Alexander Peter
Wealth Management

WEEKLY MARKET COMMENTARY
28 October 2022

POLITICAL RESHUFFLES SET THE TONE FOR FUTURE POLICIES

This week Rishi Sunak officially took over as prime minister, seen as a safe pair of hands, to start to restore confidence following the short but explosive Truss era. He faces quite a juggling act, needing to satisfy markets as well as the many hostile factions of the conservative party. His cabinet includes a few familiar faces from both Johnson and Truss governments, but with the treasury now firmly on a sound money footing under Jeremy Hunt. The response has been positive with bond yields and sterling both heading in the direction of their pre-mini budget levels. The calm may not last however, with investors pinning an awful lot of hope on next month's Autumn statement. Disappointment will be costly.

Elsewhere, fresh from criticising the UK, the USA is about to undergo its own political turmoil as early voting has begun for November's mid-term elections. With Republicans widely tipped to regain Congress, it's worth noting many prominent Republican candidates were full of praise for the Truss/Kwarteng budget and have proposed a similar course of action. We may yet get the chance to offer some helpful advice of our own.

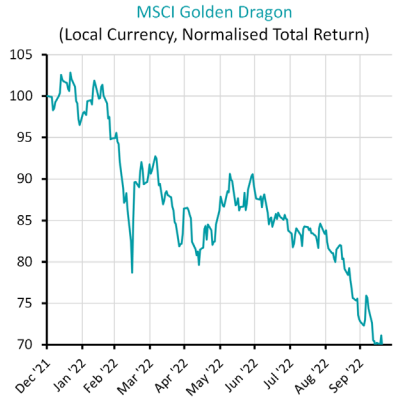
THE MARKETS THIS WEEK

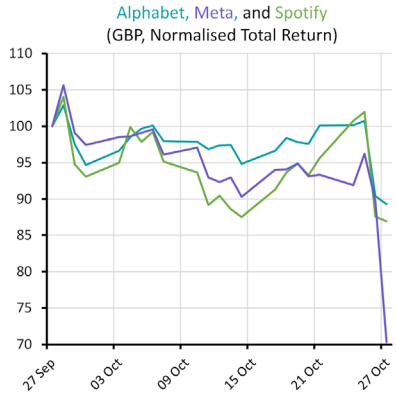
FTSE 100	S&P 500	Nikkei 225	MSCI Europe	Hang Seng	US 10 Yr	UK 10 Yr	Brent Crude	Gold	Iron Ore	GBP USD
+1.49%	+1.45%	+1.69%	+3.00%	-8.32%	-0.27%	-0.61%	+4.22%	-2.65%	-3.24%	+3.72%

CHINA: XI JINPING CONSOLIDATES POWER WITH A THIRD TERM AS PRESIDENT

Xi Jinping has secured his third five-year term as President of China. This comes as no surprise after his abolition of the two-term limit in 2018. China's importance to the global economy has grown since Xi's predecessors opened China to become the hub for global manufacturing, trading networks and supply chains. An area once dominated by the US, China's manufacturing output is equal to the US and Europe combined.

The shift to the growth focussed policies has worked for China but the economic model is flagging. With power secured investors seem concerned over the future direction the country. Following re-election, Xi has organised his senior leadership team with loyalists focused on national security and zero-COVID policies. Arguably the focus is a smokescreen for shutting out the western world and adjusting to a domestically focussed economic plan. The change had an immediate negative impact on the markets while increasing the focus on a potential Taiwan invasion.





EQUITIES: DIGITAL ADVERTISING SEEN AS EXPENDABLE

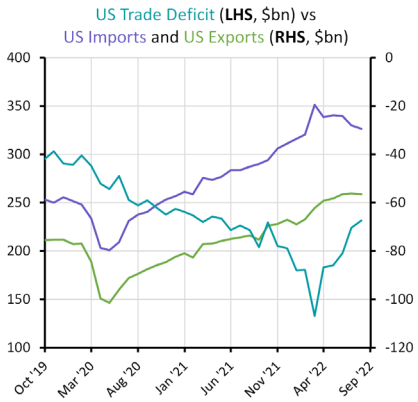
Earnings season is well underway and it has not been kind to US technology. On Wednesday Alphabet – Google's parent - reported a significant slowdown to the core search advertising business. This shocked markets, triggering a fall in the value of big tech stocks and fuelled fears of economic slowdown in the US. Alphabet, failed to meet 9% growth expectations forecasted by analysts for the third quarter. Revenue growth of just 6% represented the slowest rate of growth since 2013 excluding the decline at the start of the coronavirus pandemic.

YouTube suffered a similar fate with their advertising revenue declining 2% against a forecast of 4.4% growth. The challenging economic environment has impacted Spotify who cited softness in the advertising market as a driver for weaker profits. Meanwhile at Meta, formerly Facebook, a 5% drop in revenue represent the company's first ever decline in revenue. Companies attributed lower spending on marketing as a driver of weaker revenues.

GLOBAL: STRONG US DOLLAR SUPPORTS US GDP WHILE ECB HIKES RATES

Despite a weak start to the year the US economy has grown in the third quarter. GDP growth surpassed economists' expectations at 2.6%, reversing the 0.6% and 1.6% declines recorded in Q1 and Q2 respectively. The increase was driven by a reduction in their trade deficit and was helped by the US dollar which boosted the value of exports. Consumer spending fell to 1.4%, from 2% in Q2, and while the dollar propped the economy up, a decline in spending contributes to tepid signs of a US slowdown.

Elsewhere, the ECB has raised rates to their highest level since 2009 after Thursday's 0.75% increase to 1.5%. Markets had been expecting a strong move following a record high of 9.9% for inflation within the Eurozone. ECB President, Christine Lagarde, is following in the footsteps of US central bank President, Jerome Powell, aiming to crush inflation with consecutive 75bps moves.



Data Sourced from FE Analytics and FactSet