quantumrock

November 2022

Market Commentary

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The month of November showed from the outset that a current end to interest rate hikes is not yet in sight. After the ECB and the Fed, the BoE complemented the key rate hikes of the major central banks. All three institutions increased their key interest rates by 75 bp, bringing the current interest rate level GBP to 3.0 percent, that of the USA to a range of 3.75 to 4.00 percent and that of the EU to 2 percent.

With the rising key interest rates, the inverting of the spread difference between the 10-year and 2-year Treasury yields can already be seen for some time. This Treasury curve inversion now reached a 40-year low in early November. History shows that not every inversion has been followed by a recession, but every recession in the U.S. so far has been accompanied by an inverted yield curve in the run-up.

If we take a look at the current economic indicators, we see that the PMIs of both the industrial and the service sector have fallen significantly and that the consequences of inflation and the interest rate hikes are therefore leaving their mark. In the euro zone, the issue of energy supply will also become increasingly explosive. The price risks arising from the gradual passing on of high exchange prices for gas and electricity to consumers should not be underestimated. Against this background, attempts are now being made at national level to solve the energy price problem through state redistribution mechanisms. However, as the example of the Truss government in the UK shows, the financial markets will not tolerate expansionary fiscal policies that further accelerate inflation and jeopardize a country's debt sustainability.

Politically, the U.S. midterms are on the agenda at the beginning of November. This could fundamentally shift the power structure in Washington D.C.. In the House of Representatives, the Democrats are very likely to lose their majority, while in the Senate it will be a neck-and-neck race. At stake in the midterms is Biden's ability to act over the next two years, but also the future of former President Donald Trump. Even though the outcome of the U.S. midterm elections is difficult to predict, the likelihood of volatile markets is high.

The last few weeks have been characterized by a difficult market environment with losses in value across almost all asset classes. A key reason was the much stronger inflation than initially expected. This was accompanied by a stronger tightening of monetary policy. This continues to weigh on equities and the bond segments. In the wake of an expected recession and continued high inflation figures, the bond markets are likely to remain volatile. Real assets, such as gold and precious stones, could thus come back into focus more strongly in the form of a "safe haven". Moreover, dynamic hedging strategies are an attractive alternative in view of the current risks.

In Focus: Volatile bond markets

- Scope of recession worries not abating, especially in the euro zone
- No clear end to interest rate hikes in sight
- Real assets could be viewed again as a “safe haven” and diversification opportunity
- Inflation remains one of the central issues on the markets

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