3 November 2023

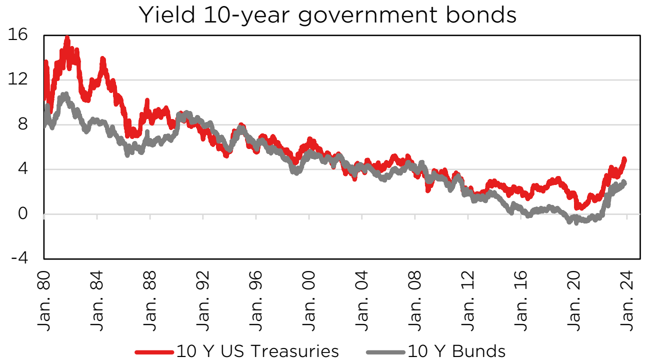
Stock markets: Red October, golden autumn?

After a positive development in the first seven months of 2023, the global stock markets have been in reverse gear since the beginning of August. The price losses of the last three months for most indices now add up to around ten percent, although the declines in small and mid caps were significantly greater. Of the German indices, the DAX lost ten percent from the end of July to the end of October, the MDAX lost 18 percent and the TecDAX lost 16 percent. The downward trend of almost all indices accelerated in October.

Geopolitical uncertainties and rising returns as stress factors

A possible reason for the recent weak stock market development is the war in the Middle East following the attack on Israel by the Islamist Hamas. As so often in the past, the capital markets initially switched to "risk-off mode" when geopolitical uncertainty increased. The initial result was price losses for stocks and price gains for "safe havens" such as gold and government bonds. However, the economic consequences of the conflict are currently limited. The oil price, an important seismograph for possible economic upheavals, has barely moved despite the unrest, important transport and shipping routes are not blocked and the economic impact of the conflict region on the global economy is low. As long as Iran is not actively involved in the conflict, the capital markets are unlikely to react to new news from the region.

Fundamental influencing factors are much more important for the stock markets, including, above all, inflation and economic data and, derived from this, the development of interest rates and corporate profits. Strong and increasing headwinds for stocks have recently come from interest rate developments. In the USA, the yield on ten-year government bonds rose to five percent at the end of October for the first time since 2007, while ten-year Bunds yielded three percent. This development is primarily due to the prayer wheel-like statements from the US and European Central Banks that key interest rates must remain at a high level for a longer period of time. For a long time, the capital market assumed that monetary policy would be relaxed again quickly once interest rates reached their peak. But the central banks' "higher for longer" mantra had an effect.



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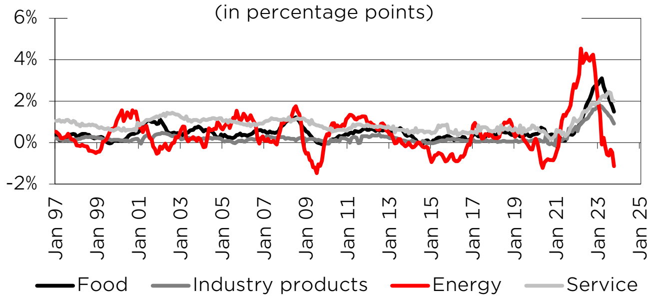
But will the central banks follow their words with actions? Since their forecasts for economic and inflation developments have recently been less than accurate, doubts remain about the further course of monetary policy. And the central banks themselves probably have these doubts, otherwise they would dare to take a more concrete outlook and not emphasize the data dependence of their next steps. Because data dependency means nothing other than being pretty much in the dark when it comes to further developments. Since inflation rates in both the US and the Eurozone are still above the two percent target, it is understandable that the Federal Reserve and the ECB were not able to announce at their last meetings that they had already achieved their target.

