September Monthly Review

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

Global Markets Update

- The summer holding pattern continues as most traders and investors return from their summer holidays. The top-of-mind question now is whether we see a final push higher heading into the end of the year or if the move higher on rates derails the economy and markets altogether.

- With the major indices now down for the last two months clearly there has been some pause from the very strong rally from the start of the year. The S&P 500 and Nasdaq were down some 5 % for September while the Dax was down 3.5 %. All three have been down around 6.5 % in the last couple of months.

- US rates are pushing through to recent and long-term highs and in general are at levels not seen since the banking crisis of 2008. And while the recent Federal Reserve meeting has indicated one more hike before the end of 2023, the market is yet not buying into this outcome with a less than 40 % chance of that priced in and rate cuts starting to get priced in from May 2024 onwards.

- Employment continues to show resilience and with the unemployment rate expected at 3.7 % and inflation, on the margin, still sticky we do not expect rate cuts to come through in a hurry.

- While the companies on the S&P 500 produced strong results in the recently concluded earnings season the same could not be said of Europe. Fairly large disappointments were recorded on the Stoxx Europe 600 Index across Consumer Staples, Materials and Energy.

- China continues to search for stable ground and while the economy appears to be stabilizing the same can not be said for investor sentiment as the property sector continues to be a source of negative headlines.

- The Volatility Index (VIX) continues to dwell under the pivot level of 20 and has now not traded over this level for the lats four months. We look to hedge portfolios with cheap hedges given these levels.

Government shutdown shenanigans

The US Government narrowly averts a shutdown as House Republicans finally agree a path forward. While this will cool short-term volatility the issue will likely re-surface in November as the actions taken now are only temporary.

Key markets

Index	Month to Date (%)	Year to Date (%)
Topix	-0.37	22.82
Hang Seng China Enterprises	-2.91	-8.30
Dax	-3.51	10.51
Euro Stoxx 50	-2.85	10.04
S&P 500	-4.87	11.68
Dow Jones	-3.50	1.09
Nasdaq 100	-5.07	34.51
US 10 Year Treasury	0.46	0.70
Bloomberg Barclays Global Corporate Investment Grade Index	-2.92	-2.21
Bloomberg Barclays Global Corporate Bond High Yield Index	-1.59	5.05
EUR USD	-2.49	-1.23
USD JPY	2.63	13.92
Gold	-4.72	1.35

- As we head into the last quarter of the year, we look to the Bank of Japan closely to determine if and when they alter their stance on monetary policy. The BoJ has run Quantitative Easing since 2000 and now owns considerable chunks of the Japanese Government bond market and parts of the Japanese equity markets too. A change from dovish to hawkish, while not imminent, is clearly important to keep an eye out for.

- With equity markets performance strong for most of 2023 we look to reduce outright exposures while using long optionality to play potential upside while also hedging downside risks. The low cost of volatility allows for this strategy to be feasible. We also look to sell volatility on stocks that we like to own into declines and this single stock volatility tends to be considerably higher and hence works in our favor.

SGMC Forward Views

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Asset Class	**Avoid**	**Reduce**	**Hold**	**Add On**	**High Convinction**	**Notes**
Equities						
US Equities						Use volatility to gain exposure via short puts or deep out of the money Fixed Coupon Notes
EU Equities						Structural, geopolitical and Chinese slowdown make us bearish European equities
Chinese Equities						Still waiting for a catalyst to move valuations higher - this will likely take more time
Emerging Market Equities						Strong US dollar will weight on EM going forward
Bonds						
High Yield						Relatively tight credit spreads do not yet offer compelling entry levels - hold
Investment Grade						High nominal and real yields attractive at these levels
Government Bonds						We see the current environment as close to peak interest rates
FX & Alternative Asset Classes						
US Dollar Index						Higher American rates to continue supporting the US dollar - Would short USD on further significant rallies
Commodities						Higher rates to weigh on this asset class
Private Equity / Hedge Funds						We expect private markets to be marked down and follow the correction largely seen in public markets
Real Estate						Rentals will continue rising providing good yields, but prices will come under pressure with increased mortgage rates
Collectibles						Uncorrelated with markets

- We downgraded Chinese equity assets to hold, as further visibility in terms of political and business environment is required in order for a meaningful rally to materialize and be supported

- We upgrade our call on investment grade corporate bonds and government paper as we expect the current interest rate environment to be close to the peak, hence the yields offered by the market both in nominal and real term are compelling