The Way We See It

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INSIDE THIS ISSUE

"Everything Rally" Month - Is the Sustainable Bull Market back ?

A brief update report which serves to review the recent market development and to offer our outlook for the rest of the year and beyond.

Review of Developments
- Global Economies

On growth dynamics, recently-released data continued to show significant growth divergences amongst key economies.

On the relatively stronger side, partial economic indicators from the U.S. continued to show positive growth, albeit decelerating from the strong pattern in Q3.

On the relatively weaker end of the growth spectrum, the latest partial indicators of Eurozone and China continued to confirm a sluggish trend.

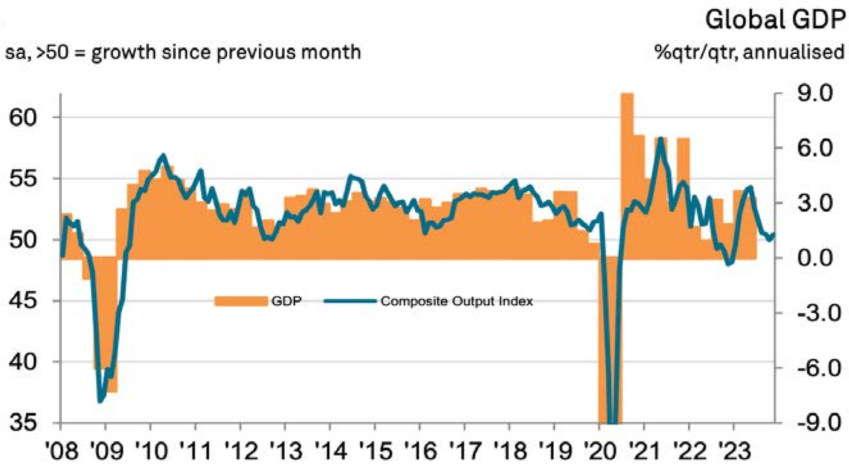
On the inflation front, thanks to the significant fall in energy prices, in most developed economies, the headline inflation trend continued to improve. Core inflation indicators also modestly decelerated. In spite of this, central bankers in the OECD bloc remain wary that the year-on-year core inflation rate remained too high relative to their 2% annual targets. Thus they are reluctant to cut rates. Instead, the majority prefer to pause.

It is worth remembering that the key message from the Fed, following its November FOMC meeting, in which rates remain on hold for a consecutive second month, emphasised the need to keep rates high for longer, as the road to achieving an annual 2% core inflation rate remains uncertain. The Fed's chairman, in a Q&A session, also hinted that the prospects of a cut versus a further rate increase favours the latter. In the month of November, most other OECD central banks remain on hold.

Fed emphasised the need to keep rates high for longer.

Finally, global geopolitical risks remain high: Russia and Ukraine, Gaza and Israel, plus geopolitical and trade tensions beyond semiconductor chips between the U.S. and its partners, against China.

J.P.Morgan Global Composite PMI™



Source: J.P.Morgan, S&P Global Market Intelligence

- Global Markets

November 2023 will be remembered as a spectacular month where all non-cash assets performed very well. This follows three months of weakness in both bond and equity markets.

It was reported that fundamental investors were big buyers of bonds, then stocks. They were positively motivated by the better-than-expected fall in all inflation indicators, as well as a recent softening of the employment and consumption sectors in the U.S. domestic economy in particular. Some even start to predict an early cut in interest rates, beginning with the ECB, then the Fed, in Q1 of next year.

This Goldilocks soft-landing backdrop leads investors to either cover shorts and/or to start reducing their pile of cash in to re-invest in both bond and equity markets.

Within the global equity universe, all major markets rose. Again, the HK/Chinese and the rest of the Asian bloc performed relatively more poorly. Investors were disappointed with the continuing poor growth in Chinese exports and domestic growth, as well as continuing debt issues in its property sector.

Near-term performance of various asset classes

as at 30/11/2023

Asset Class	US Equities	Global Equities	GEM Equities
Index	MSCI USA	MSCI World	MSCI EM
1 month	9.43%	9.43%	8.02%
3 months	1.90%	1.73%	1.16%
YTD	21.38%	18.55%	6.08%
FY 2022	-19.46%	-17.73%	-19.74%

Asset Class	US Corporate	US Treasury	US Aggregate
Index	Bloomberg US Corporate	Bloomberg US Treasury	Bloomberg US Agg
1 month	5.98%	3.47%	4.53%
3 months	1.22%	-0.04%	0.26%
YTD	4.01%	0.67%	1.64%
FY 2022	-15.76%	-12.46%	-13.01%

Asset Class	Global Govt Bonds	Global Aggregate	Global Commodities
Index	Bloomberg Global TSY	Bloomberg Global Agg	CBR
1 month	4.94%	5.04%	-2.67%
3 months	0.36%	0.75%	-2.93%
YTD	-0.11%	1.50%	-1.48%
FY 2022	-17.47%	-16.25%	19.53%

Asset Class	Asia ex Japan Equities	China Offshore	China A
Index	MSCI AC AxJ	MSCI China	MSCI China A Onshore
1 month	6.96%	2.52%	1.18%
3 months	0.11%	-4.54%	-3.64%
YTD	2.70%	-8.84%	-10.34%
FY 2022	-19.35%	-21.80%	-27.09%

Source: GOJI, MSCI, Bloomberg

Expectations of rate cuts in the U.S. weakened the US Dollar. This is in spite of the Fed's repeated insistence on rates remaining high for longer. In addition, there were signs of short-covering of many currencies against the U.S. dollar as the latter weakened.

The Commodities complex again fell, caused by larger-than-expected falls in energy prices. Gold was the outstanding performer, as it benefited from escalating geopolitical tensions in the Middle East and elsewhere, together with a weakening of the US dollar and lower interest rates. The Crypto complex also performed very strongly, ahead of a number of ETFs being launched soon.

In terms of equities investment flows and positioning, both fundamental and quantitatively-driven funds bought risk assets, as both were slightly underweight equities, relative to their historical norm. Fundamental investors were the key aggressive buyers.

Amongst Systematics, the more flexible and aggressive CTAs were reported to be doing lots of short-covering in U.S. and global equities.

Equity Positioning*

*Wtd average of Z-scores for positioning indicators, weights based on explanatory power in regression of equity performance on indicators

Source: Deutsche Bank Asset Allocation

Systematic strategies are buying with room to add; discretionary is holding on at high level.

In our October report, we noted that there was a growing consensus that we may have seen the worst of the fall in markets in the three months from August to October. Hope was building up for a more bullish seasonal rally leading to Christmas and the new year. This actually occurred, thanks to positive newsflows which created a Goldilocks economic backdrop, together with an underweighted investment community .

We will publish the GOJI's 2024 Outlook document separately in due course.

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