

## The Month Ahead – November 2022

October has been a choppy month for global equity markets, with stronger-than-expected inflation data in most major economies and political uncertainty in the UK keeping investors on edge. Against this backdrop, the S&P 500 Index in the US fell to its lowest level since 2020. There were tough times for fixed-interest investors too, with bond yields rising to levels not seen in a while.

However, several global equity markets recovered from the sell-off and are on track to finish the month higher thanks in part to an improvement in sentiment – notably the steadying of the ship in British politics with the resignation of Prime Minister Liz Truss, and the appointment of Rishi Sunak.

As we head into November, investors continue to seek further clarity around the outlook for inflation, interest rates, economic growth and geopolitics. Here's what ANZ Investments will be keeping an eye on during the month ahead.

### **All eyes to remain on the world's central banks**

Around the world, inflation remains stubbornly high, and with many major central banks meeting in November, it's set to be a key month for markets. Early in November, both the US Federal Reserve (2 November) and the Bank of England (3 November) will be deciding on the future path of interest rates in their respective economies.

The most recent inflation data in the US was on the stronger side. While September's headline inflation declined slightly to 8.2% year-on-year, core inflation (which strips out the volatile food and energy components) reached a 40-year high, of 6.6%. This was seen as solidifying market expectations for another 75 basis point hike from the US Federal Reserve – with the CME FedWatch Tool currently assigning a 94% likelihood of this happening.

Market expectations are for the UK's Bank of England to also go with a 75 basis point move higher, although some are picking the possibility of a bigger move. In its battle against rising inflation (which rose back into double-digit territory in September, to 10.1% year-on-year), the bank has raised interest rates seven times.

UK financial markets have been volatile of late, as its government, then led by Liz Truss, announced a stimulus package that was seen as being inflationary. This prompted the Bank of England to say it was prepared to move rates even higher if needed.

Markets have since calmed down a little, as first the Chancellor, and then the Prime Minister were replaced. But investors remain wary, and await both the release of a new budget (on 31 October) to better understand the government's fiscal policies going forward, and whether the Bank of England goes ahead with quantitative tightening – the process of reversing some of the support it has given UK financial markets over the last ten years or so.

## **RBNZ also expected to raise interest rates late in the month**

New Zealand's rate of inflation, like elsewhere, was stronger than expected. Headline inflation for the third quarter came in at 7.2%, down slightly from the 7.3% for the second quarter, but not by as much as expected.

Between now and then, a number of things will help shape the Reserve Bank of New Zealand's (RBNZ) view as to whether they continue rising interest rates in 50 basis points increments. Amongst these, on 14 November, the RBNZ will release its survey of expectations– which quizzes business owners on where they see the cash rate heading (and its terminal rate), annual GDP, inflation and unemployment expectations.

The market is currently fully pricing in a 75 basis point hike. It's worth mentioning that this will be a full Monetary Policy Statement and will be the last meeting for this year – with the next one scheduled for February 2023. So, if the RBNZ is trying to front-foot inflation, there's a chance they might be a little more aggressive with their policy.

## **Third quarter earnings season wraps up**

November sees third quarter earnings season come to an end, but not without some household names that could help indicate the state of the underlying economy.

Of note are some consumer discretionary companies. The sector has been one of the worst-performing this year as households have begun to brace for an economic slowdown by pulling back on non-compulsory spending items. Companies like MGM Resorts International, Marriot International and Walt Disney will be in focus.

Meanwhile, at a bricks and mortar level, Walmart, Home Depot and Lowes have traditionally been good bellwethers for the underlying economy. Recently, there has been evidence that households have shifted to cheaper brands amid the rising cost of living, which will mean the results from these three US giants will be closely watched.

## **Geopolitics to remain in the limelight**

There appears to be growing tensions and nervousness around the situation in Ukraine. Its troops have reclaimed some territory in the East, putting Russian troops on the back foot and piling more pressure on President Putin – who last month stepped up Russia's bombardment of key infrastructure assets throughout Ukraine – including in Kyiv.

In Europe, the energy crisis continues as they approach a northern hemisphere winter, while investors also watch to see how things develop in the UK – with the new Prime Minister and his chancellor looking to calm investment markets and set a clearer pathway for the future.

Meanwhile, in the US this month, highly-anticipated US midterm elections will take place, where it appears the Democratic Party will lose its control of Congress, which could stifle further policy over the coming two years. Democrats currently hold a small majority in the House, and the slimmest of margins in the Senate (a 50-50 split where the vice president breaks a tie), but polling suggests they are likely to lose at least one of these chambers. With just over a week until the midterms, polling shows the Republicans have about an 80% chance of taking control of the House, while the Senate is closer to a coin toss. And with the Democrats holding the presidency, odds are there is a gridlock, which could make for a challenging period for lawmakers.

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