD	0.8%	-0.3%	-2.0%	-2.2%
US Treasuries (inflation protected)	BBgBarc US Government Inflation Linked TR	USD	1.0%	1.4%	5.7%	6.9%
US Corporate (investment grade)	BBgBarc US Corporate Investment Grade TR	USD	0.1%	-0.7%	-1.0%	-0.5%
US High Yield	BBgBarc US High Yield 2% Issuer Cap TR	USD	-1.0%	-1.2%	3.3%	5.3%
UK Gilts	JP Morgan UK Government Bond TR	GBP	3.1%	1.4%	-2.6%	-1.1%
UK Corporate (investment grade)	ICE BofAML Sterling Non-Gilt TR	GBP	1.2%	-0.5%	-1.8%	-0.4%
Euro Government Bonds	ICE BofAML Euro Government TR	EUR	1.7%	-0.1%	-1.9%	-1.8%
Euro Corporate (investment grade)	BBgBarc Euro Aggregate Corporate TR	EUR	0.2%	-1.2%	-0.9%	-0.7%
Euro High Yield	BBgBarc European High Yield 3% Constrained TR	EUR	-0.5%	-1.2%	2.5%	3.3%
Japanese Government	JP Morgan Japan Government Bond TR	JPY	0.2%	-0.2%	0.0%	0.0%
Australian Government	JP Morgan Australia GBI TR	AUD	2.0%	-3.3%	-3.3%	-3.7%
Global Government Bonds	JP Morgan Global GBI	USD	0.1%	-2.3%	-5.9%	-4.8%
Global Bonds	ICE BofAML Global Broad Market	USD	-0.3%	-2.4%	-5.0%	-3.9%
Global Convertible Bonds	ICE BofAML Global Convertibles	USD	-3.6%	-3.3%	2.6%	9.3%
Emerging Market Bonds	JP Morgan EMBI+ (Hard currency)	USD	-2.0%	-5.1%	-6.2%	-4.4%

Asset Class / Region	Index	Ccy	1 month	3 months	YTD	12 months
Property						
US Property Securities	MSCI US REIT NR	USD	-0.8%	0.8%	30.5%	34.6%
Australian Property Securities	S&P/ASX 200 A-REIT Index TR	AUD	4.5%	2.6%	17.2%	16.1%
Asia Property Securities	S&P Asia Property 40 Index NR	USD	-5.4%	-5.9%	-3.5%	-4.0%
Global Property Securities	S&P Global Property USD TR	USD	-2.1%	-2.5%	15.8%	19.6%
Currencies						
Euro		USD	-1.9%	-4.0%	-7.2%	-4.9%
UK Pound Sterling		USD	-2.8%	-3.3%	-2.7%	-0.2%
Japanese Yen		USD	0.8%	-2.8%	-8.7%	-7.8%
Australian Dollar		USD	-5.2%	-2.6%	-7.4%	-3.0%
South African Rand		USD	-4.0%	-8.6%	-7.5%	-2.6%
Commodities & Alternatives						
Commodities	RICI TR	USD	-7.9%	2.3%	32.3%	39.8%
Agricultural Commodities	RICI Agriculture TR	USD	-0.8%	6.0%	28.1%	37.8%
Oil	Brent Crude Oil	USD	-16.4%	-3.3%	36.2%	48.3%
Gold	Gold Spot	USD	-0.5%	-2.2%	-6.5%	-0.1%
Hedge funds	HFRX Global Hedge Fund	USD	-1.3%	-0.8%	3.2%	5.7%
Interest Rates				**Current Rate**		
United States				0.25%		
United Kingdom				0.10%		
Eurozone				0.00%		
Japan				-0.10%		
Australia				0.10%		
South Africa				3.50%		

