Macro Outlook Summary

November 2023

Staring into the abyss at the end of October, markets listened very carefully to Chair Powell's press conference after the US Fed meeting on 1st November for any straws of hope. With great clarity Powell confirmed that policy was on hold as the FOMC considered actions taken to be sufficient for the time being to slow demand and bring inflation down to target. He did not see clear signs of an impending recession and re-iterated past statements that there had been no discussion or consideration given to cutting rates at any point in the future.

Even as he spoke government bonds started rallying strongly as investors bought into the notion that enough had been done and it was finally time to lock in 'peak' yields along the curve. Credit markets followed and equity investors breathed a sigh of relief as buying across global markets began in earnest. The importance of this moment cannot be overstated in that Powell succeeded in pulling global financial markets back from the brink in one hour and set them on a new direction upwards.

The rally in bonds and equities in November has been impressive. To illustrate, the 10Yr UST has dropped 60bps in yield while equity indices are up 8-10% which largely reverses market losses over the past 2-3 months. Looking forward the dispersion of market views is unusually wide. At one extreme there are highly respected investors talking about an imminent Fed rate cut early in 2024 to support an economy which is supposedly about to stall while at the other extreme there are those worrying about another uptick in inflation which will force further hiking and trigger a significant bond and equity market sell-off.

Right now, our view sits somewhere in the middle where we think a further rally in some equities and bonds is possible but subject to inflation data coming in as required. Our conviction that no major DM central bank will cut rates before the middle of next year is high.

Similarly, the outlier causes of inflation rising like another energy crisis seem to be fading. Despite escalating global conflict and numerous other potentially bullish factors the oil price has come back down below $80 which is where it was at the end of 2021.

For equity investors the price action of long duration equities in growth sectors is probably going to be the leading indicator of whether the 31st Oct low really was the turning point or not. For three years most equities in these sectors have been in free fall and particularly the mid and smaller cap names where declines greater than 80% are common. In recent months many appear to have found a floor and we suspect it won't take much buying power to drive prices back up towards more reasonable valuations from their currently bombed out levels. If the space can come back to life, then we think it will be a good barometer of sentiment next year.