ASSET CLASS OVERVIEW

Global markets had a decent start to the third quarter boosted by optimism about a US "soft landing" and that central bank tightening was nearing its end. However, the run of both Global Bonds and Global Equities came to an abrupt halt in September, both ending the quarter firmly in the red (-3.6% and -3.8% respectively) as inflation continued to hog the headlines and major central banks in the developed world hardened their hawkish stance by adopting a "higher for longer" discourse. This resulted in yields on their respective treasuries spiking to decades-highs. Coupling that with the weakening macroeconomic indicators and an untimely surge in crude prices, the stage for a return of volatility within global markets was all set.

Amidst this continuously higher yielding environment, Gold declined 4.7% over the quarter as it has seemingly lost its safe haven appeal among retail investors (YTD +1.3%). On the other hand, Crude oil rallied 28.5% in Q3 making it the best-performing asset YTD (+13.1%) as OPEC+ maintained its tight grip on production and thus prices.

Asset Class Performance

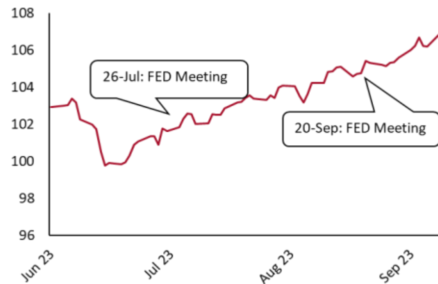
	Sep	Q3	YTD
Global Equities	-4.3%	-3.8%	8.5%
Global Bonds	-2.9%	-3.6%	-2.2%
Gold	-4.7%	-3.7%	1.3%
Crude Oil	8.6%	28.5%	13.1%
US Dollar	2.5%	3.2%	2.6%

Source: MCB PWM, Bloomberg

On the currency front, the continued resilience of the US economy and the Fed's arguably more effective communication of its hiking path, supported the US Dollar to strengthen in Q3.

The US Dollar index was up 3.2% in the quarter, having gained considerable ground against the major developed market currencies, notably Sterling (+4.0%), Euro (+3.1%), Japanese Yen (+3.5%) and to a lesser extent, against emerging currencies like the Chinese Renminbi (+0.6%) and the Indian Rupee (+1.2%) which hit an all-time low against the USD during the quarter.

US Dollar Index



Source: MCB PWM, Bloomberg

PORTFOLIO POSITIONING

EQUITIES: Looking ahead, inflation figures and the Fed's stance will continue to drive volatility for US equities. Despite having peaked, inflation has still not cooled down to the level that the Fed would have hoped for. And with economic activity and labor market remaining resilient, the Fed still has the luxury to maintain the "higher for longer'' rate environment for even longer. The rally of the "Magnificent Seven" stocks since start of the year and especially in Q2, their stretched valuations and their combined weights on key indices (now making up 27% of the SP500) have remained key concerns for us. During Q3, we bought an equal-weighted SP500 fund to reduce our relative portfolio exposure to the "Magnificent Seven" and allow participation in an eventual broadening of the market rally.

As we remained cautious on equities, we also sought to cover part of the downside risk of a sudden US market pullback with a SP500 put warrant.

We maintained a slight overweight in Cash as dry powder given the attractive yield on offer from short term Treasury bills. Within our geographical allocation, we shifted to overweight Japanese equities. In our view, the current trend of strong corporate earnings should sustain thanks to the ongoing shift towards a more shareholder-friendly culture as well as the weak Yen benefitting the exporters. And further down the road, should the Japanese authorities eventually decide to drop their rigid monetary control and opt for a re-strengthening of the Yen, our exposure being in Yen stand to also gain.

We maintain our underweight to Europe as we await signs of improvements in economic fundamentals, given the underwhelming data coming out of Germany especially the broader downturn in manufacturing and services. Whilst UK 's export-driven economy looks set to benefit from a weakened GBP and its equities' valuations look relatively attractive, we remain cautious given the ongoing concerns around stagflation and the uncertainty building up in its domestic political scene.

FIXED INCOME: The prospect of rates staying "higher for longer" brings higher risk for corporates and households who may struggle to refinance and service their borrowings. As US treasury yields rose substantially in the quarter, we increased our position in the US treasury, especially in the US 10yr. Overall we still remain prudent, favoring good quality bonds, and will look to gradually extend duration as we continue to exercise caution in High Yields space.

GLOBAL EQUITIES

In the third quarter, developed and emerging markets equities followed an almost identical path, down -3.8% and -3.7% respectively. But thanks to a good H1, developed markets remain well into positive territory YTD (+9.6%) in contrast to their EM peers which have now fallen into negative territory (-0.4%). Within developed markets, Japan's TOPIX (+1.5%) and UK's FTSE 100 (+1%) were the few with positive quarterly returns whilst the US SP500 and Europe's Stoxx600 were both down -2.5%.

