BRI Wealth Management PLC

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MARKET COMMENTARY

The third quarter of this year showcased a tale of two very distinct halves, with the initial weeks marked by positivity and confidence, while the latter period brought forth challenges and setbacks as inflation and rate jitters resurfaced.

The fierce artificial intelligence-led rally in the US stock market ran out of steam in the third quarter as market mood shifted in what looks like a healthy pause for breath for certain international equities. Whilst it's not uncommon for markets to experience sideways and softening performance during the summer months as trading volumes tend to be thin, it was the narrative in late August and early September – as the Federal Reserve talked of keeping rates "higher for longer" – which contributed to equity market weakness.

Global Equities generally advanced in July and early August as economic data (particularly from the US) indicated resilient growth and inflation starting to fall helping investor confidence. The Federal Reserve and the Bank of England both raised interest rates in July with hopes that both central banks may have orchestrated a so-called 'Soft Landing' by cooling growth and taming inflation without triggering a recession. Q2 earnings season generally proved resilient on both sides of the pond and in contrast to much of the year so far, emerging markets outperformed developed market equities over July.

However, emerging markets quickly lost momentum in early August as fears around a slowing Chinese economy weighted on global equity markets. The world's second-largest economy reported much weaker-than-expected retail sales growth for July, while industrial production also rose less than expected. China is facing a severe property-sector decline which is slowing economic growth and seemingly slowing spending decisions from the Chinese consumer, which may have negative consequences on the rest of the world.

↑ Crude oil rises near

30%

Reaching $95 per barrel

for the first time since November 2022

Crude oil's near 30% rise over the third quarter was the commodity's eighth best quarter of the millennium; the price of oil touched $95 a barrel for the first time since November 2022 as both Saudi Arabia and Russia extended supply cuts. However, it was the potential implications of this rise on the headline inflation figures which turned investor sentiment sour, as economists predicted that the rise would add circa 0.2% to the headline figure. Hopefully, though, this should be more than offset by continued declines in food and services inflation.

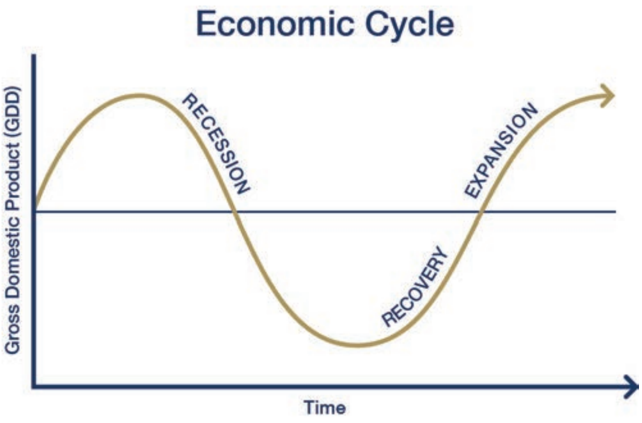
The third quarter was very tough for bond investors as yields surged and prices — which move inversely to yields — dropped. The selloff was led by intermediate and long-term Treasury Bonds, whose yields rose to the highest levels in more than a decade. Bond market performance was mixed, with UK Corporate Bonds and Global High Yield Bonds recording marginally positive returns, in contrast to UK Gilts which fell -0.8%. Gold also lost its shine, falling nearly 3.5% over the quarter.

Both the Federal Reserve and Bank of England paused on interest rate hikes in September, nonetheless continuing their hawkish rhetoric. The 'higher interest rates for longer' narrative continued to contribute to some of the recent weakness as markets have yet again failed to predict policy direction, a common theme over the last 18 months. The re-pricing of expectations saw the futures market (who were betting that US interest rates would be about 4.2% by the end of 2024) now place their expectations on rates of 4.8%.

The best performing major equity market in local currency terms was the UK, returning 2.19% over the quarter in part thanks to its relatively large tilt towards the energy sector, which was supported by a sharp rise in oil prices. Returns were negative in all other equity regions. Both Japan and Europe sank -4%, with the technology-heavy US market indices falling -3.5%.

It's important to highlight just how concentrated stock market returns have been throughout this year. On the face of it, the US stock market index is still up 10% year-to-date; however, the average stock in the index is up just 1.4% YTD. Of the 499 stocks currently in the index, more stocks are now down year-to-date than up (254 down versus 247 up). The ten largest stocks in the S&P are still up an average of 65% in 2023. The 489 other stocks in the index are up 0.10% on average.

As we turn our attention towards the final quarter of 2023, markets continue to be focused on inflation and what that means for interest rates. Inflation appears to have somewhat stabilised but it is well above the 2% to 3% target range set by policy makers. The key thing to remember is that it's normal for markets to move up and down, and volatility should not be the deciding factor on whether to exit your investment. It's important to stress the benefit of patience with investing, remembering the old adage: "It's about time in the market, not timing the market".



Despite the negative media headlines, inflation, rising interest rates and recessions are a normal part of an economic cycle. Markets have experienced them in the past and have always bounced back stronger. This time is no different, and one should not lose sight of the long-term attractions of investing.

Tom Hopkins MCSI
Portfolio Manager

BRI Wealth Management plc
BRI House
Elm Court
Meriden Business Park
Meriden
CV5 9RL

Telephone: 01676 523550
Email: hello@brigroup.co.uk

www.brigroup.co.uk

BRI Wealth Management PLC

@BRIWealth

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