



Comment

October 2023

Investors cautious on earnings assumptions

October was a poor month for most equity indices, largely driven by the weakness of the US bond market. Towards the end of the month, yields on 10-year Treasuries exceeded 5% for the first time since 2007, creating a significant headwind for other asset classes.

Some investors view rising bond yields and weak equity markets in the autumn with considerable trepidation given the corrections that have occurred in the past at this time of year. A more tangible reason to view equity valuations with caution is that investors are starting to question some of the earnings assumptions for next year in the face of higher interest rates and economies that are still suffering weak growth. Optimistic valuations are harder to justify in such an environment and share prices can be impacted by the double hit of lower earnings and lower ratings when forecasts and opinions for the year ahead change.

Value stocks are protected from this downward pressure to some extent because their ratings and valuations are already conservative and have little optimism priced in. That resilience is evident in the relative outperformance of indices that are biased to value compared to those focused on growth.

The two best performing sectors in October, indeed the only two to show a positive return, were Energy and Utilities, both decent signifiers of value stocks. By contrast, Information Technology gave the second worst return, followed by Financials. Poor performance from the latter is probably related to the weakness in Real Estate which so often underlies the banking sector.

Similar trends are also evident over the longer period of the last twelve months with Energy and Industrials delivering the best returns. Only Consumer Staples and Real Estate gave negative results at the bottom of the league table over one year.

Valu-Trac Investment Management Limited

VT Munro Smart-Beta UK Fund

Valu-Trac Investment Management Limited. Authorised and regulated by the Financial Conduct Authority (FCA), registration number 145168. Head Office: Orton, Fochabers, Moray, IV32 7QE Telephone : +44 (0)1343 880217 Registered in England No. 2428648 Registered Office: Level 4, Dashwood House, 69 Old Broad Street, London, EC2M 1QS.

Visit our Website at <https://www.valu-trac.com/administration-services/clients/munro/>

Direct contact details for Robert Davies: Telephone: 01360 771921 Mobile: 07889 690369