Week in review

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In this week's update, Kevin Quinn discusses:

- A slew of central bank decisions from the US Federal Reserve, Bank of China, Bank of England and Bank of Japan
- The re-emergence of the energy sector's performance
- Eurozone and UK inflation news
- The Organisation for Economic Co-operation and Development (OECD) economic outlook for 2024

Latest update from markets (to 21.09.23)

	1 week	YTD
US shares	-3.2%	+15.6%
European shares	-1.3%	+10.3%
European government bonds	-0.2%	+1.1%
Global commodities	-1.4%	-5.3%

Source: Bloomberg 22.09.23. Returns expressed <u>in euros</u> calculated to 21.09.23. European government bond returns calculated to 20.09.23 using prior 5 trading days.

The long and short

Investing requires a long-term focus but shorter term events can take most of our attention. In this series of updates, we place current events into a longer term perspective.

The long…

Oil and the energy sector?

In 2022, energy was the top performing sector, beating all comers handsomely. This year, it had been the worst performer for most of the year, and both periods reflect the movement in oil prices. So far, Q3 2023 has seen this reverse again, reflecting once again the movement in oil prices.

Table 1: Global equities, energy sector & oil prices

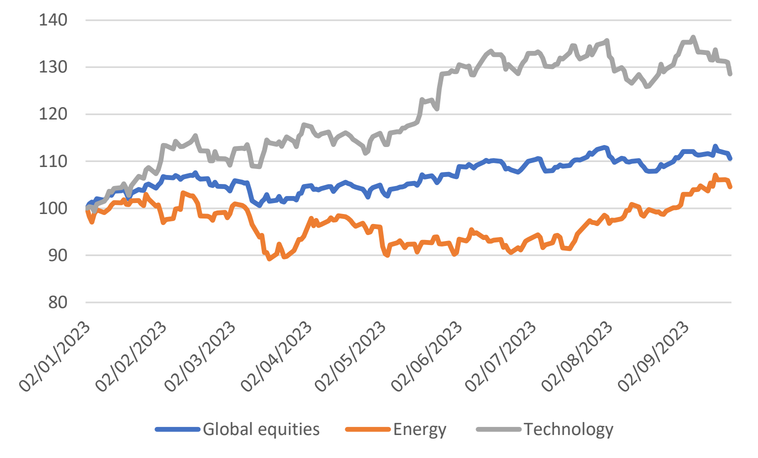
	2022	H1 2023	Since mid-year
MSCI World All Country	-12.8%	12.1%	1.7%
MSCI Energy Sector	43.0%	-3.7%	14.0%
Oil price	107%	-17.6%	24.7%

Source: Bloomberg, 21.09.23.

As can be seen from the table above and the chart below, this latest rally tracks the movements in oil prices. After falling by 17.6% in the first six months of the year, the price of oil has surged in Q3 2023. This rise in oil prices, now near 10-month highs, has been driven by the control of supply by Saudi Arabia, the Organisation of the Petroleum Exporting Countries (OPEC+) and Russia, which has cut production until the end of the year.

While energy's year-to-date performance still lags compared to that of the technology sector, this sector has been the winner since mid-year. To 21.09.23, technology was -3.3% compared to energy at +12.1% since the start of July 2023.

Figure 1: Equity market year to date performance



Source: Bloomberg, 21.09.23.

Can this continue? If we see that oil production remains constrained and prices stay elevated, energy stocks could continue to perform well. Certainly, as a sector, they trade at a discount to the wider market, which can make gains easier to achieve. But even the energy industry knows that price rises over $100 will be demand destructive.

Performances indicated are to 21.09.23.

The short…

Market news

Fed meeting – At the US Federal Reserve (Fed) Open Market Committee on Wednesday (20.09.23), it announced that it was pausing interest rates at 5.5% once again. Markets see this as a "hawkish pause", meaning that rates could be held at this level for longer than the market had expected. While widely expected, the focus instead was on the dot plot, which illustrates the likely path of monetary policy. This suggested that the market might need to adjust the length of time before a rate cut was likely. The "higher for longer" message that was delivered brought equities and bonds down on the day.

Bank of England also paused interest rates on Thursday (21.09.23), following slightly better than expected inflation data published on Wednesday (20.09.23).

Bank of Japan is expected to hold its current interest rates on Friday (22.09.23) as it digests what will probably be a modest fall in inflation.

Eurozone inflation increased by 5.2% in August, according to the revised data issued on Tuesday (19.09.23), which was lower than the initial estimate of 5.3% and the lowest level since January 2022. Core inflation, which excludes food and energy, fell to 5.3%. This adds to the viewpoint that the European Central Bank (ECB) has now reached its peak in interest rates.

UK inflation decreased to 6.7% per annum (p.a.) in August 2023 versus the 7% that was expected and slightly down on last month. Core inflation fell to 6.2%, its lowest since March.

Oil prices reaching $96 per barrel for the first time since November 2022 have stoked concerns that inflation could perk up once again in the coming months. Production cuts by OPEC+, Saudi and Russia have led prices higher and this has rippled across a number of markets. Dollar strength, higher bond yields, a rise in energy stocks and a drop in airline and logistics stocks are all consequences of the move in oil prices. A flurry of "$100 per barrel by year end" predictions has ensued but prices softened to under $94 by end of Thursday.

US dollar sees resistance as it reaches $1.06 against the euro after nine weeks of strengthening – the first time in nine years it's seen a streak of that duration.

US housing starts, an economic indicator that reflects the number of new private homes under construction, dropped to its lowest level since 2020, highlighting the decline in affordability due largely to higher interest rates.

OECD outlook – Data published by the Organisation for Economic Co-operation and Development (OECD) published this week points to a slowdown in the global economy in 2024, suggesting growth will slow to 2.7% next year from 3% this year. Barring 2020, when COVID struck, this would be the weakest expansion since the Global Financial Crisis (GFC). The point to the growing impact of higher interest rates, a turndown in consumer confidence and the slower growth in China.

Source: Bloomberg, 21.09.23.

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Table 1: 5 year historic performances

Market	2018	2019	2020	2021	2022
Global equities	-4.9%	28.9%	6.6%	27.5%	-13.0%
US equities	-0.5%	33.9%	8.6%	39.3%	-13.0%
European equities	-12.0%	29.8%	-2.3%	23.8%	-9.9%
Emerging market equities	-10.0%	21.8%	8.7%	4.2%	-14.9%
Global bonds	-1.1%	5.3%	4.9%	-2.6%	-15.1%
US government bonds	-10.6%	5.9%	8.8%	-2.2%	-12.5%
European government bonds	0.9%	6.8%	5.0%	-3.5%	-18.5%
Emerging market debt	-3.7%	0.6%	17.1%	-3.2%	-13.0%
Broad commodities	-6.8%	9.8%	-11.0%	1.0%	20.9%
US corporate bonds	2.5%	16.5%	1.3%	6.3%	-15.8%
European corporate bonds	-0.9%	6.2%	5.3%	29.2%	-14.1%
Japanese equities	-10.0%	22.2%	3.3%	9.8%	9.4%
MSCI World AC Energy	-8.2%	16.1%	-33.5%	47.7%	43.4%
MSCI World AC Technology	-0.8%	50.4%	34.3%	37.0%	-27.4%

Source: Bloomberg 22.09.23. All returns expressed in euros.

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