



Comment

November 2023

Value bias undermined by interest rate optimism

The UK and most major equity markets advanced in November largely driven by expectations that US interest rates have now peaked. Some observers, perhaps the more optimistic ones, have suggested that US borrowing rates may even start to come down next year. Both the UK and US have elections in 2024 and the perennial tussle between economics and politics as to what the appropriate interest rates should be will keep central bankers fully occupied until those polls have closed. Active investors attempting to second guess the authorities will be an important factor determining short-term moves in capital markets over the next twelve months.

More patient investors will be comforted that dividend income for the UK equity market is consistently staying at the high levels achieved four years ago.

Hopes that interest rates will not increase have favoured growth stocks over the month. Stocks with a bias to value slightly lagged the general market and thus reinforced that opinion. A rise in sterling against the dollar also had an impact on those companies that make their profits in the US currency. These tend to be larger companies with modest growth prospects.

This trend was also evident in the sector performance figures. Energy delivered a negative return over the month, as did Health Care. Information Technology, in contrast, registered double digit gains as did Real Estate, which did even better. Utilities were surprisingly strong but may just reflect recovery from having been oversold in the previous month.

Elsewhere the strong performance of Industrials over the year to date, and another respectable return in November, suggests that the much talked about recession has been postponed yet again.

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