Labour vs. energy

7 October 2022

This week's topics:

Reading the runes of this week's market bounce

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Europe' fiscal fight

Another oil shock in the pipeline?

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MATT

'Great news! The Labour Party has offered to pay for our conference to continue for another three days'

Matt, 6 October 2022

Reading the runes of this week's market bounce

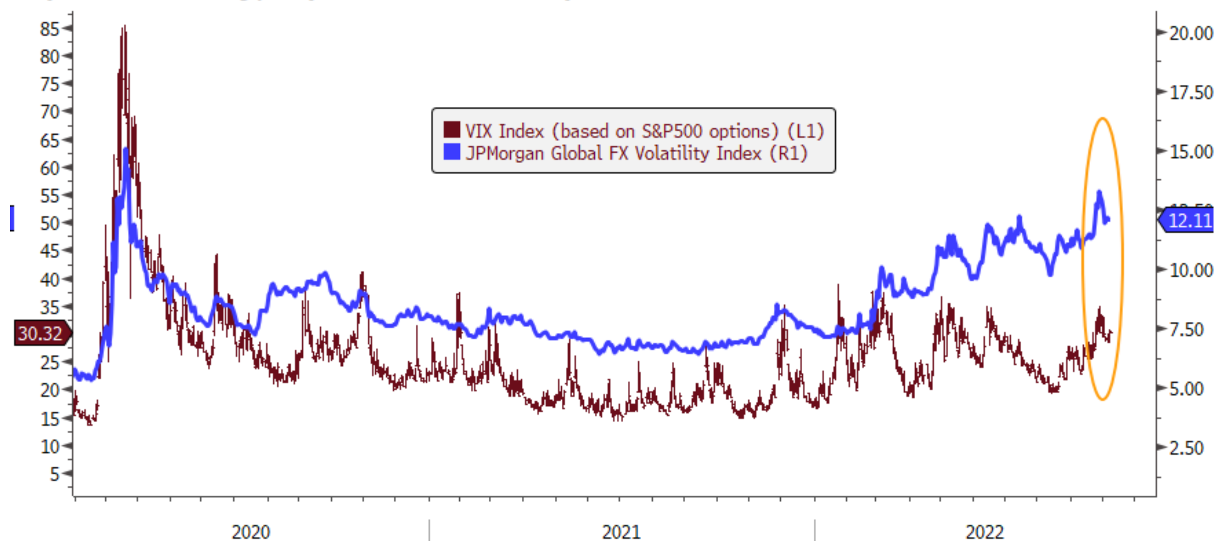
Market volatility has been in the air all year and given the macroeconomic backdrop this is not at all surprising. A weakening global economy marred by war and labour market-driven supply squeezes, while simultaneously trying to cope with aggressive central bank rate hiking to prevent inflation turning permanent, all makes for the distinct whiff of recession. But volatile markets do not always swipe down, as the beginning of this week showed, nor do they stay volatile forever. Monday and Tuesday saw a formidable 'relief' rally in global equities. Indeed, on Tuesday, US stocks recorded their biggest daily gain since 2020, leaving the S&P 500 up 5% by midweek.

The rally did not extend greatly, and the relief felt slight. Stocks slid back toward the end of the week, but not by the same margin. And neither did they collapse after – on the face of it – very disappointing news of OPEC+ oil supply cuts. Indeed, the week has felt like a microcosm of how the year has gone so far: down-trending capital markets, ricocheting between yield rise-driven recession fear and bear market rallies when hope takes hold that inflation is turning over.

As a result, bond yields have been rising steadily, driving down bond and equity valuations throughout this year. That means the expected rate of return for being invested in them has risen – good news in some sense. However, the volatility in the process – read increased uncertainty – makes the higher expected return seem less attractive in the near term. But when markets appear

to calm down, when the volatility decreases, those higher expected returns begin to look more attractive.