Progress on inflation

In the last few months, however, they have come significantly closer to this goal. In the euro zone, the overall inflation rate fell to 2.9 percent in October. In Belgium (-1.7 percent) and the Netherlands (-1.0 percent) prices fell year-on-year, while in Italy (1.9 percent), Luxembourg (2.1 percent), Latvia (2.4 percent).) and Finland (2.4 percent) only rose moderately. This positive development is primarily due to a base effect in energy prices, which fell by eleven percent compared to the previous year. In contrast, the core inflation rate in the euro area is still significantly too high at 4.2 percent because the prices for services are still significantly above the previous year's level. However, price pressure in this segment has eased significantly in the last three months, meaning that the core inflation rate is very likely to fall in the near future. From the middle of next year, core inflation could be back to two and a half percent.

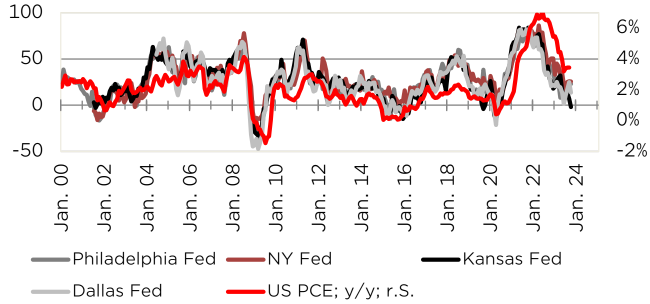
Eurozone: Contributions of various product groups to the overall inflation rate (in percentage points)



source: Refinitiv Datastream

A similar development is also emerging in the USA. The price components of the national and regional purchasing managers' indices have fallen significantly in recent months. They are now at levels that in the past were associated with inflation rates of two percent or less. In addition, the price increase rate in the USA is still very much influenced by the housing component, which, for example, includes the hypothetical rents of house and apartment owners. Without taking this influencing factor into account, US inflation would already be below the three percent mark. Against this background, it can be assumed that neither the Federal Reserve nor the ECB will further increase their key interest rates. And even though both central banks are currently emphasizing that it is not yet time to talk about cutting interest rates, that time will come. Probably sooner rather than later.

USA: PCE inflation rate and price component of the ISM industrial index



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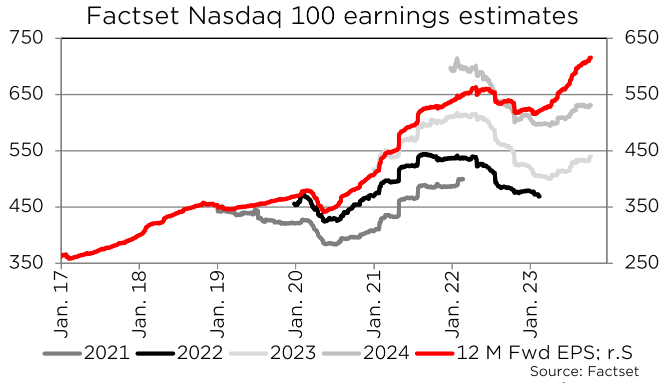
Eurozone economy under pressure

In the euro area in particular, economic development is showing clear signs of slowing down. After a decline in real gross domestic product of 0.1 percent in the third quarter, there is likely to be a further decline in the current quarter - this would fulfill the criterion of a technical recession. Since there is no sign of a significant recovery by 2024, there is significant scope for interest rate cuts if the inflation rate falls towards two percent. In the USA the economy is more robust, but the strong growth in the third quarter (annualized 4.9 percent) is probably a positive outlier. The US economy is likely to grow significantly more slowly in the fourth quarter; the Atlanta Fed is currently expecting growth of 1.2 percent. In 2024, the sharp interest rate increases will become more noticeable, so that the US Federal Reserve will also lower interest rates again. Possibly similar to 2018/2019: In December, the US Federal Reserve was still very restrictive and raised the key interest rate; at the same time, it held out the prospect of further interest rate increases for 2019. This assessment changed at the beginning of the year and the key interest rate was reduced again in July 2019. This means that monetary policy in 2024 is no longer likely to bring headwinds for the stock and bond markets, but rather a tailwind.

