RICHMOND HOUSE
INVESTMENT MANAGEMENT

Investment commentary

November 2023

Market overview

November proved to be an excellent month for investors with strong returns from both equities and fixed income. Developed market equities rose around 8% in local currency terms although the strength of sterling over the month took this down to a still impressive 5% for sterling investors. Emerging markets were also strong returning 3.5% in sterling terms.

The key catalyst was weaker-than-expected inflation data reinforcing the view that interest rates may have peaked. US headline inflation for October came in at 3.2%, slightly lower than expected and still implying that the broad disinflationary trend remains on track. The October Personal Consumption Expenditures Index, a key indicator for the Federal Reserve, also fell to its lowest level since the spring of 2021 while an increase in first-time jobless claims, suggesting that the labour market may be cooling, also contributed to the more dovish expectations.

UK headline inflation fell further than expected to 4.6% with a notable fall in service sector inflationary pressures, a key dynamic given the shape of the UK economy. Eurozone headline inflation also fell to 2.4%, driven by falling fuel prices but also broader price decreases across both goods and services.

The UK services Purchasing Managers' Index ('PMI') has risen above 50 indicating a level of expansion and bringing the hope that economic growth is potentially beginning to tick upwards. Recent economic growth data from the US and the eurozone has been mixed however the overall level of economic resilience being seen across the developed world is fuelling the market's hopes for a 'soft landing' – a scenario where inflation is successfully controlled without undue damage to economic growth.

The US equity market led the way in November, driven in part by the strength in the technology sector and growth stocks generally that benefitted from the fall in bond yields. It is also encouraging to see strong returns from both the eurozone and Japan over the month given that we have recently added exposure to these regions. The UK market lagged, held back by its significant exposure to commodities and also by the impact of sterling strength on its internationally exposed larger companies. Medium and smaller-sized companies outperformed, which benefitted some of the active managers held across strategies. Equity market sentiment was also buoyed by improving expectations around a recovery in earnings growth looking into 2024.

Data emerging from China over the month was again mixed. Retail sales figures were strong but the difficulties within the property sector remain. Markets were, however, encouraged by the potentially positive dialogue and agreements between China and the US relating to issues such as energy. Within the Asian region the strongest returns came from South Korea, Taiwan and the Philippines.

The more dovish outlook drove strong returns from fixed income in November with the 10-year Gilt and Treasury bond yields both falling close to 50 basis points (equating to returns of over 3% in both as values rose). Corporate bonds further benefitted from spreads tightening buoyed by improved sentiment around corporate health.

Strategy positioning

Our positioning has worked well over the month and we are not currently minded to change our positive view on the outlook for equity markets. As we have previously reported we have been active in shifting our equity asset allocation in recent months, adding to Europe and Japan and also to a thematic fund focusing on companies set to benefit most from developments in artificial intelligence ('AI'). Evidence suggests that corporate earnings across the developed world are generally holding up better than anticipated, which implies that current valuations across most sectors are relatively undemanding.

Real (above inflation) yields on sovereign bonds are creeping into positive territory now that inflation is subsiding and monetary policy remains high while yields on investment grade corporate bonds continue to look particularly appealing. We have been incrementally adding exposure to fixed income in recent months, slightly reducing more defensive assets.

Risk warnings