This week's toning down of actual and expected volatility has therefore helped sentiment, even if it is definitely too early to call it a trend. The chart below shows the track of equity (brown) and currency volatility (blue):



As the chart illustrates, currency volatility has coincided with the year's downtrend and so the US dollar's partial retreat against most currencies this week was another driver of marginally improved investor risk appetite. Why? Because the exceptional economic strength of the US – and its relative insulation from the rest of the world's travails – has been a driver of dollar strength and, historically, a strong dollar has coincided with weaker global trade.

There is much debate about whether a strong dollar causes weaker global growth, or is merely a sign of weak growth beyond the shores of the US economy. But there is no doubt that, while the rest of the world languishes, a US central bank (Federal Reserve/Fed) purely focused on domestic inflation pressures does not help the global economy. Indeed, Janet Yellen, US Treasury Secretary (and former Fed Chair) sounded a warning bell on Thursday, speaking at a central banker symposium:

"Policymakers in the major economies must continue implementing policies to rein in high inflation ***while remaining attentive to global repercussions*** [our emphasis]. *Clear and open communications, coupled with cooperation among the major economies to address spillovers, remain essential."*

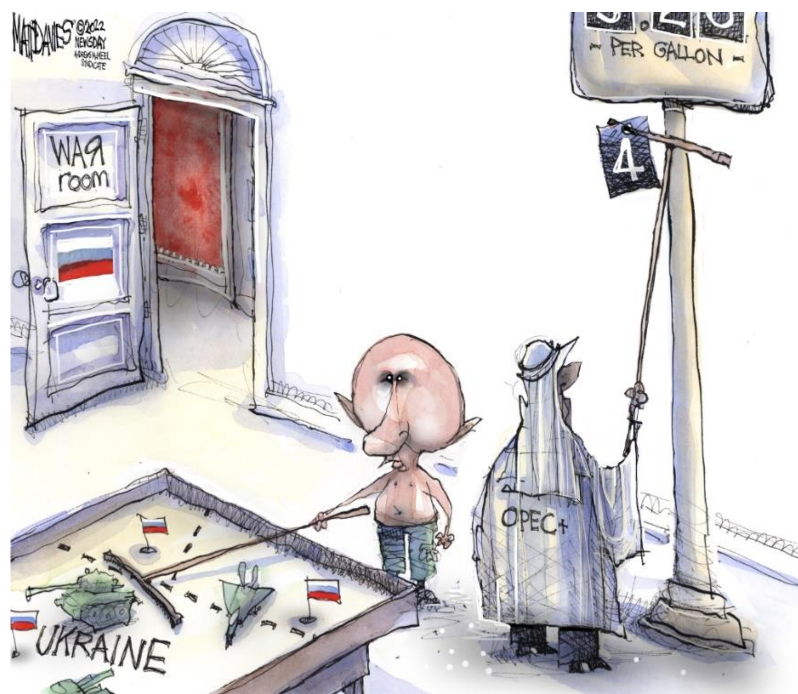
She may have been addressing the audience of central bankers, but everyone knows she was really addressing the Fed. So, as we wrote last week, a bit less of "I'm alright Jack" from the US is

likely to help global capital markets, and Yellen's influential comments suggest the US is not totally unaware of its impact on global financial conditions.

Back to this week's market action, Monday and Tuesday's market optimism came from bad economic news of weak US employment data, which might seem perverse. Job openings in the world's largest economy fell by more than one million in August, the largest fall since the start of the pandemic. But, with the Fed still intent on crushing inflationary pressure by cooling wages, bad news is good news as far as investors are concerned. The hope is that rising unemployment will give the Fed license to ease its grip, bringing the fabled 'peak interest rates' forward and setting the stage for looser financial conditions next year as the Fed pivots away from raising rates further. The JOLTS (Job Openings and Labour Turnover Survey) data thereby jolted markets upwards.

Up stepped the world's oil barons to dash such hopes. On Wednesday, OPEC+ agreed to cut production targets by 2 million barrels per day from November. As well as reducing crude supply, and thereby squeezing fuel prices even higher, the apparent unity shown by de facto leaders Russia (the '+' in OPEC+) and Saudi Arabia puts the latter on a political collision course with the US.