Current reporting season: Very good results are hardly rewarded

Tailwind is currently already coming from corporate profits. The reporting season for the third quarter is going well, even if the reporting and, above all, the price reactions on the stock market give a different impression. In the USA in particular, more companies than usual were once again able to exceed their profit expectations. This is all the more remarkable because, contrary to usual practice, the forecasts were not lowered in advance and the hurdle to be overcome was therefore higher than in previous quarters. At the industry level, it was primarily the technology companies that predominantly presented very good figures.



In Europe, on the other hand, the reporting season went more as usual with fewer positive surprises. Nevertheless, profit expectations did not have to be revised downwards, so that the earnings forecasts for the next 12 months for both the DAX and the Euro Stoxx 50 are almost at record levels. This means that German and European stocks are currently valued significantly more favorably than on average over the last 20 years. The current DAX P/E ratio of 10.2 is more than 15 percent below its average value. In addition, the poor stock market sentiment suggests that most investors willing to sell have already reduced their holdings. A further sell-off is therefore unlikely. However, if there is better news, positions are likely to be increased again. In this respect, this speaks for a conciliatory end to a difficult stock market year in 2023.

Analysis of the current reporting season (source: Factset)

02.11.2023		thereof: positive	thereof: negative	positive Surprise-Ratio	mean positive Surprise-Ratio
S&P 500	earnings	274	68	80%	73%
	revenue	205	135	60%	62%
	price reaction	138	177	44%	51%
Dow Jones	earnings	18	5	78%	80%
	revenue	18	5	78%	63%
	price reaction	14	9	61%	50%
SOX	earnings	17	1	94%	76%
	revenue	15	3	83%	71%
	price reaction	8	7	53%	54%
Nasdaq 100	earnings	49	6	89%	76%
	revenue	36	19	65%	69%
	price reaction	21	26	45%	54%
DAX	earnings	5	6	45%	58%
	revenue	5	8	38%	54%
	price reaction	7	6	54%	49%
CAC 40	earnings	5	1	83%	
	revenue	19	9	68%	
	price reaction	17	12	59%	
MDAX	earnings	5	8	38%	55%
	revenue	7	6	54%	50%
	price reaction	4	9	31%	41%
IBEX	earnings	6	7	46%	76%
	revenue	9	6	60%	75%
	price reaction	6	10	38%	62%
SMI	earnings	4	1	80%	51%
	revenue	2	8	20%	53%
	price reaction	4	6	40%	50%
Euro Stoxx 50	earnings	14	5	74%	59%
	revenue	17	14	55%	59%
	price reaction	16	15	52%	51%
Stoxx 50	earnings	11	6	65%	56%
	revenue	13	16	45%	60%
	price reaction	13	19	41%	51%
Italy	earnings	5	3	63%	
	revenue	12	6	67%	
	price reaction	10	13	43%	
UK	earnings	7	7	50%	
	revenue	11	13	46%	
	price reaction	53	77	41%	
Stoxx 600	earnings	100	74	57%	55%
	revenue	111	128	46%	56%
	price reaction	151	152	50%	51%

