WEEKLY MARKET COMMENTARY
18 November 2022

AUTUMN STATEMENT LOOKS AUSTERE BUT BIG DECISIONS HAVE BEEN PUSHED DOWN THE ROAD

This week we saw the chancellor playing for time. Tax rises and spending cuts were well briefed to the media and markets have so far taken Jeremy Hunt's announcements in their stride. The chancellor's reforms also managed to keep the Conservative backbenches mostly onside as Hunt appears to have pulled off the trick of sounding serious without actually doing very much, as the biggest spending cuts have been deferred.

Political commentators have been keen to point out that delaying spending cuts sets a trap for the next government. However, Hunt is likely to have learned Kwasi Kwarteng's painful lesson: borrowing a lot of money when interest rates are high is expensive and make you unpopular. The Office for Budget Responsibility predicts inflation will turn negative in 2024 and the UK is entering a protracted recession. Hunt may be betting that the Bank of England will have to cut rates and restart QE to revive the economy. This would revive the option of tapping the gilt market to pay for government spending, just in time for the next election. And if it doesn't work, well that will be someone else's problem to deal with.

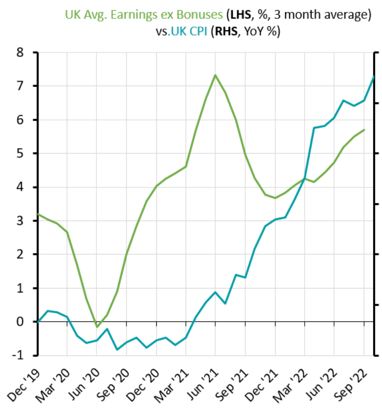
THE MARKETS THIS WEEK

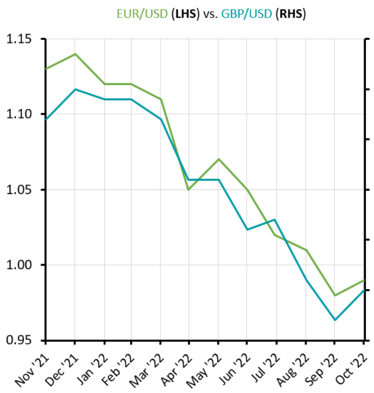
FTSE 100	S&P 500	Nikkei 225	MSCI Europe	Hang Seng	US 10 Yr	UK 10 Yr	Brent Crude	Gold	Iron Ore	GBP USD
+0.39%	-1.16%	-1.18%	-0.47%	+3.85%	-0.04%	-0.15%	-8.41%	-0.44%	+4.66%	+0.02%

UK: CHANCELLOR UNVEILS AUSTERITY PART 2 AS INFLATION ACCELERATES

Chancellor Jeremy Hunt's autumn statement came in as expected. The changes to income tax and the expansion of the windfall tax on energy companies had been telegraphed in advance and government spending (except on education and the NHS) has been frozen. There were some surprises for investors as the chancellor plans to cut the capital gains tax allowance from £12,300 to £3,000 in 2024. The annual tax free dividend allowance has also been cut and it will fall from £2,000 to just £500 in 2024.

The Office for Budget Responsibility's review of the statement says the UK is already in recession and predicts that it will not return to growth until 2024. UK inflation hit 11.1% in October and the OBR predicts inflation is peaking now before falling to 3.8% at the end of next year and turning negative in 2024. Rising interest rates and recession are expected to push unemployment from the current level of 3.6% to 4.9% by the end of 2024. Overall the statement seemed to reassure bond investors as the yield on UK gilts fell slightly this week.





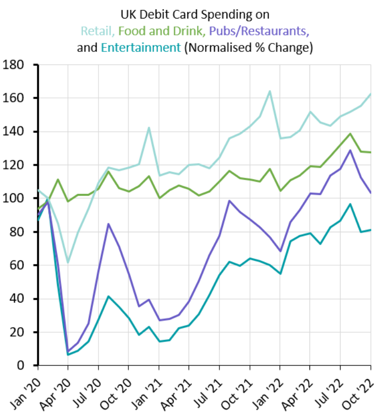
CURRENCIES: DOLLAR FALLS AS OUTLOOK FOR US RATES MODERATES

Sterling has risen from $1.13 last week to almost $1.19, while the euro increased from $0.99 to $1.04 before easing back. The same picture is seen amongst other developed currencies as the US dollar index fell from 110.8 to 105.7. Weaker US inflation has spurred hopes that the US Federal Reserve may slow the pace of its interest rate increases and this opinion was helped by several of the bank's more hawkish members appearing to support a slowdown in rate hikes.

Sterling has fallen around 12.5% against the dollar this year and the euro is down around 9% and this has contributed to domestic inflation due to higher import costs. This is particularly an issue for imports of oil and gas which are generally priced in dollars. Energy costs are one of the primary drivers of inflation in the UK and Europe so a weaker dollar will help ease inflationary pressures. A strong dollar is also a problem for emerging economies which tend to have a lot of debt denominated in dollars as it drives up the costs of servicing their debts.

EQUITIES: VALUE RETAILERS BENEFIT FROM SHOPPERS TRADING DOWN

The squeeze on the cost of living continues to drive changes to consumer behaviour. Data from the Office for National Statistics shows spending on entertainment and at pubs and restaurants has fallen steeply since the end of August and this has accelerated in recent weeks. Premier Foods has joined Primark-owner Associated British Foods and Greggs as a stocks which is benefiting from consumers trading down. Premier Foods reported sales of products like Bisto and Bird's custards increased as its half year revenue increased by 6.2% as people eat out less often. Although shares in B&M European Value Retail fell after it ordered too much stock after Covid lockdowns were lifted, but it maintained its profit guidance and expects to win customers from more expensive rivals over the next 12 months.



Meanwhile in the US, bellwether retailer Walmart said sales for the three months to October increased 8% as its lower prices attracted customers looking to offset rising grocery prices.

Data Sourced from FE Analytics and FactSet