US

After an initial broadening of the rally beyond the "Magnificent Seven" at the start of the quarter, US equities market experienced a broad decline, across most sectors of the SP500. The main detractors were the rate-sensitive Utilities (-10.1%) and Real Estate (-9.5%) sectors. The Energy sector (+11.3%) was the rare bright spot thanks to crude oil's price rally. To note also, that small caps continued their relative underperformance relative to the large caps. The Russell 2000 was down -5.5% over the quarter and a meagre +1.4% YTD when compared to SP500's +11.7%.

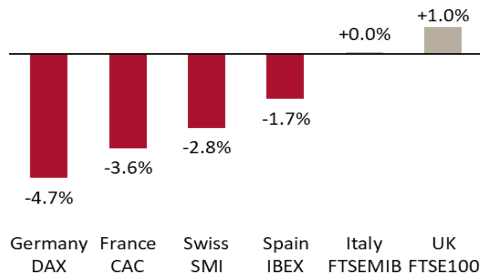
SP500 Sectors – Q3

SP500 Sectors	Q3
Energy	11.3%
Comm. Services	2.8%
Financials	-1.6%
Healthcare	-3.1%
Cons. Discretionary	-5.0%
Materials	-5.2%
Industrials	-5.6%
Info. Tech	-5.8%
Cons. Staples	-6.6%
Real Estate	-9.5%
Utilities	-10.1%

Source: MCB PWM, Bloomberg

Europe : The Stoxx600 neared a 6-month low towards the end of Q3 as the index shed 2.5%. The decline was driven by fears that elevated interest rates could be further pushing the economy into a slowdown following weak PMI data, higher oil prices and mounting concerns over a sticky high core inflation.

European Indices – Q3



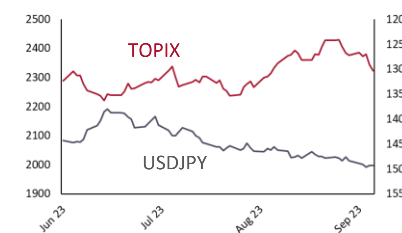
Source: MCB PWM, Bloomberg

French and German stocks were the worst performers with the CAC40 (-3.6%) driven down by the Luxury sector whilst Industrials was the main detractor for the DAX (-4.7%). UK stocks (+1%) fared relatively better as its export-driven market benefited from the weaker GBP. This outperformance came from the Energy and Basic Materials sectors.

Japan

Amidst the global equities rout in September, Japanese equities remained resilient. The market-cap weighted TOPIX gained 1.5% in Q3 supported by a strong earnings season, an economy running at near full capacity, a still accommodative monetary policy and most importantly a competitively weakened Yen as the USDJPY pair grinds closer to the next resistance level at 150.

TOPIX vs USDJPY – Q3



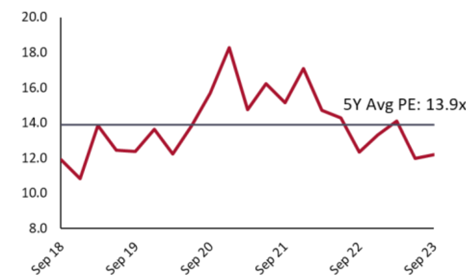
Source: MCB PWM, Bloomberg

China

In Q3, Chinese equities came under renewed pressure with net foreign outflows from its markets, driving down the CSI300 index 4.0% in the quarter. The quarter saw rising investors' concerns from multiple fronts namely the ongoing turmoil in its property sector, softening demand from a slowing global economy as well as yet another flare up of geopolitical tensions with the West. Despite the World Bank recently cutting its 2024 growth forecast for China from 4.8% to 4.4%, latest figures seem to indicate early signs of a turnaround with September's manufacturing PMI rising to 50.2 from June's 49 in June, shifting to expansion for the first time in 6 months.

Ongoing efforts by the authorities at stabilizing activities have started to take effect, notably the government support for its ailing real estate sector, PBoC lowering its rates and the reserve ratio requirement for banks or expansive fiscal measures for the local provinces. Another factor for investors to consider is the depressed yet attractive level of Chinese equities' valuations compared to its historical levels.

CSI 300 Fwd PE vs 5Yr Average



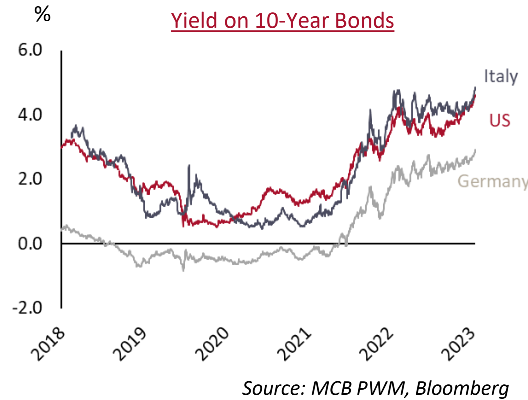
Source: MCB PWM, Bloomberg

While marginal positive surprises could trigger a rebound in share prices, geopolitical tensions and ongoing turmoil in the property sector remain key risks to be monitored.

