
## SIGNS THAT INFLATION IS PEAKING SPARK A BROAD RALLY IN FINANCIAL MARKETS

This week the first official signs that inflation may be peaking sparked euphoria in markets. The latest CPI report from the US came in below analyst forecasts, a welcome relief from months of prices rising faster than expected. US stocks had one of their best days on record making nearly 6%. Other equity and bond markets around the world also rallied. Markets are now betting that the Federal Reserve won't need to tighten interest rates as much and thus the chances of avoiding a recession are improved.

While we don't want to rain on anyone's parade it might be just a bit too early to be celebrating. Easing of supply chain disruption caused by Covid is now largely complete and so its impact on inflation is dissipating, while the war in Ukraine and subsequent energy crisis, the other main driver of inflation, is ongoing. We'd point out that inflation of 7.7% is a long way from the central bank's target of 2%, despite being a lot better than the 8% predicted. While this week's celebrations might be overdone, we are still positive that things finally appear to headed in the right direction.

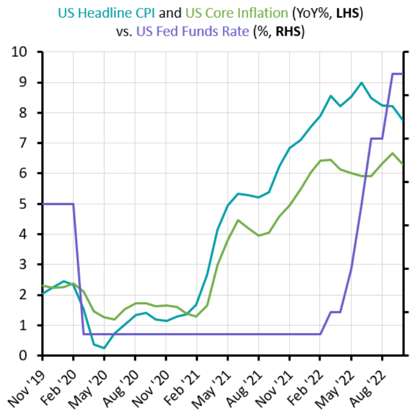
## THE MARKETS THIS WEEK

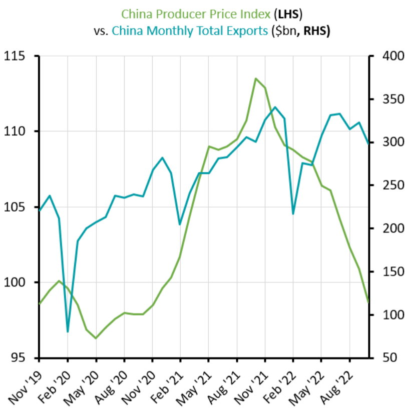
| FTSE 100 | S&P 500 | Nikkei 225 | MSCI Europe | Hang Seng | US 10 Yr | UK 10 Yr | Brent Crude | Gold | Iron Ore | GBP USD |
|---|---|---|---|---|---|---|---|---|---|---|
| +0.55% | +4.93% | +0.91% | +3.17% | +7.21% | -0.32% | -0.29% | -6.60% | +1.29% | +4.09% | +3.54% |

### US: INFLATION MATTERS TO MARKETS MORE THAN THE MIDTERMS

Markets rallied sharply after US inflation came in much lower than expected. The headline Consumer Price Index fell from 8.2% in September to 7.7% last month, with energy prices falling significantly. Core inflation (excluding fuel and food) also slowed as it declined from 0.6% in September to 0.3% in October.

Slowing inflation raised hopes that the US Federal Reserve will slow the rate of interest rate increases as well as speculation that rates may peak at a lower level. US equities jumped by more than 5.5% on Thursday, the biggest daily rise in two years, and demand for US government bonds also returned to drive up Treasury bonds. The dollar fell sharply against the euro, sterling and yen. The inflation announcement overshadowed this week's US midterm elections. The Republicans look set to reclaim control of the House of Representatives, however, better than expected results for the Democrats means control of the Senate remains in the balance and the outcome may not be known for several weeks.




### CHINA: OUTLOOK DETERIORATES AS MARKETS GAMBLE ON COVID EASING

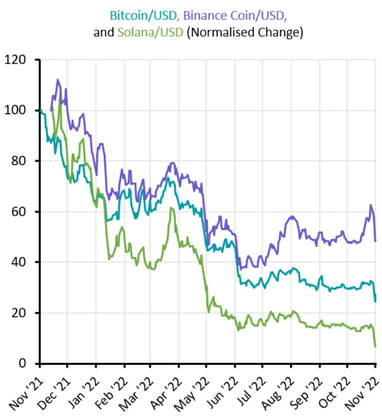
China's economy continues to struggle under the burden of strict Covid lockdowns and further signs of a global slowdown. China's exports and imports fell unexpectedly in October as factory output fell and domestic consumption slowed. Chinese exports fell 0.3% in dollar terms in October, compared with expected growth of 4.5%. Imports also fell for the first time in two years. There are reports of factory closures as the rising cost of living reduces overseas demand as well as a drop in new orders as many international buyers have too much stock after over-ordering after covid lockdowns eased.

In contrast to the deteriorating economic picture, Chinese equities have rallied recently. The Hang Seng China Enterprises index is up around 12% in November on speculation that the government in the mainland may begin to ease its strict zero-Covid policy, however, there is little evidence of an official change of policy after president Xi Jinping committed to keeping the policy when he was reappointed at last month's National Congress.

### CRYPTO: BROAD SELL OFF AS KEY EXCHANGE HEADS FOR BANKRUPTCY

Crypto currencies tumbled as one of the biggest digital exchanges froze customer assets as it fights off bankruptcy. Concerns about the FTX trading platform's ability to meet redemptions caused a run on the exchange after the transparency and liquidity of its holdings was questioned. Bitcoin, ether and binance (the three largest crypto currencies) fell by more than 10% on Wednesday as FTX announced it had agreed a sale to the Binance exchange to ensure it could meet customer redemptions. Values fell further when Binance, the largest crypto exchange, pulled out of the deal only a day later.

Prior to its collapse, FTX was seen as one of the better run exchanges and had been leading calls for greater regulation and transparency of crypto and blockchain. Its collapse has been blamed for a general collapse in confidence in the industry as it raises concerns about whether other exchanges are just as vulnerable and about the lack of clarify over how interconnected the different tokens, currencies and exchanges are.




Data Sourced from FE Analytics and FactSet