CS INVESTMENT MANAGERS

VIEW FROM THE SQUARE

December 2023

Yields are falling, all around us, markets playing, having fun

Markets further advanced in November as the momentum from the beginning of the month was sustained, with economic data releases demonstrating further reductions in inflation. The UK, US and Europe all saw inflation decrease by more than was expected, providing investors with optimism that the rate hiking cycle (rising interest rates) had come to an end. Federal Reserve officials provided relatively mixed messaging around this, with Chris Waller (a typically hawkish member) indicating confidence that policy rates are well positioned to slow the economy and that they could possibly be reduced after several more months of disinflation (slower inflation). Looking to add a note of caution however, Jay Powell, the Fed Chair, said it would be premature to conclude that rates are sufficiently restrictive and to start considering rate cuts. Equity and bond markets placed more weighting on Waller's comments and continued to rally over the month.

Energy price pressures which had grown over the past few months dissipated in November, as investors weighed up the weak economic outlook (and hence potentially reduced demand) particularly in China, as well as a slight easing in the Middle East conflict following the agreement of a ceasefire.

Gold has been an area of strength over recent months, reaching record highs and proving its 'safe-haven' status following the outbreak of the conflict between Israel and Hamas. The precious metal has also benefitted from a reduction in interest rate expectations above inflation, the real yield. We see this as a positive not just for the physical holdings, but for the gold mining companies as well.

President Biden and Xi met over the month, with progress seemingly made on a number of issues including climate change and military communications. While these are tentative steps to repairing relations between the US and China, it indicates a more constructive approach to the relationship, which should be a net benefit for global markets and economies.

As we approach the Christmas period and take time to consider portfolio positioning going into 2024, we look ahead with optimism. The much anticipated peak in yields appears to have occurred, with recent market movements being an indication of the potential recovery that could be in store for markets should this be sustained, and interest rates begin a descent.

4th December 2023

William Forsyth, Executive Chairman & CIO

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Important Information

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