MCB

FIXED INCOME

Q3 saw a quarterly sell-off, mostly at the end of September, in global government bonds on renewed hawkishness from major Central banks and uncertainties over a prolonged period of elevated interest rates. The Global Bond Index posted negative returns of 3.6% over the quarter, mainly due to soaring treasuries bond yields (prices move inversely to yields).



Source: MCB PWM, Bloomberg

Over the quarter, in the US, the benchmark 10yr Treasury yields increased to 4.61% (+77bps), the highest in 16 years. Similarly the German 10yr, the Euro zone's benchmark rose by 45bps to 2.84%. The Italian 10yr jumped by 77bps to 4.77% by end of September, rising to the highest since 2012 after its government cut growth rates and hiked its budget deficit targets.

PERFORMANCE OF GLOBAL BOND INDICES

	YIELD		TOTAL RETURNS		DURATION
	30 Jun 2023	30 Sep 2023	YTD	Q32023	years
Global Aggregate bonds	3.8%	4.2%	-2.2%	-3.6%	6.6
U.S Treasury bonds	4.4%	4.9%	-1.5%	-3.1%	6.0
U.S Investment Grade Corporate	5.5%	6.0%	0.0%	-3.1%	7.0
U.S High Yield Corporate	8.5%	8.9%	5.9%	0.5%	4.0
Europe Investment Grade Corporate	3.5%	3.8%	0.6%	-1.6%	6.4
Europe High Yield Corporate	8.0%	8.1%	6.3%	1.8%	3.2
Emerging Markets Aggregate	7.5%	8.0%	0.9%	-2.3%	6.1

Source: MCB PWM, Bloomberg

In Q3, riskier corporate bonds outperformed treasuries on softer inflation and broadly resilient US economy. High yields bonds in USD and EUR also continued to outpace investment grade bonds as they have lower sensitivity to rising rates.

Emerging markets bonds also posted negative returns (-2.3%) as China's economy weighed on sentiment and as investors shifted to less risky and less complex markets. Long dated bonds suffered the most as investors slashed EM duration especially in Brazil, South Africa and Mexico.

CENTRAL BANK ACTIONS

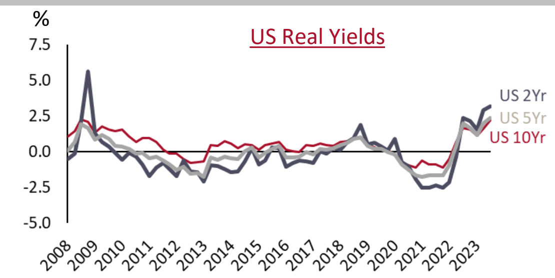
Country	Central Bank	Current Rate		Change	Previous Meetings	Next Meeting	Market Projected Policy Rates
United States	**Fed**	5.50%	▲	0.25%	*26-July-23: 0.25%* *19- Sept -23: 0%*	*31-Oct-23*	Nov 2023: 5.38% Dec 2023: 5.43%
Europe	**ECB**	4.50%	▲	0.50%	*27-July-23: 0.25%* *14- Sept -23: 0.25%*	*26-Oct-23*	Oct 2023: 3.90% Dec 2023: 3.92%
Great Britain	**BoE**	5.25%	▲	0.25%	*3-Aug-23: 0.25%* *21- Sept -23: -*	*2-Nov-23*	Nov 2023: 5.27% Dec 2023: 5.32%
Japan	**BoJ**	-0.10%	—	-	*27-July-23: -* *21-Sept-23: -*	*30-Oct-23*	Oct 2023: -0.10% Dec 2023: -0.10%
China	**PBoC**	3.45%	▼	-0.10%	*20-July-23: -* *21-Aug-23: -0.10%* *20-Sept-23: -*	*20-Oct-23*	

Source: MCB PWM, Bloomberg

- During Q3, the Fed increased rate by 25bps in July to 5.5% but put it on hold at its September meeting, while remaining attentive to inflation risks. The new projections of the central bank pointed to another rate rise before the end of the year and less cuts in 2024, on the basis that the US economy is proving to be more resilient.
- The ECB continued their tightening monetary policy by raising rates twice for a combined of 50 bps in the third quarter. ECB President Christine Lagarde did not absolutely rule out a further hike if needed and said interest rates would have to remain at restrictive levels for some time.
- The Bank of England maintained its key rate at 5.25% in September after increasing rates by 0.25% to 5.25% in August. It also did not rule out further rate increases and hinted that borrowing costs would need to be kept high for a prolonged period to ensure a sustained fall in inflation.

US REAL YIELDS AT THE HIGHEST LEVELS

Even if inflation levels have yet to reach the Fed's 2% target, we note that US real yields (adjusted for inflation) are at levels not seen since 2008, making bonds more appealing.



Source: MCB PWM, Bloomberg