MARKET COMMENTARY

Executive Summary

In stark contrast to the month before, November saw widespread gains across equity and fixed income asset classes. Almost paradoxically, share prices rallied on the back of weakening economic data released throughout the month, particularly from the US. This, coupled with inflation figures across major economies continuing their decline, provided investors with encouragement that interest rates are seemingly, at the very least, on pause. Some major equity markets experienced greater gains during the month than they had achieved in the first 10 months of the year combined, whilst the prospect of interest rate cuts in the not-too-distant future also saw declines in most major bond yields (meaning prices increased). For now, markets appear to have gotten used to the higher for longer rhetoric, as they traded through the US Federal Reserve's (the Fed) November reiteration that they are determined to hold policy rates at elevated levels for an extended period of time practically unphased.

North America

As with equities globally, US markets experienced a strong month, continuing their impressive run year-to-date (YTD). Robust corporate earnings and lower bond yields supported growth stocks in November – a style factor synonymous with technology names. Overall, North American equities returned +5% for the month, meaning that they are now the best performing major regional sector for sterling investors this year (+11.4%). Should this continue through December, it will have been the case for four out of the last six calendar years. Driving November's rally was the hope that the Fed will cut interest rates next year. Investors therefore looked favourably on signs that US economic data could be moderating. Specifically, manufacturing output weakened, retail sales registered their first decline since March, and delinquency rates on US credit card loans also recorded their eighth consecutive quarterly increase. The US jobs market continued to be a talking point, which despite seeing the number of Americans filing new claims for unemployment benefits edging higher during the month, remained broadly resilient.

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Other Developed Markets

There were strong gains for European equities, particularly amongst real estate, technology and financial names. European (excluding UK) equities returned +6.7% in November and +8.8% YTD, second only to North America. As well as benefiting from the situation in the US, November saw Eurozone inflation reach its lowest level since summer 2021, at 2.4%. Importantly, core inflation (which strips out volatile components such as food and energy prices) also declined to 3.6% versus market consensus of 3.9%. Economic data was mixed, with strong labour figures but manufacturing and services output remaining weak. There was a relatively seismic decline from previous figures, but inflation in the UK remains higher, at 4.6%. Despite sterling strength curtailing the performance of large cap stocks during the month, UK equities still achieved a healthy return of +4.4% but continue to lag most other major regions YTD (+1.8%). Despite rumours of new measures that would prove favourable to UK-listed stocks, November's Autumn Statement failed to provide much to turn the dial on sentiment towards the region. In local terms, Japan has been the best performing major region this year, however weakness of the yen has supressed returns for overseas investors, equating to +7.6% in sterling. November's gains (+3.9%) were mainly led by internationally oriented large caps, with weak economic data weighing on a domestic recovery.

Asia & Emerging Markets.

Hopes of a relatively soft landing in the US and the prospect of rate cuts also buoyed Asian (+2.4%) and emerging (+3.5%) markets into positive territory for the month. However, both are notable laggards longer-term, with Asia ex-Japan the only major region with a negative (-4.5%) return YTD. All Asian constituents achieved gains during the month, with the standouts being Philippines, Korea, and Taiwan – the latter benefiting from the ongoing performance of the technology sector. Sluggish growth from China continued to weigh on the region, with investor sentiment remaining subdued given the host of issues challenging their economic recovery, including the global slowdown in demand for products, ongoing pressure in the real estate sector and worries that government stimulus has not yet proven sufficient for meaningful growth. As for other emerging regions, some of the best returns in November were from the Americas, with Brazil benefiting from a further rate cut and signs of disinflation,

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whilst currency movements benefited Mexico. Emerging Europe also contributed, with gains in Greece, Hungary and Poland, with the latter still on a high from strong consumption demand figures and October's electoral result. Aside from China, notable laggards included South Africa, India and middle eastern territories such as Qatar, Saudi Arabia and UAE, following a softening of energy prices. On aggregate, emerging market equities have returned +1% this year.

Fixed Income & Property

November's optimism also acted as a tailwind for the fixed income market, with the global bond market returning +0.7%. This was largely driven by the notion that, should major central bank interest rates now be at their peak, then bond yields should depreciate from here. As such, 10-year government yields in all major developed regions edged lower during the month. Given the improvement in sentiment towards risk assets, corporate bonds broadly outperformed government bonds and longer-dated issues generally outperformed shorter-dated. Returns within high yield (generally lower quality) bonds and investment grade were mixed, with less obvious divergence. By region, the UK was a standout for sterling investors, whilst emerging market debt benefited from a weakening US dollar. A major macroeconomic takeaway from the month came from the US, who suffered a sovereign debt outlook downgrade from credit ratings agency Moody's, just three months after a similar move from fellow agency Fitch. YTD the global bond market has returned -3.6% for sterling investors.

After a challenging preceding 12-months for the property market, November offered reprieve for REIT (Real Estate Investment Trust) investors, with the aggregate global index gaining +7.3%. Closer to home, despite UK direct (i.e., physical property not listed on the stock exchange) property only delivering a return of +0.2%, it remains ahead of its listed counterpart YTD.

Commodities & Alternative Energy

The aggregate commodity index suffered another notable decline (-7.6%) in November, with widespread negative returns across individual components. The most significant detractor was energy. Despite conflict in the Middle East entering its second month, the price of oil

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suffered from ongoing uncertainty over supply and demand, underpinned by OPEC's (Organisation of the Petroleum Exporting Countries) decision at the end of the month to limit production in Q1 2024. As a result, the oil spot price declined -7.6% to finish the month at the $80 per barrel level. Natural gas was also a major detractor, as prices moved sharply lower to a five-month low, mainly due to significant excess supply. Livestock was another detractor, with agriculture returns generally very varied. Apart from silver, all major precious metals moved lower, returning -1% on aggregate. The industrial metals component also declined -3.6%, despite a modest gain from copper. Despite a gain of +11.2% during November, the global alternative energy index has declined a staggering -43.5% YTD. Whilst the solar market has been a relative contributor, wind has suffered tremendously – namely at the hands of inflated labour and input costs, project delays and supply constraints.

| Whitechurch Investment Team | November 2023 |

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