Carsten Klude

Market data

Stock marktes	As of 03.11.2023 09:00	Change versus 27.10.2023 -1 week	02.10.2023 -1 month	02.08.2023 -3 months	02.11.2022 -1 year	30.12.2022 YTD
Dow Jones	33839	4,4%	1,2%	-4,1%	5,3%	2,1%
S&P 500	4331	5,2%	1,0%	-4,1%	15,2%	12,8%
Nasdaq	13294	5,2%	-0,1%	-4,9%	26,3%	27,0%
DAX	15144	3,1%	-0,7%	-5,5%	14,2%	8,8%
MDAX	24730	4,0%	-4,0%	-11,8%	4,1%	-1,5%
TecDAX	2915	3,2%	-2,7%	-9,9%	2,7%	-0,2%
EuroStoxx 50	4170	3,9%	0,8%	-3,8%	15,1%	9,9%
Stoxx 50	3898	3,0%	0,3%	-1,6%	9,5%	6,7%
SMI (Swiss Market Index)	10592	2,6%	-2,5%	-5,5%	-2,0%	-1,3%
Nikkei 225	31950	3,1%	0,6%	-2,3%	15,5%	22,4%
Brasilien BOVESPA	115053	1,5%	0,0%	-4,8%	-1,6%	4,8%
Russland RTS	1083	0,4%	9,2%	4,2%	-2,3%	11,6%
Indien BSE 30	64446	1,0%	-2,1%	-2,0%	5,8%	5,9%
China CSI 300	3584	0,6%	-2,9%	-9,7%	-2,5%	-7,4%
MSCI Welt	2853	4,4%	0,5%	-4,9%	14,1%	9,6%
MSCI Emerging Markets	931	1,2%	-2,2%	-8,8%	6,6%	-2,7%
Bond markets						
Bund-Future	129,91	126	216	-254	-873	-302
Bobl-Future	116,52	43	109	72	-315	77
Schatz-Future	105,18	6	25	9	-173	-24
3 Monats Euribor	3,95	5	5	30	223	206
3M Euribor Future, Dec 2023	3,96	-1	-3	10	93	35
3 Monats $ Libor	5,65	1	0	2	115	89
Fed Funds Future, Dec 2023	5,36	0	-8	-3	60	71
10 year US Treasuries	4,67	-16	-1	61	61	84
10 year Bunds	2,72	-8	-16	21	59	16
10 year JGB	0,92	7	16	30	67	51
10 year Swiss Government	1,16	3	2	17	3	-45
US Treas 10Y Performance	560,80	1,4%	0,5%	-3,8%	-1,2%	-3,3%
Bund 10Y Performance	533,85	1,1%	2,0%	-0,6%	-1,8%	1,6%
REX Performance Index	435,52	0,6%	1,6%	0,5%	-0,5%	0,7%
IBOXX AA, €	3,85	-14	-17	19	43	25
IBOXX BBB, €	4,67	-19	-17	20	-13	-2
ML US High Yield	9,11	-39	-1	51	-1	13
Convertible Bonds, Exane 25	6620	0,0%	0,0%	0,0%	2,6%	0,0%
Commodities						
MG Base Metal Index	376,01	1,2%	-1,9%	-4,6%	0,9%	-10,1%
Crude oil Brent	87,21	-3,6%	-3,9%	4,7%	-8,7%	2,7%
Gold	1986,69	0,2%	8,5%	2,7%	20,6%	9,4%
Silver	22,74	-0,5%	6,7%	-4,0%	16,1%	-4,3%
Aluminium	2204,46	-0,1%	-3,9%	2,1%	-1,5%	-6,2%
Copper	8064,00	0,4%	1,1%	-4,8%	5,2%	-3,6%
Iron ore	125,57	5,9%	4,5%	16,9%	52,9%	12,8%
Freight rates Baltic Dry Index	1385	-11,4%	-20,3%	23,3%	4,8%	-8,6%
Currencies						
EUR/ USD	1,0627	0,8%	0,9%	-3,3%	7,3%	-0,4%
EUR/ GBP	0,8711	0,0%	0,6%	1,1%	1,1%	-1,8%
EUR/ JPY	159,76	1,1%	1,3%	1,8%	9,6%	13,6%
EUR/ CHF	0,9625	1,3%	-0,1%	-0,2%	-2,4%	-2,3%
USD/ CNY	7,3152	-0,1%	0,1%	1,7%	0,3%	6,0%
USD/ JPY	150,45	0,6%	0,4%	5,0%	1,7%	14,7%
USD/ GBP	0,82	-0,4%	-0,6%	4,0%	-6,0%	-1,4%

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