

BOND INVESTORS TURN POSITIVE DUE TO SPECULATION THAT THE US FED MAY BEGIN TO EASE RATE HIKES

This week we have seen markets trying to get ahead of the US Federal Reserve once again. For most of this year government bonds have sold off as investors anticipated aggressive rate hikes from the US Fed and other central banks. With economic data deteriorating, bond markets are now trying to time the moment when the Fed pauses, or even reverses, its rate hikes. The minutes from the latest Fed interest rate meeting show it moving towards a less aggressive path for rate rises, while indicators show economic activity slowing and unemployment beginning to rise.

However, the outlook for interest rates, and the knock-on effect on bonds values, remains balanced and investors calling the top of the interest rate hiking cycle have the potential to be disappointed. Sticky inflation or stronger than expected economic data could persuade the Fed that it needs to remain aggressive for longer. The ECB and Bank of England have been talking up the need to continue tightening and central banks in Sweden, New Zealand and South Africa all increased rates by 0.75% this week as they remain committed to getting inflation under control.

THE MARKETS THIS WEEK

| FTSE 100 | S&P 500 | Nikkei 225 | MSCI Europe | Hang Seng | US 10 Yr | UK 10 Yr | Brent Crude | Gold | Iron Ore | GBP USD |
|----------|---------|------------|-------------|-----------|----------|----------|-------------|--------|----------|---------|
| +1.10% | +1.56% | +1.73% | +1.17% | -2.33% | -0.11% | -0.22% | -2.66% | -1.80% | -1.54% | +1.79% |

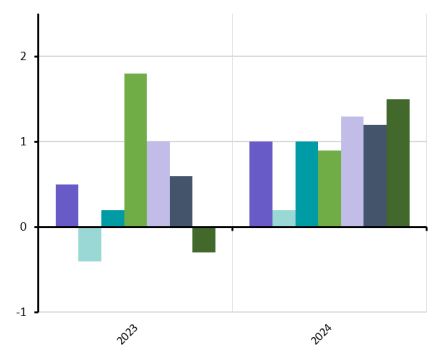


UK: GLOOMY OUTLOOK IS WORSE THAN OTHER DEVELOPED ECONOMIES

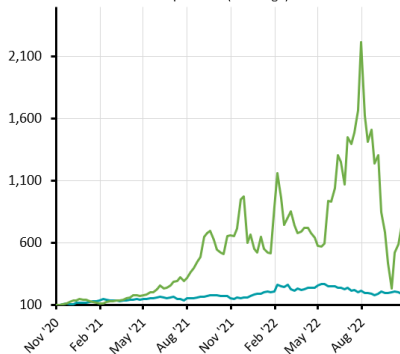
The UK has a significantly worse outlook for economic growth than other major economies according to the Organisation for Economic Co-operation and Development. The OECD expects UK GDP to contract in 2023 before recovering by 0.2% in 2024. This compares to predicted global growth of 2.2% next year and 2.7% in 2024. The outlook for the UK forecasts inflation will peak this year before dropping to 2.7% by the end of 2024, below the estimated OECD average of 5.1%. Weaker UK growth is likely to come from a bigger squeeze on the cost of living and weaker consumer confidence.

UK consumer confidence ticked up slightly in November but it remains close to the all time low of September and far below the long-term average. UK business activity contracted again as the composite Purchasing Managers' Index remained below 50 for the fourth consecutive month, despite a small increase in manufacturing. The EU also recorded a drop in economic activity although manufacturing output improved over the previous month.

US, UK, Italy, Japan, Canada, France and Germany (% 2023-24 GDP projections)



Crude Oil Brent (\$/barrel) and European TTF Gas (€/MWh) Spot Price (% change)



OIL: FEARS OF A GLOBAL SLOWDOWN WEIGH ON PRICES

The price of oil has fallen as stricter Chinese Covid lockdowns added to fears that a global economic slowdown will reduce demand. Brent Crude dropped below \$85 a barrel, down from almost \$92 last week, as markets considered the potential drop in economic activity after China tightened Covid restrictions. The price has remained volatile as OPEC members appear at odds over current production targets. Meanwhile, plans for a price cap for Russian oil appeared to make progress ahead of the deadline of 5 December but this did not appear to affect global prices and Russian oil already trades at a discount of around \$20 a barrel due to the absence of European buyers.

In contrast, the price of gas has jumped around 10% this week as colder weather combined with Russia threatening to cut gas supplies to Europe through the one pipeline still in operation. European storage remains close to full after a milder autumn which may limit the impact of Russia cutting all exports to Europe.

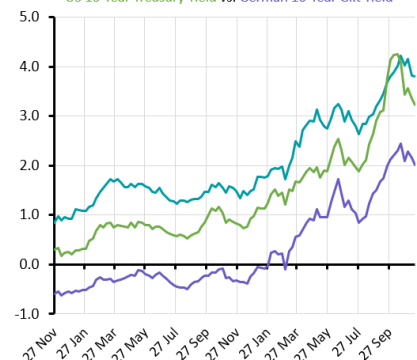


BONDS: GOVT DEBT RISES AS MARKETS LOOK TO FED SLOWDOWN

Government bonds have continued to rally as markets consider whether central banks, particularly the US Federal Reserve, will begin easing the pace of interest rate hikes. The minutes from the latest US Federal Reserve interest rate meeting showed many of the voting members leaning towards a smaller increase in rates at the next meeting after it voted for a 0.75% hike earlier this month.

UK gilts have also continued to recover as rising bond prices push down yields. The yield on 10-year gilts fell below 3% this week, after topping 4.5% in early October. Some members of the Bank of England's monetary policy committee have also indicated that they may vote for slower rate hikes or even cutting rates if economic conditions deteriorate quickly. Minutes from the European Central Bank's October meeting were also released this week. The ECB appears committed to further rate hikes to tame inflation but recession is also moving up its list of factors to be concerned about.

US 10-Year Gilt Yield vs. US 10-Year Treasury Yield vs. German 10-Year Gilt Yield



Data sourced from FE Analytics and FactSet

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