MONTHLY REVIEW – OCTOBER 2023

OUR PERSPECTIVE

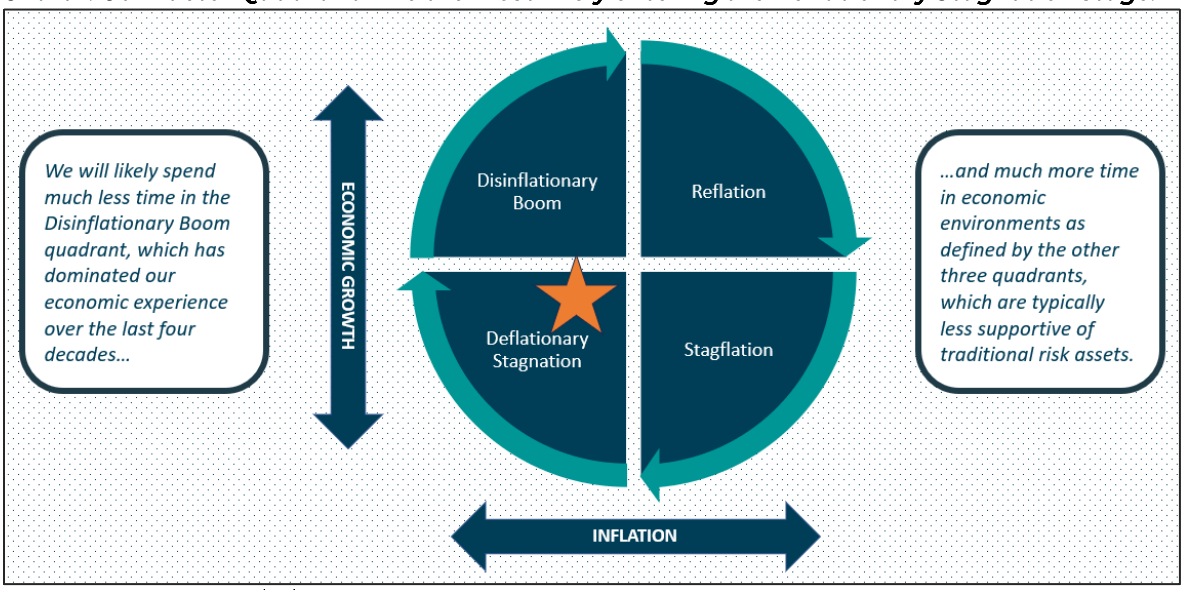
From a macroeconomic perspective, coincident indicators continue to point to a soft landing, whilst leading indicators remain in the red. In the US, ISM services data and non-farm payrolls are weakening, whilst wage growth and excess savings continue to slow. Alongside a stagnant housing market and the significant contraction in money supply, we expect both inflation and economic growth expectations to deteriorate in the fourth quarter and into 2024. Rising energy prices however will start to contribute to higher CPI data again.

We're seeing similar trends in the UK and Europe, although realised inflation in the UK remains stickier. This is in part due to recent Sterling weakness since mid-July, exacerbating import prices in food and core goods and services. As for economic growth, Europe has practically come to a halt. Consumption is stagnating, house prices are in decline in most major economies, and survey data are guiding towards a contraction. Despite a robust labour market, in the face of significantly tighter lending standards and a higher cost of capital, a deterioration in economic activity and a wider recession seems unavoidable.

Japan might be the outlier, and a market we retain significant conviction in. The housing market seems stronger than ever whilst services remain robust. The risks are perhaps a policy error from the BoJ as inflation remains elevated whilst they continue with yield curve control and in QE mode. China on the other hand is more problematic. We remain cautiously optimistic as consumption continues to rebound. Major risks to China are a global recession impacting net-exports and the continued uncertainty arising from a local housing market crisis.

In conclusion, our factor quadrant sets out where we believe we are moving towards in the economic cycle. Today, we expect the market to become more pessimistic on economic growth whilst inflation continues to decline.

Chart 1: Our Factor Quadrant – we are most likely entering the Deflationary Stagnation stage:



Source: Shard Capital, 31/10/2023

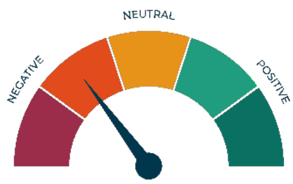
MARKET SNAPSHOT

	Index	Currency	As at Previous Close	Total Return MTD	YTD	1 Year
Equities	Bloomberg World Equity Index	USD		-2.96%	6.92%	10.65%
	Bloomberg World Equity - Growth	USD		-2.57%	10.63%	12.34%
	Bloomberg World Equity - Value	USD		-3.69%	-0.08%	6.30%
	Bloomberg UK Equity Index	USD		-4.26%	2.34%	12.85%
	Bloomberg US Equity Index	USD		-2.29%	10.76%	9.93%
	Bloomberg Europe ex-UK Equity Index	USD		-3.56%	5.43%	17.56%
	Bloomberg Japan Equity Index	USD		-4.46%	6.85%	17.47%
	Bloomberg Asia ex-Japan Equity Index	USD		-3.72%	-3.75%	11.52%
	Bloomberg China Equity Index	USD		-3.94%	-12.22%	11.36%
	Bloomberg Emerging Market Equity Index	USD		-3.74%	-2.33%	8.75%
Fixed Income	Bloomberg Global Aggregate Index	USD		-1.20%	-3.38%	1.72%
	Bloomberg US Treasury Index	USD		-1.21%	-2.71%	-0.63%
	Bloomberg US Corporate Bond Index	USD		-1.87%	-1.86%	2.77%
	Bloomberg UK Gilt Index	GBP		-0.44%	-5.03%	-6.48%
	Bloomberg Sterling Corporate Bond Index	GBP		-0.25%	0.91%	3.34%
	Bloomberg EM Hard Currency Aggregate Index	USD		-1.48%	-0.58%	6.91%
	Bloomberg EM Local Currency Govt Index	USD		-0.74%	-0.31%	6.06%
Commodities	Gold Spot $/Oz	USD	$ 1,980.86	8.36%	8.60%	20.20%
	LME Copper Spot ($)	USD	$ 8,029.00	-2.23%	-4.01%	6.74%
	Oil - Brent ($)	USD	$ 85.83	-9.95%	-0.09%	-9.32%
	Bitcoin ($)	USD	$ 34,478.00	27.16%	108.46%	68.35%
Currencies	GBP-USD FX-Rate	USD	$ 1.21	0.41%	0.45%	5.69%
	EUR-GBP FX-Rate	GBP	£ 0.87	-0.26%	1.88%	-1.03%
	USD-JPY FX-Rate	JPY	¥ 151.27	-0.93%	-13.32%	-1.98%
	EUR-USD FX-Rate	USD	$ 1.05	0.67%	-1.48%	6.78%

Source: Bloomberg L.P., 31/10/2023

EQUITIES

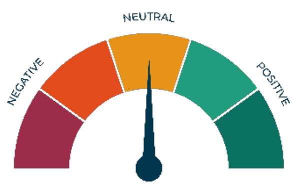
Unlike September, value stocks and cyclical companies took the brunt of the sell-off in October. European equities really struggled as macroeconomics continue to deteriorate, but major markets across all regions sold off between 3% and 4%. We remain underweight the asset class, with exposure we do have, biased towards high profitability and low financial leverage.



FIXED INCOME

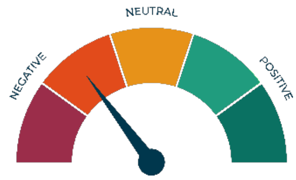
US Treasury markets looks set for a third consecutive annual fall in value. This has never happened, and we are now well into the worst drawdown in US treasuries ever. A real concern is a continued rise in longer duration yields, driven more recently by term-premia -= an indicator that market is starting to question the credibility of US debt as we stare at the significant coming issuance in the face of an ever increase deficit!

We remain neutral on the outlook, and specifically overweight the short end where yields look attractive, and risks limited. Whilst credit spreads widened marginally, the significant slowdown global liquidity and material refinancing risks we are seeing in credit markets are not being priced accordingly and we remain underweight.



REAL ASSETS

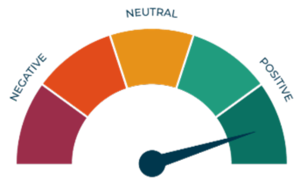
Despite rising uncertainty in middle eastern politics, oil prices fell almost 10% as the market seems to focus on declining demand. Commodities broadly had a tough month, but gold really stood out and appreciate by 8% over the course of the month. We retain significant exposure and remain bullish on the shiny stuff.



Listed Real Estate and Infrastructure markets continued its decline. As we mentioned last month, we do not believe this is a buying opportunity, with specific concerns for commercial real estate markets given the differential between cap-rates and short-term government bond yields.

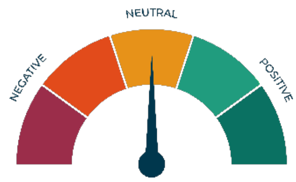
SPECIALIST STRATEGIES

Our specialist strategies continue to play a significant stabilising role within our portfolios. Our managed futures & trend following exposures continue to deliver strong performance and our market neutral and relative value hedge fund exposures had another strong month. We retain limited exposure to private markets, both credit and equity, given our concerns regarding debt and the refinancing cycle.



CURRENCIES

We remain broadly neutral on currencies. On the margin we note that whilst inflation and interest rate differentials would support a stronger USD, the Greenback remains very expensive on a trade weighted basis. The US Dollar however remains the global reserve currency of choice, and in a severe market sell-off, we expect it to do well. We have turned marginally negative on the Pound Sterling whilst we retain our positive view on the Japanese Yen, which we believe is undervalued with clear catalysts for a potential revaluation on the horizon.



CONTACT US

For further information on any of our services, or if you would like to arrange a meeting with an investment manager to see how we can work with you, please get in touch.

Shard Capital Jersey,
3rd Floor, 5 Anley Street,
St Helier, JE2 3QE,
Jersey.

Telephone: +44(0) 1534 500 040
Email: Info@shardcapitaljersey.com
Web: www.shardcapitaljersey.com

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