Market Performance - *UK (all returns GBP) as at 30 November 2021*

Asset Class / Region	Index	Local Ccy	1 month	3 months	YTD	12 months
Equities						
UK - All Cap	MSCI UK NR	GBP	-2.4%	0.3%	14.1%	17.5%
UK - Large Cap	MSCI UK Large Cap NR	GBP	-2.1%	1.1%	13.9%	16.7%
UK - Mid Cap	MSCI UK Mid Cap NR	GBP	-1.3%	-2.7%	12.1%	17.4%
UK - Small Cap	MSCI Small Cap NR	GBP	-3.1%	-8.0%	9.7%	17.5%
United States	S&P 500 NR	USD	2.3%	4.9%	26.3%	28.2%
Continental Europe	MSCI Europe ex UK NR	EUR	-1.4%	-2.3%	12.5%	15.0%
Japan	Topix TR	JPY	0.2%	0.0%	2.0%[e]	4.2%
Asia Pacific (ex Japan)	MSCI AC Asia Pacific ex Japan NR	USD	-1.3%	-3.1%	-1.9%	2.3%
Global developed markets	MSCI World NR	USD	0.8%	2.7%	20.2%	22.6%
Global emerging markets	MSCI Emerging Markets NR	USD	-1.1%	-3.6%	-1.5%	3.4%
Bonds						
Gilts - All	ICE BofAML UK Gilt TR	GBP	3.1%	1.4%	-2.6%	-0.9%
Gilts - Under 5 years	ICE BofAML UK Gilt TR 0-5 years	GBP	0.6%	-0.5%	-1.2%	-1.0%
Gilts - 5 to 15 years	ICE BofAML UK Gilt TR 5-15 years	GBP	1.9%	-0.7%	-3.5%	-2.6%
Gilts - Over 15 years	ICE BofAML UK Gilt TR 15+ years	GBP	5.3%	3.8%	-2.5%	0.3%
Index Linked Gilts - All	ICE BofAML UK Gilt Inflation-Linked TR	GBP	6.2%	6.4%	10.2%	10.7%
Index Linked Gilts - 5 to 15 years	ICE BofAML UK Gilt Inflation-Linked TR 5-15 years	GBP	4.0%	5.0%	7.0%	7.2%
Index Linked Gilts - Over 15 years	ICE BofAML UK Gilt Inflation-Linked TR 15+ years	GBP	7.7%	7.4%	12.1%	12.8%
UK Corporate (investment grade)	ICE BofAML Sterling Non-Gilt TR	GBP	1.2%	-0.5%	-1.8%	-0.4%
US Treasuries	JP Morgan US Government Bond TR	USD	4.4%	3.7%	1.3%	-1.3%
US Corporate (investment grade)	BBgBarc US Corporate Investment Grade TR	USD	3.7%	3.2%	2.3%	0.4%
US High Yield	BBgBarc US High Yield 2% Issuer Cap TR	USD	-1.0%	-1.2%	3.3%	5.3%
Euro Government Bonds	ICE BofAML Euro Government TR	EUR	1.7%	-0.1%	-1.9%	-1.8%
Euro Corporate (investment grade)	BBgBarc Euro Aggregate Corporate TR	EUR	0.2%	-1.2%	-0.9%	-0.7%
Euro High Yield	BBgBarc European High Yield 3% Constrained TR	EUR	-0.5%	-1.2%	2.5%	3.3%
Global Government Bonds	JP Morgan Global GBI	GBP	3.2%	1.3%	-3.1%	-4.1%
Global Bonds	ICE BofAML Global Broad Market	GBP	-0.3%	-2.4%	-5.0%	-3.9%
Global Convertible Bonds	ICE BofAML Global Convertibles	GBP	-3.6%	-3.3%	2.6%	9.3%
Emerging Market Bonds	JP Morgan EMBI+ (Hard currency)	GBP	1.0%	-1.6%	-3.5%	-3.7%

Asset Class / Region	Index	Local Ccy	1 month	3 months	YTD	12 months
Property						
Global Property Securities	S&P Global Property TR	GBP	0.9%	1.1%	19.1%	20.4%
Currencies						
Euro		GBP	0.9%	-0.7%	-4.6%	-4.8%
US Dollar		GBP	2.9%	3.4%	2.7%	0.2%
Japanese Yen		GBP	3.7%	0.5%	-6.2%	-7.7%
Commodities & Alternatives						
Commodities	RICI TR	GBP	-5.0%	6.1%	36.1%	40.8%
Agricultural Commodities	RICI Agriculture TR	GBP	2.3%	9.9%	31.9%	38.8%
Oil	Brent Crude Oil	GBP	-13.8%	0.2%	40.2%	49.3%
Gold	Gold Spot	GBP	2.6%	1.4%	-3.8%	0.5%

Interest Rates	Current Rate
United Kingdom	0.10%
United States	0.25%
Eurozone	0.00%
Japan	-0.10%

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

Asset Allocation Views

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

Our Overall View

We continue to favour equities over fixed income in recognition of their leverage to a sustained global economic recovery. Most fixed income remains expensive given the inflationary backdrop but pockets of credit continue to offer some value. Alternatives, including infrastructure and commodities, are attractive for their diversifying qualities as much as the return potential.

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

Equities offer the potential for decent forward returns as the global economy leaves the pain of 2020 behind. Huge stimulus programs, central bank support and pent up consumer demand and savings paint a favourable backdrop. The UK looks attractive as it shakes off its Brexit discount and is well positioned sectorally to benefit from the economic recovery. We also favour Japan on valuation grounds and for the accompanying Yen exposure.

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

Bonds remain expensive today. Sovereign yields have lifted off their lows but remain unattractive given the risk of inflation becoming more entrenched. Inflation linked bonds have marginally better prospects. We remain fundamentally constructive on corporate credit but see limited upside and returns to come mostly from carry in the near term. Convertibles play an important role in multi asset portfolios but look fairer value today.

REAL ASSETS / ALTERNATIVES	Change	Negative	Neutral	Positive
Commodities	▲	○ ○	○	● ○
Property	-	○ ○	●	○ ○
Infrastructure	-	○ ○	○	● ○
Liquid Alternatives	-	○ ○	●	○ ○

Real assets look attractive on both fundamental and valuation grounds, with a bias to infrastructure assets which ultimately should benefit from government policy initiatives. Investors are paid well to wait, and the diversifying qualities, also offered by the more esoteric liquid alternatives allocation, is attractive today in a world of expensive bonds. The backdrop of supply chain disruption and buoyant consumer demand is likely to support commodity prices in the near term.

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

US yields creeping higher makes it challenging for the more rate anchored currencies not to depreciate. Against that, a global recovery tends to benefit higher beta currencies and idiosyncratic factors drive nearer term dynamics helping make Sterling attractive today with the prospect of higher base rates. The Yen has continued to soften but its defensive qualities make it attractive as a portfolio diversifier.

The Asset Allocation views are as of September 2021 and are updated quarterly unless otherwise stated.

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Important Notes

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