Allianz Global Investors

10/2023

Market Snapshot

Equity Snapshot

United States

US stocks slid in October as sentiment was knocked by concerns over high interest rates, rising geopolitical risks and mixed third-quarter corporate earnings. The decline took the broad-based S&P 500 Index into correction territory, meaning it had fallen at least 10% from its recent peak in late-July. For much of the month, the US Congress was unable to pass any legislation as the House of Representatives remained without a speaker, before Mike Johnson was narrowly elected as speaker in late-October. Congress needs to agree a government funding package by mid-November or face a federal shutdown.

US growth exceeded forecasts in the third quarter, with GDP expanding by an annualised 4.9%, helped by robust consumer spending. Job growth also picked up in September, with non-farm payrolls rising 336,000 , marking the strongest growth in eight months. While retail sales rose by a stronger-than-expected 0.7% in September, the University of Michigan index of US consumer sentiment dropped to a five-month low of 63.0 in October from a final reading of 68.1 in September.

Europe

Euro-zone equities fell over October as growing geopolitical tensions in the Middle East added to concerns over the economic outlook. The sell-off over the last three months means euro-zone equities (FTSEurofirst 300 Index) are now back to within touching distance of their levels at the start of the year.

The euro-zone economy shrank 0.1% in the third quarter, led by falling output in Germany. In contrast, Italian GDP growth was flat while France and Spain saw slight expansions. After a modest improvement in September, the preliminary HCOB euro-zone composite purchasing manager's index (PMI) slid to a 35-month low of 46.5 in October. Headline euro-zone inflation fell to 2.9% in October, the lowest level since July 2021, while core inflation eased to 4.2%.

Asia

Asian equities slid as sentiment was knocked by rising geopolitical risks in the Middle East. Concerns over the impact of high interest rates and the outlook for global growth also weighed on markets. Chinese and Hong Kong equities retreated further in October, although there were signs that the slowdown in the economy may be stabilising and that the fall in industrial profits may have bottomed out. Taiwanese stocks held up relatively well, helped by a positive earnings surprise from chipmaker TSMC which hinted at a possible recovery in smartphone demand. South Korea equities fell sharply, underperforming the broader region. ASEAN markets were mostly weak. Malaysian equities withstood the general sell-off, while Indonesia and the Philippines equities fell the most as central banks in both markets raised rates by 25 basis points during the month.

Bond

Global bonds were mixed. US bonds lost ground as the Fed continued to suggest that another rate rise was possible before the year end, while euro-zone bond returns were slightly positive. Japanese government bond yields also rose as speculation grew that the Bank of Japan would soon amend its yield curve control policy. Minutes of September's European Central Bank (ECB) rate-setting

meeting showed the decision to increase rates had been a close call. At its October meeting, the ECB opted to leave rates unchanged for the first time since July 2022. While the Fed is also expected to leave rates on hold at its meeting in early November, a further 25-basis-point hike is expected in December.

Outlook

After the strong performance of equity markets in the first half of the year, October saw a continuation of the weakness that emerged in Q3, as a number of macro factors weighed on sentiment. The tragedy unfolding from the conflict between Israel and Hamas further hurt already fragile market confidence. Heightened geo-political tension and the threat of escalation along with any impact this may have on oil supply saw some investors head for safe-haven assets. The peak of the interest rate cycle and the timing, depth and length of any global recession are also at the forefront of investors minds.

The higher for longer theme became more entrenched in the view of some market participants as the hawkish statements from the US Federal Reserve (Fed) continued, with Chair Jerome Powell indicating that the Fed would proceed “carefully” given the uncertainty caused by escalating geo-political tensions. Job growth, stronger than expected annualized GDP growth (4.9%) and the continued robustness of consumer spending in the US, mean that, for the time being at least, fighting inflation remains the number one target. The prospect of the first rate cut and the loosening of monetary policy are now not expected until mid 2024.

The strong GDP growth in the US, buoyed by strong consumer spending and growing retail sales, underscore that tighter monetary conditions are yet to have a significant impact on the US consumer. It is however difficult to quantify how much the stimulus and savings from COVID have insulated households. China also surprised with their GDP numbers as the stimulus measure announced by Beijing appeared to be having an impact. Retail sales accelerated and exports dropped at the slowest pace since April. There are also signs that the fall in industrial profits may be stabilizing and although still a major concern, the real estate sector may be reaching the bottom and can begin to recover.

Corporate earnings in Q3 across the broader market have begun showing signs of weakness but our companies have, for the most part, been performing well, despite a great deal of volatility and sentiment-based trading. Ultimately it is not the final rate but the uncertainty of upwards movement that causes the derating of our companies. Once the discount rate is in known and priced in, the focus shifts to our companies’ earnings power, which are well above market currently. We see low double-digit or high single-digit EPS figures across our strategies, while the MSCI Europe and MSCI AC World are both in negative territory for FY 2023.
We believe that as we work through this volatile period and investors eventually refocus on fundamentals, the high quality and structural growth characteristics of the companies within the portfolio will be rewarded.

This is not an offer to buy or sell or a solicitation or incitement of offer to buy or sell any securities referred to herein. It should also be appreciated that under certain circumstances the redemption of units/shares may be suspended. Investment involves risks, in particular, risks associated with investment in emerging and less developed markets. Please refer to the relevant prospectus for details.

The information herein is issued by Allianz Global Investors Asia Pacific Limited. No warranty is made by Allianz Global Investors Asia Pacific Limited as to the accuracy; suitability or completeness of any such information and no liability in respect of any errors or omissions (including any third-party liability) is accepted by Allianz Global Investors Asia Pacific Limited or its affiliates. Some of the information contained herein including any expression of opinion or forecast has been obtained from or is based on sources believed by us to be reliable but is not guaranteed and we do not warrant nor do we accept liability as to adequacy, accuracy, reliability or completeness of such information obtained from or based on external sources. The information is given on the understanding that any person who acts upon it or otherwise changes his or her position in reliance thereon does so entirely at his or her own risk without liability on our part.