

US economy continues losing traction

Overview

Equity markets rose again last week, egged on by the Fed chief's speech signalling the likelihood of some moderation in the pace of rate hikes as the US economy stages its orderly landing. Also lowering the risk premium were the first signs of easing in China's zero-covid policy.

Bond yields eased significantly in response, with the US 10-year back at 3.5% and the Bund at 1.85%.

Another week of gains from equity markets

The US economy continues to lose traction, pinned back by the central bank's policy of steady rate rises since the beginning of the year. Take, for example, the contraction in manufacturing activity, with the ISM's manufacturing PMI clocking in below expectations at 49.0 down from 50.2 in October. The rising cost of borrowing is hurting producers of goods.

Inflation slowed slightly in October. All the while, Americans continued to spend, taking advantage of wage increases and abundant savings. Consumer prices rose 6.0% year on year following an increase of 6.3% in September.

The number of jobless claims fell slightly in the week ending 26 November, dipping to 225,000 from 241,000 in the previous week. In contrast, the total number of jobseekers now exceeds the 1.6 million mark, following

the latest increase of 57,000. On the positive side, the monthly non-farm payrolls report, out on Friday, confirmed the strength of the labour market. In November, the US continued to create jobs, adding 263,000. The average hourly wage was up by 0.6%.

The S&P 500 ended the week up by 1.13% while the tech-heavy Nasdaq, more sensitive to interest rate expectations, advanced by 2.09%.

Across in Europe, ECB boss Christine Lagarde left nothing off the table as regards the size and number of future rate hikes. Everything depends on a number of variables, she said.

In the Eurozone, year-on-year inflation slowed to 10% in November, down from 10.6% in the previous month. Core inflation was steady at 5%. All this suggests that pricing pressures have eased, which is an extremely encouraging development. Finally, manufacturing activity contracted slightly with the PMI ebbing to 47.1, down from 47.3 in October.

Inflation slowing in Europe

Market participants will this week be watching for real signs of covid policy easing in China, as has been promised, and the impact of this on the economy, plus publication of services PMI indices.





Individual sector performances

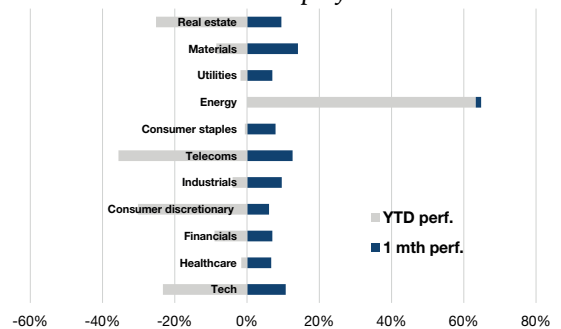
2022 has featured the comeback by value-style stocks after years of underperformance against their growth peers. Investors have suddenly become more attentive to fundamentals, leading them to rebalance their portfolios by adding in some safety in the guise of defensive sectors (healthcare, utilities, telecoms and insurance), amid the economic slowdown.

In short, the global economy suffered from runaway inflation, less accommodating central banks, war eastwards of Europe and the continued pandemic in China. All this adversity was too much for markets, which fell back sharply, sending every asset class into a death spiral and leaving investors bereft of investment returns. The only areas providing solace were the US dollar and the energy sector (+63%).

Over the past two months, the trend has begun reversing direction. A renewed appetite for risk has been visible among investors, attracted by appealing valuations. As an illustration, tech has rebounded by almost 11% in the last month in the US and by more than 17% in Europe. Real estate also had a strong month in November, as did retail.

Market valuations are quite affordable on the whole, but the slowing economy is still expected to dampen earnings growth.

S&P 500 sector performances



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