



WEEKLY BULLETIN

Upbeat investors welcome widespread lower inflation

Key takeaways

Inflation fell on both sides of the Atlantic last week, boosting financial market performance. Meanwhile, a cautious meeting took place between US and Chinese leaders, and a familiar face returned to Downing Street...

- Lower prices at the petrol pump helped US inflation to fall in the year to the end of October 2023. US consumer prices increased at a rate of 3.2% last month, versus 3.7% in September. As a reminder, this means that while overall prices for goods and services are still rising, the pace of these price increases has slowed.
- The latest UK figures showed a drop in inflation too, falling to 4.6% in the year to October (versus 6.7% in September). Lower energy prices have been credited with this slower pace of UK price rises, but inflation in UK food costs has also finally begun to ease off. Across the English Channel, inflation in the euro zone fell below 3% in October (versus 4.3% in September), reaching its lowest level in more than two years. As in the UK, this is largely the result of lower fuel and food prices.
- Over the past two years, major central banks around the developed world have been raising rates sharply in a bid to cool inflation by slowing down economic activity. Financial markets have welcomed the news of falling inflation, on the understanding that lower inflation makes central banks less likely to raise interest rates further. Indeed, some investors now believe that interest rates will actively begin to fall in the near future. However, our view is that rates are likely to remain at elevated levels for the time being, allowing policymakers at central banks to continue monitoring the inflation picture.
- Meanwhile in international politics, a carefully choreographed meeting between US President Joe Biden and Chinese leader Xi Jinping led to some cautious reopening of cooperation between arguably the world's two most significant economies. The mood soured somewhat following this meeting, when Biden publicly reiterated his views of Xi as a dictator.
- Turning to politics on home shores, the return of David Cameron to the UK cabinet as Foreign Secretary came as a surprise to most political commentators. The move suggests that Prime Minister Sunak could be pitching towards the centre ground of the UK electorate.

Market moves

It was a buoyant week for mainstream financial markets. In response to news of falling inflation, both stock and bond prices rose (bond yields, which always move in the opposite direction to bond prices, fell).

In commodity markets, the oil price continued to drop sharply, with investors apparently dismissing the risk of the war in Gaza spreading, or an oil embargo being enacted.

What to look out for this week

Among the economic data due for release this week, analysts will be closely watching for the latest US jobless claims and home sales figures, as well as European consumer confidence and private sector survey data.

Friday marks a newly familiar date in the retail calendar – 'Black Friday' – which could provide a boost to retailers amid heavy discounts and shopping incentives ahead of the festive season.

Market performance (as at 17 November 2023)

| | Index Levels | Last Week | Month to Date | Year to Date |
|--------------------------------------|--------------|-----------|---------------|--------------|
| Equity | | | | |
| MSCI United Kingdom | 2,150.7 | 2.0% | 2.8% | 4.3% |
| MSCI United Kingdom Mid Cap | 1,225.6 | 3.1% | 6.4% | 12.1% |
| MSCI United Kingdom Small Cap | 359.8 | 3.9% | 8.6% | 2.6% |
| MSCI World (GBP) | 2,343.0 | 1.0% | 5.4% | 13.2% |
| S&P 500 (GBP) | 4,514.0 | 0.4% | 5.2% | 15.4% |
| MSCI Japan (GBP) | 1,467.6 | 2.0% | 5.7% | 11.6% |
| MSCI Europe ex-UK (GBP) | 1,615.8 | 3.1% | 6.4% | 11.0% |
| MSCI Pacific ex-Japan (GBP) | 1,528.0 | 1.5% | 3.7% | -6.1% |
| MSCI Emerging Markets (GBP) | 59,269.5 | 1.0% | 4.2% | 1.4% |
| Bonds | | | | |
| BoA Merrill Lynch Conventional Gilts | 998.5 | 2.0% | 3.9% | -1.2% |
| BoA Merrill Lynch Index-Linked Gilts | 411.5 | 2.5% | 5.9% | -4.0% |
| BoA Merrill Lynch £ Corporate | 394.0 | 1.8% | 3.5% | 4.6% |
| Commodities | | | | |
| Oil (West Texas Intermediate, GBP) | \$75.9 | -2.5% | -9.3% | -8.4% |
| Gold (GBP) | \$1981.1 | 0.1% | -3.2% | 5.7% |
| S&P / GSCI (GBP) | 3,460.6 | -2.1% | -6.0% | -4.2% |

Past performance is not a reliable indicator of future results. The value of investments may fall as well as rise. All performance returns are in GBP, while all index levels are in local currency.

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