Global Thanksgiving

Equity Indices		1 wk %
MSCI China TR		1.09
S&P 500 TR in US		1.02
MSCI Europe ex UK TR		0.96
MSCI Emerging Markets TR		0.49
MSCI AC Asia ex Japan TR		0.40
MSCI India TR		0.20
Nikkei 225 in JP		0.12
FTSE 100 TR in GB		-0.10
Bonds/Currency/Oil	**17.11.23**	**24.11.23**
Bond: UK 10 Year Yield	4.095	4.280
Bond: US 10 Year Yield	4.439	4.472
Currency : GBP/USD	1.246	1.260
OIL: WTI $	75.840	75.180

With Thanksgiving in the US now behind us, we have officially entered the run up to Christmas. Trees and decorations are going up and Band-Aid is back on the radio. There is much hope that the November Santa rally will continue and global equity markets were again positive last week, although somewhat subdued. In part this was due to the absence of any needle moving economic data, but probably more likely as a result of the annual Thanksgiving Holiday in the US. Without the American market to drive things, trading volumes were thin across the globe, however, all the major markets managed to eke out small gains in local currency, with the exception of the FTSE 100 which finished just below flat. Yields nudged up on global bond markets, with UK Gilts showing the most pronounced move with the 10-year yield climbing almost 20 bps in reaction to the Chancellors fiscal give away in the Autum statement. Oil steadied and the pound rose around 1.5 cents against the dollar.

I have always loved the idea of Thanksgiving in the US, family reunited and gluttony excused for the night and wonder why it hasn't yet been adopted in the UK. After all, like so many things American it is rooted in English traditions, when our Plymouth colonists shared an Autumn harvest with Native Americans back in the 17th century. Despite not embracing the Thursday night dinner, we do seem to have adopted the Black Friday and Cyber Monday shopping bonanzas that follow the feast and these will provide a very useful insight in to the mindset of both US and UK consumers when we see the volume of money going through the tills and online figures. So far on both sides of the pond, the anecdotal evidence suggests trading is in line with expectations with sales up a little higher on last year, although this uptick is almost all down to higher prices. According to John Lewis, air fryers and headphones have been the go-to items. Numbers could still get a bump higher though, as with the event occurring a little earlier than normal, it is likely that retailer discounts will be extended into next week to catch the end of month pay cheque.

Conservatives will be hoping that UK voters give them thanks for the cut in National Insurance announced in Jeremy Hunts's Autumn Statement, which was definitely designed to curry favour ahead of the election at the end of next year. This effective tax cut was only possible due to the Office for Budget Responsibility (OBR) deciding that in Nominal terms the economy will be about 5.5% bigger in the medium-term than it previously thought. In a strange irony the Nominal growth was higher (that's Real growth plus inflation) because inflation has come in higher than expected. It actually forecast Real GDP growth in 2024 to fall from 1.8% to 0.7%, but we should all probably give thanks if we do avoid a recession in the UK next year.

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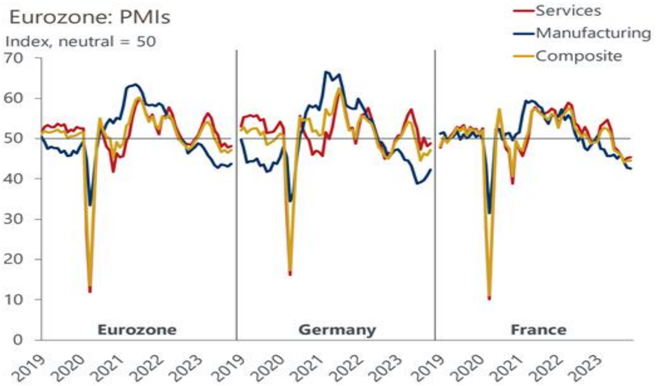
UK businesses did have a legitimate reason for gratitude (and this was championed on the other side of the house to) as Hunt announced an indefinite extension of the corporation tax 'full-expensing' scheme. Additionally, small businesses, particularly in the hospitality sector, benefited from the extension of a 75% business rate relief for pubs and similar establishments. Drinkers too had reason to cheer with the announcement of a freeze on alcohol duty. I don't have the stats but I expect that in every budget ahead of an election, alcohol duty is frozen as I suspect there is possibly a swathe of the voting population influenced by the price of their favourite tipple. The reaction of the UK financial markets was a much quieter affair than the fireworks that occurred following the Kwasi/Truss fiasco of the previous year, with equities largely unaffected but Gilts took a small hit at a bit more fiscal largesse than was generally expected.

Europe doesn't really go in for a November Thanksgiving, but in German-speaking countries, people celebrate Erntedankfest. Its literal translation is "thanks for the harvest fest". It is not an event for people to meet and eat at home, it is meant to be celebrated publicly with one's community and it tends to take place around September / October. Scratching around for things to be thankful for on the financial front last week, we got updates on the state of economic growth. Although the flash PMIs are still in contractionary territory (readings below 50), optimistically, the downturn appears to be relatively shallow without signs of worsening. In fact, there are indications of potential improvement in the manufacturing sector, particularly in Germany.



