

US JOB MARKET REMAINS STRONG BUT OTHER ECONOMIC DATA CONTINUES TO WEAKEN

This week we saw markets react to strong jobs data in the US as the good news is bad news narrative continued. The US Fed has been clear that employment and wages are among the indicators it is watching closely. With so much attention on central bank rates, anything that makes it more likely that central banks will continue to raise rates has become negative for investor sentiment.

The data out this week didn't tell us anything unexpected. The US has been the strongest developed economy for some time and it is likely to remain so into 2023. As we reach the end of 2022 we are entering forecasting season and the big Wall Street banks have been telling investors they should expect equity markets to struggle. The cash pile accumulated by many US households is expected to have been exhausted by mid-year and with consumer sentiment and retail sales already weakening, this is likely to be enough to tip the consumer-led US into recession. The UK data confirms we are already there.

THE MARKETS THIS WEEK

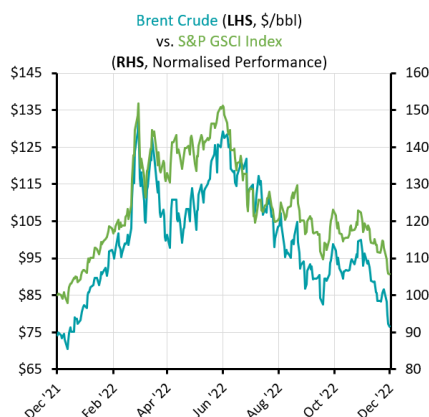
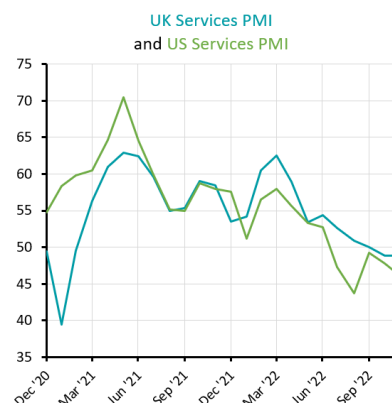
| FTSE 100 | S&P 500 | Nikkei 225 | MSCI Europe | Hang Seng | US 10 Yr | UK 10 Yr | Brent Crude | Gold | Iron Ore | GBP USD |
|----------|---------|------------|-------------|-----------|----------|----------|-------------|--------|----------|---------|
| -1.11% | -2.66% | -0.73% | -1.57% | +6.56% | -0.02% | -0.09% | -10.52% | +0.24% | +0.19% | +0.02% |



GLOBAL: WALL ST WARNS THAT US RECESSION IS LIKELY IN 2023

Despite decent employment numbers for November, several big Wall Street banks have issued gloomy forecasts for US equities as they warn about the impact of recession in 2023. Goldman Sachs, JP Morgan and Morgan Stanley all predicted a tough year ahead for US equities with outlooks ranging from a 'bumpy year ahead' to a 'mild to hard recession' with some major companies set for a big decline in earnings.

In the UK, economic data continues to decline. House prices fell in November at the fastest rate since 2008 and the Recruitment and Employment Confederation said hiring and wage growth are slowing, despite a shortage of candidates. Activity in the services sector, a key part of the US and UK economies, is contracting. Retail sales in November rose 4.7% compared to the same month last year, but this a significant drop when inflation is taken into account and American retail sales are also slowing. Low consumer confidence and the rising cost of living are expected to continue to act as a drag on economic activity.



OIL: RUSSIAN PRICE CAP INTRODUCED AS GLOBAL PRICES FALL

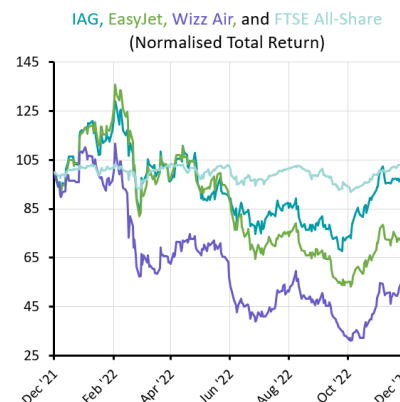
The price of oil fell to its lowest in 2022 as markets factor in the effect of the global economic slowdown. China has lifted some Covid restrictions but weak trade data means markets don't expect an immediate recovery of Chinese demand. Further signs that the global economy is slowing and expectations of recession in developed economies has seen the price of oil drop around 20% over the last month. Brent crude has fallen from \$95 a barrel in early November to \$77 this week.

The OPEC+ cartel agreed to maintain current production targets after it cut output by 2 million barrels a day in October but these cuts failed to prop up the oil price. This week also saw the EU and G7 agree a price cap of \$60 a barrel for Russian oil exports. Russian oil already trades at that level so the cap had no immediate effect on oil prices. Russia says it will refuse sales below the cap but it needs to find buyers to replace lost European sales. This will determine if the cap succeeds and if there will be a long-term impact on oil prices.

EQUITIES: AIRLINES SHOW SIGNS OF RECOVERY BUT OUTLOOK IS BUMPY

The airline industry is hoping that it has finally turned a corner. Airlines experienced a severe impact from the Covid pandemic, as passenger numbers and revenues were decimated. Post-Covid recovery has also proved difficult as airlines struggled with rehiring staff fired during lockdown and the surge in the price of jet fuel. This week the International Air Transport Association said it expects global airlines to return to profit in 2023 after racking up £185bn of losses over the last three years. Iata expects passenger numbers in 2023 to be 85% of 2019 levels after recovering to 70% of that figure this year.

EasyJet and Jet2 recently reported a return to profitability despite disruptions at UK airports over the summer. However, Iata warns that profits will be razor-thin as the outlook is uncertain due to potential oil price volatility and consumer spending is under pressure from high inflation. Travel agent On the Beach also returned to profitability for the first time since the pandemic but said travellers on smaller budgets are searching for cheaper destinations.



Data sourced from FE Analytics and FactSet

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