As we write in a separate article this week, the apparent 'betrayal' probably has more to do with oil producers' inability to even meet existing targets and weak demand, than Russia's desire to exert influence, or the Saudis' willingness to help it. Reduced oil supply is an unwelcome headwind nonetheless, and one that is likely to hurt the US economy more than others – given its sensitivity to gasoline prices. Traders seemed to agree, punishing American stocks more than British or European counterparts.



Fuel me once, Matt Davies, 6 October 2022

On this side of the Atlantic, natural gas is a much bigger concern than oil. Europe's energy crisis is probably the major global economic concern as we head into a harsh winter. Interestingly, gas prices have actually been on a steady downfall recently – which has gone entirely unremarked by European equity markets. At the same time, governments across Europe have unveiled enormous spending plans to protect businesses and consumers against the worst energy price spikes.

Germany's massive €200 billion support programme announced last week is the headline act in this line-up. Despite being debt-funded and amounting to a substantial loosening of fiscal policy, bond markets have not punished German bunds for the apparent laxity with public money. This is in sharp contrast to the UK's experience over the last couple of weeks. We discuss what this means for Eurozone debt dynamics in a separate article below.

As for the UK market itself, this week offered some respite – though not much. Gilt yields dropped back below 4% (they had touched 5% before the Bank of England (BoE) intervention the previous week) in tandem with the early equity rally. Sterling also recovered, reaching the $1.14 level it held before Chancellor Kwasi Kwarteng's not-so-mini-budget two weeks ago. Midweek jitters reversed these trends though, with yields rising and sterling falling into the weekend. Thankfully, these falls were not as severe as the chaos wrought in the last fortnight.

Interventions from the government and (especially) the BoE have stopped the bleeding, although it would be a stretch to say UK assets are in good health. Britain's current account deficit (money flowing in minus money flowing out) makes our economy and financial system largely dependent on the will of foreign capital. In that respect, it is at least heartening to see – as the bond and currency recovery showed – that overseas investors have not yet lost all trust.

Liz Truss' fledgling government has actually had a better week, at least in the eyes of some investors, if not among her own Tory MPs. The near-chaos at the Conservative conference – replete with rebellions, U-turns and accusations of a "coup" – passed by with the Prime Minister finishing with an appeal to optimism, albeit with little in her speech to tell us why. Yet, the conference drama coincided with the rebound in gilts and sterling, suggesting markets are not too concerned with the situation.

Perhaps this could be down to Conservative MPs' successful lobbying on the 45% top rate of tax. The government appears to have little ability to force an unpopular radical agenda in the face of opposition from its parliamentary party. Truss' backtracking came quickly after repeated insistence she was not for turning. Markets might be inclined to think that this government is paralysed from making any sweeping changes – and markets tend to prefer the absence of surprises.

However, many UK exporting companies will be cheering at signs of rapprochement with Europe. *The Times* trailed a series of bilateral compromises over the Northern Ireland Protocol, including an extremely important acceptance of (some) jurisdiction for the European Court of Justice. And then, in Prague, a genuine warming of relations with French President Emmanuel Macron (perhaps the most influential of European leaders) sharply improved the sense that we may be moving beyond break-up to make-up.

It will still take time, but this raises the prospect of some freeing-up of access to Europe's markets. It also may speed up stalled trade negotiations with the US. Given the strength of the dollar, making UK goods and services highly price competitive, improved access to US markets is vital.

Betting markets still imply a 50/50 chance of Truss leaving office before 2024 and the next General Election. Nevertheless, it will be difficult for the Conservatives to row back from a more pro-Europe stance if a warmer relationship brings economic benefits.

Day-to-day politics does not usually have much impact on asset prices, but last week's chaos showed when it does, it can be to devastating effect. If the new government is as market-oriented as it claims, and is prepared to be responsive to the warnings it sends, then investors will give a little cheer.

