Quant & Partners
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November 2023 Newsletter

GEOPOLITICS AND FINANCIAL MARKETS: TWO (ALMOST) DIFFERENT WORLDS

Compared to the month of October, little has changed, both on the geopolitical front and on the financial markets' one.

The clash between Israel and Hamas continues, as does the humanitarian catastrophe that follows the persistent bombing of the Gaza Strip.
The same can be said of the conflict in Ukraine, where, although the troops of both sides advance slowly and without great success, the weapons cannot be silenced.

So far Wall Street seems to be immune to what is happening on the global stage.
The markets do not react to the bombings on the war zone.
Only if the conflict in the Middle East were to spread (unlikely) we could hypothesize an increase in the price of commodity and consequently in inflation.
But we are not yet faced with a scenario of this type and therefore investors' concerns, namely inflation and interest rates have remained unchanged for many months.

Inflation, growth, unemployment: the context is acceptably good, but for Wall Street it is not enough.

The Fed decided earlier this month not to raise rates further, although the central bank remains doubtful whether it has done enough to reduce inflation.

Furthermore, Jerome Powell said that a new increase could be ruled out before the end of the year (it would be the twelfth time since March 2022).

However, the markets do not believe it.
In fact, they are quite convinced that the Federal Reserve will begin to significantly reduce interest rates starting from the first half of 2024.

The U.S. inflation figure currently stands at 3.7%, still far from the targeted 2%, but further away from the peak of 9.1%, recorded in 2022.

All in all, the macroeconomic data are encouraging, not only with regards to inflation, but to the growth as well (The Commerce Department estimates U.S. gross domestic product grew 4.9% in the third quarter, exceeding consensus economist expectations of 4.7% growth).
Above all there is the strength of the U.S. labor market that reports a historically low unemployment rate (3.8%). Nevertheless, the financial markets are lackluster in terms of performance.
Investors therefore remain mistakenly convinced that a growing economy is necessarily an economy with zero interest rates. This psychological assumption strengthens the rampant and now almost omnipresent feeling of uncertainty.

The Earnings season has been mixed so far, with S&P 500 companies reporting 2.7% year-over-year earnings growth.

How to invest in November

Those who fear an imminent economic slowdown can choose a more defensive approach, reducing equity exposure and focusing on cash.

Value stocks have always performed better than growth stocks during periods of high interest rates.

Utility stocks, health care stocks and consumer staples stocks continue to be recommended.

Experts recommend caution in tech sector investments, avoiding getting exposure to a single area and favoring diversification.

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