SGMC CAPITAL

October Monthly Review

A summary of key events and market trends during the month of October.

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Monthly Review

- As expected, equity markets bounced back strongly in the month of October
- This is despite soggy performance from some of the mega-cap tech leaders
- US 2 year rates have climbed too; trading over 50 bps for the first time since March 2020
- The market appears to be digesting the various inputs, both positive and negative, and are taking both the growth and inflationary picture in its stride
- Importantly, the Volatility Index (VIX) is back below the 20 level indicating no rush to hedge equity exposures despite higher rates

Federal Reserve inches closer to the start of its taper …

All eyes on the FOMC meeting this week

Key markets

Index	Month to Date (%)	Year to Date (%)
Topix	-1.43	10.89
Hang Seng China Enterprises	2.70	-16.55
Dax	2.81	14.36
Euro Stoxx 50	5.00	19.65
S&P 500	6.91	22.61
Dow Jones	5.84	17.03
Nasdaq 100	7.90	22.98
US 10 Year Treasury	0.06 pts	0.63 pts
Bloomberg Barclays Global Aggregate Index	-0.24	-4.29
EUR USD	-0.19	-5.39
USD JPY	2.39	10.36
Gold	1.50	-6.06

Recap of the month …

With the fixed income markets now pricing in two, twenty-five basis point rate hikes by the Federal Reserve over the next two years we are considerably tighter with policy than a month ago. Some sell side analysts are looking at further and faster rate hikes likely getting priced in over the coming months. Simultaneously, other developed market central banks are echoing the same sentiment.

Equity markets appear to have taken this development in their stride. With the major US equity indices closing at all-time monthly highs for October, other markets are not far behind. The exception to the rule continues to be China, and here too we have seen October as the first positive month over the last five.

As we had seen in the previous balance sheet tapering episode circa 2014 to 2019 the equity markets displayed an initial negative reaction. However, continuing easy policy provides a bid to equity investments.

Supply chain disruptions and higher energy prices are potential dampeners to economic activity. These situations are likely to normalize over time as economies work to correct imbalances. The surge in prices of certain commodities at the start of the year took many but surprise; however, those spikes faded quickly too.

We are at the start of the corporate earnings reporting cycle and while growth continues to be mostly positive, in some cases investors' expectations are not being met. The bulk of the S&P 500 companies are yet to report and we will have an update of the earnings season in our next monthly.

The Federal Reserve holds two additional policy decision meetings before the year is out with one coming up this week. Fed Chair Powell has continued to tread lightly while discussing the outlook for rates and we would expect the same tone to continue.

With elections in Japan now out of the way and an expected result delivered we are likely to see further economic policy initiatives being delivered. This will likely have the effect of weakening the Japanese Yen and supporting the equity markets.

After a spike last month, volatility continues to be subdued and trading below the key level of 20 and we would expect the same to play out over the coming months. We continue to look for opportunities to build exposure into declines in asset prices.

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