September review: Recession expectations take hold

Asset Class	Index	September	3 Months	YTD	12 months
Equities	FTSE 100 (UK)	-5.2	-2.7	-3.7	0.9
	FTSE4Good 50 (UK Ethical Index)	-5.6	-4.9	-6.3	-1.9
	MSCI Europe ex-UK	-4.8	-2.0	-17.1	-12.8
	S&P 500 (USA)	-5.4	3.5	-7.6	2.1
	NASDAQ (US Technology)	-6.6	4.5	-17.5	-10.9
	Nikkei 225 (Japan)	-6.6	0.4	-10.7	-14.6
	MSCI All Countries World	-5.7	1.4	-9.8	-4.2
	MSCI Emerging Markets	-8.0	-3.8	-11.6	-13.2
Bonds	FTSE Gilts All Stocks	-8.0	-12.8	-25.1	-23.3
	£-Sterling Corporate Bond Index	-8.7	-11.5	-23.8	-23.6
	Barclays Global Aggregate Bond Index	-1.1	1.2	-2.8	-3.9
Commodities	Goldman Sachs Commodity Index	-3.9	-2.4	47.8	49.3
	Brent Crude Oil Price	-7.2	-15.0	32.8	31.3
	LBMA Spot Gold Price	1.8	-0.1	11.0	16.2
Inflation	UK Consumer Price Index (annual rate)	0.5	1.1	7.0	9.5
Cash rates	Libor 3 month GBP	0.0	0.1	0.3	0.3
Property	UK Commercial Property (IA Sector)*	-0.6	-0.8	4.2	7.9

Source: Morningstar Direct as at 30/09/22. * to end of previous month (31/08/22). All returns in GBP.

September's market activity displayed similarities to August: after an encouraging start, every asset class bar gold headed south. The month ended with an acceleration in the sell-off, which brought the summer quarter to a disappointing close. Fast-rising bond yields and another slump in £-sterling relative to the US dollar were the drivers for UK-based investors, but the acceleration in

the US stock market decline relative to the UK market meant that not even the appreciation in the value of the dollar was enough to counterbalance the decline. The energy crisis and rising costs of living affected sentiment and as a result, all major equity markets ended the month in the red. Global equities declined 5.7% for sterling investors.

Government bond yields also reached another cyclical high, largely generated by new Prime Minister Liz Truss's economic programme which caused immediate and widespread fear over fiscal sustainability. Even the IMF called on the UK to "re-evaluate" the plan to ensure government fiscal policy and BoE monetary policies were not working against each other. The subsequent pressure on the UK gilt market brought unintended consequences on pension funds, and prompted the BoE to intervene by buying long-dated bonds to stabilise the market. In market terms, the UK had a weak month, down 5.2%.

In US dollar terms, US equities fell 9.3% September, with the technology sector down 10.5%. The Fed confirmed its commitment to tackling inflation, even if it means sacrificing some economic growth. This ongoing policy strengthened the dollar against other major currencies and significantly against the euro, Japanese yen, Chinese renminbi and sterling. In Japan, it forced the Japanese Ministry of Finance to intervene in the foreign exchange market to stem the yen's depreciation.

Emerging Markets lagged other major equity markets in September, down 8%, while the Japanese Nikkei 225 returned -6.6%.

Europe was the most resilient of the major developed equity markets, falling 4.8% over concerns around natural gas supplies, elevated energy prices and further monetary policy tightening. In commodities, oil prices ended the month down 7.2%. With the third quarter behind us, attention turns towards the Q3 corporate earnings season and company signals on outlook.

The government policy error in the UK, forcing intervention from the BoE demonstrated the danger of unintended consequences as major central banks around the world all have policies to tighten their monetary policy. More policy errors could force them to change course and could therefore keep markets volatile. For the time being, US interest rates are expected to continue to rise quickly to at least 4.5% by early 2023 – anything beyond those levels would become a negative surprise for markets.

If there is a silver lining to September's market returns, perhaps it is that expected returns should be higher going forward. In particular, real yields (after adjusting for inflation) have risen to levels not seen since 2010 and the GFC years.

