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October Overview

It's been a bit of a wild ride in markets over the last few weeks, with both bonds and equities falling in October (as we discuss below) but then bouncing back very strongly over the first few days of November led by small caps, last month's weakest performer.

Saturday 7 October saw the brutal massacre of more than 1,400 people inside Israel by Hamas, with retaliatory action by Israelis leading to the reported deaths of more than 9,000 Palestinians so far. This had an impact on financial markets as uncertainty rose, bringing about volatility as well as a temporary rise in oil prices around concerns the conflict could widen to larger oil exporting nations (something we discuss in further detail below). Elsewhere, in a similar fashion to September, broadly stronger economic news in the US translated into weaker financial market performance globally. The strong growth and employment data releases reinforced market participants' view of interest rates being higher for longer. This caused bond yields to rise slightly (and hence bond prices to fall) as well as depressing equity markets.

In the **UK**, the latest inflation data, for September, were slightly higher than expected with headline CPI remaining at 6.7% and core inflation falling to 6.1% from 6.2% in August. Purchasing Managers Index (PMI) data were relatively unchanged but below expectations with composite PMI increasing from an upwardly revised 48.5 in September to 48.6 in October. Despite relatively benign data figures being released over the month, both business and consumer confidence slumped in October to levels last seen in Q4 of last year and Q1 of this year respectively. The high cost of living and economic uncertainty weighed on households with consumers reigning back on spending, with September data showing both month-on-month and year-on-year falls in retail sales, both below expectations.

In the **US**, economic data pointed to continuing strength. The first reading for Q3 GDP was an annualised growth of 4.9%, above expectations of 4.3%. Alongside this, the composite PMI rose in October, for the first time since May this year, rising from 50.2 in September to 51, driven by a similar rise in the services sector. Households were even happier as headline inflation remained unchanged at 3.7% in September (although a little bit higher than expected), whilst core PCE (the Federal Reserve's preferred inflation measure) dipped to 3.7%, from 3.8% in August. Additionally, 336,000 new jobs were added to the economy during September, significantly higher than the 170,000 that were expected. Unfortunately, market participants continued to view these positive data as supporting of the Federal Reserve keeping rates higher for longer, which impacted both bond and equity performance negatively

In the **Euro** area, the initial figure for Q3 quarter-on-quarter GDP growth was a 0.1% contraction, the weakest reading since Q4 2021 and undershooting the expectation of a flatlining economy. This was consistent with a composite PMI that has remained in contractionary territory for the past 5 months with data showing a fall from 47.2 in September to 46.5 in October. Despite the weak activity data, there were some reasons for households to be cheerful as inflation fell from 4.3% in September to 2.9% in October, below estimates. Core inflation also fell, in-line with expectations to 4.2% in October from 4.5% the prior month. And unemployment dipped back down again in August to 6.4% matching the lowest level on record, set in June 2023.

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The recent positive momentum behind the **Japanese** economy had a small setback in October. GDP growth data for Q2 was weaker than expected and Q1 was revised down too. Composite PMI for October fell to 49.9, the first reading below 50 (contractionary) since December 2022. And inflation took a slight step down, falling from 3.2% in August to 3% in September.

In **Emerging Markets**, the conflict in Israel dominated. Tensions remained high throughout the month and ripples were felt through global markets. Uncertainty rose as did initially the oil prices as the risk of the conflict widening out to some of the larger oil-exporting nations came into focus.

Currencies - Sterling had a mixed, but relatively muted, month against major global currencies in October. It was down 0.6% vs the US dollar, 0.4% weaker vs the euro, but 0.9% stronger vs the Japanese yen and up 1.3% vs the Australian dollar. Against emerging market currencies, the pound was down 1.8% vs the South African rand but 0.2% stronger vs the Brazilian real.

Asset Classes

October was a negative month for almost all asset classes. UK equities were the worst-performing equity region, closely followed by Japan and Pacific ex-Japan. US equities were the most resilient equity region. Commodities were the best performing real asset class, driven by uncertainty in relation to the Middle East conflict aiding traditional safe haven, gold, with energy prices also proving resilient.

Within UK equities, larger companies outperformed smaller-sized companies, aided by the large energy companies which slightly benefitted from higher energy prices.

Bonds sold off again in October, with Emerging Market bonds worst hit, suffering both from higher bond rates in general, as well as nervousness around emerging market issuers.

Cash & Short-Term Bonds	Global Government Bonds	Global Inflation Linked Bonds	Global Corporate Bonds	Global High Yield	Emerging Market Bonds	US Equities	Europe ex-UK Equities	UK Equities	Japan Equities	PACIFIC ex-Japan Equities	Emerging Market Equities	Global Infrastructure	Global Property	Commodities
£	HDG	HDG	HDG	HDG	HDG	£	£	£	£	£	£	£	£	£
0.44%	-0.58%	-0.64%	-0.95%	-0.91%	-1.50%	-1.90%	-3.04%	-4.09%	-3.95%	-3.90%	-3.32%	-1.16%	-4.28%	0.85%

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