Perhaps you didn't know it but, Thanksgiving Day is celebrated in Japan and it is a national holiday as well. To give it the official name, it is Labour Thanksgiving Day and always celebrated on the 23rd of November. Never having been there for the occasion, from what I can garner from google searches it appears to be almost the antithesis of that in the US, much quieter and more reflective - there are no big family meeting, no specific food nor much decoration. If celebrations did follow along US lines, then I imagine a family of Japanese economists sitting down this year with sake and KFC (instead of Turkey) and they would give thanks for inflation and that their salaries might even be about to go up. Yes, unlike the rest of the world, Japan has been actively courting price increases after a 25 year battle against deflation that finally seems to have turned the corner.

Deflation has subdued the Japanese economy and stock market for over three decades. Whenever Japan appeared to be on the verge of climbing out of deflation, nascent improvements were sidetracked by setbacks such as the global financial crisis, premature increases in the value-added tax and the COVID-19 pandemic. This time, however, the scale and durability of global inflation and its trickle-down effect on Japan, may be a game-changer and there are definite reasons to be grateful for the trend.

Companies that have long been reluctant to raise prices for fear of being undercut by competitors are no longer absorbing rising costs by squeezing their own profit margins. Instead, they are passing on higher prices to customers. This started with companies more exposed to imported materials, but now even domestically oriented industries are doing the same, causing the CPI to catch up with producer price inflation. Workers are unlikely to remain content with the miniscule wage increases they have endured for decades, particularly as the working-age population is shrinking. At some point, this could allow real wages to turn positive, resulting in more spending power and allowing the virtuous cycle to continue.

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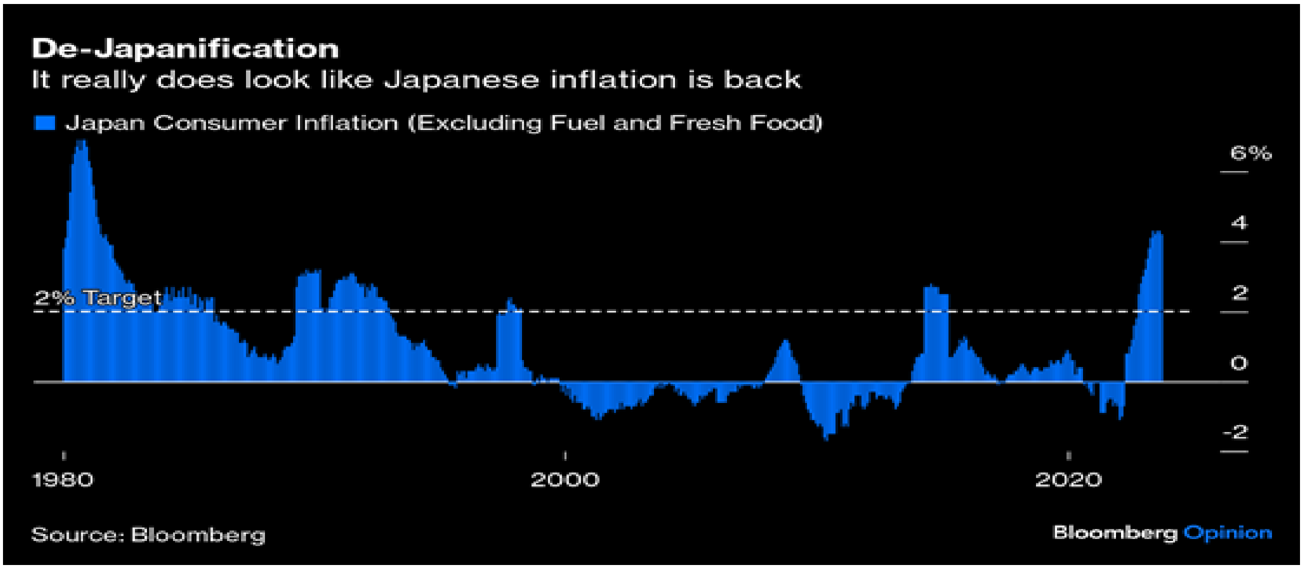

Faced with a shrinking labour force, potentially higher wages and a higher cost of capital, corporations must boost productivity. Corporations must also do something with their cash piles. Dividend payouts and stock buybacks, which both return cash to shareholders, had already been increasing over the past decade, but—more importantly—we believe that inflation will make it easier for management to find ways to better reinvest cash to grow their businesses. And after several rounds of reform starting with the 2014 Stewardship Code, corporate governance has improved, and managements are taking a more disciplined approach to capital deployment. To be sure, if Japan's inflation gets out of hand, the BOJ may be forced into a steep rate-hike cycle like we have seen in the West, but, so far, the BOJ appears to expect inflation to settle down next year and beyond, to manageable levels.

Like many American cultural things, the Thanksgiving holiday is catching on in China — a little. Chinese people generally think this is a time to have a Western meal and thank friends, family, workmates, and teachers or bosses. Topping the Chinese list of things to be grateful for and yes, I admit this really is stretching this analogy as far as it can possibly go, is the news last week that the government has pivoted to help distressed builders. Beijing has authorised banks to extend unsecured short-term loans to select developers and this list even includes Country Garden, the most prominent and crucial developer in the country, which had previously been perceived by some as a target for suppression by China's leadership.

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