Europe's fiscal fight

This week saw Britain's most powerful political duo (Liz Truss and Kwasi Kwarteng) scrambling to contain the fallout from their 'fiscal event' two weeks before. A reversal on the 45% top rate of income tax and vague affirmations of fiscal prudence are what they have to show for it, but they at least seem to have partly done the job. Gilt yields have stabilised, while sterling is back above $1.10 and looks unlikely to fall down again in the short-term (touch wood). Both are in a significantly worse position than before though, and a gaping hole in the public purse remains. The reasoning

is well rehearsed by now: a dramatic loosening of fiscal policy at a time of runaway inflation and acute supply shortage will dramatically increase cost pressures, threaten budget stability and push up interest rates, draining the system of liquidity.

Across the Channel, the European press pulled no punches when reporting on the drama. *El Español* announced that the "UK seems to have imploded"; media outlets across the continent repeatedly used the words "catastrophic". One *Irish Times* columnist called Britain the "Argentina of Europe", for Truss' debt-funded giveaways.

For a group of countries that have so long dreamt of balanced books, the criticism makes sense. Budget rules have been at the heart of European Union (EU) policies since the global financial crisis (GFC) and Eurozone crisis, with some of them – such as Greece and Ireland – forced into International Monetary Fund (IMF) and/or European bailout programmes. Curiously though, this stereotype is probably less accurate now than at any point since the formation of the Eurozone. Far from austerity, Europe's last few years have been marked by significant fiscal expansion – first due to the pandemic and then from energy price measures.

If European leaders are concerned about loosening the public purse-strings at a time of rapid inflation, they can look no further than the continent's largest economy. Last week, Germany announced a €200 billion 'protective shield' to help businesses and consumers cope with soaring energy costs this winter. The plan, much like Britain's, will be funded by new borrowing, and includes an emergency cap on gas and electricity prices.

Unlike the UK, the spending is time-limited, and the government reaffirmed that Germany's constitutional "debt brake" is still alive. Finances necessary to deal with record gas and energy prices will be channelled through the Economic Stabilisation Fund, an emergency facility from the pandemic which does not count towards the official public budget. Indeed, Finance Minister Christian Lindner explicitly denied comparisons to British policy. "We are not following the example of Great Britain by pursuing an expansive fiscal policy," he decried, adding that "German sovereign bonds remain the gold standard in the world".

Markets seem inclined to agree with him. German ten-year bond yields fell after last week's announcement – despite debt-financed spending pledges which, in relative terms to GDP is not that much lower than the UK's, which unleashed chaos in UK gilt markets. This is perhaps fair, given Germany's history of prudence, and of course a substantially different current account – Germany's is in a surplus whereas the UK's is in a deficit. So, the UK constantly needs foreign capital to fund its position. Still, the fact that such a huge fiscal package barely registered a response with investors is astounding.

European politicians, by contrast, were not so nonchalant. The Slovakian energy minister accused Berlin of "destroying our common market", while Hungary's Viktor Orban was characteristically more confrontational, calling the support package "cannibalism". While certainly the tamest, perhaps the most damaging criticism came from outgoing Italian Prime Minister Mario Draghi, who lamented that "we cannot divide ourselves according to the space in our national budgets". As the former ECB president during the Eurozone crisis, Draghi knows a fair amount about both European unity and national budgets.

Few nations have Germany's borrowing capacity. And while Germans might put that down to the nation's past fiscal prudence, others would point out that this situation is only possible because of the EU's structural imbalances which cement Germany as the premier export hub. Both have a point, though perhaps not the point at hand. Germany claims it is only matching the energy price caps introduced by France and Spain, and its ability to do so comes from investor faith in German bonds. But that faith is largely down to its place at the top of the Eurozone's debt pile (meaning having less debt than others) – and that pile overall is undermined by bouts of debt-financed spending.

The below chart shows each European nation's energy crisis spending commitments as a share of GDP. While Britain's not-so-mini-budget clearly put it well in front, Germany's latest spending commitments mean it is not far behind. More importantly, government commitments are high across all of the EU's major economies (though not as high as the UK and Germany). These include fiscal commitments at or above 3% in France, Italy and Spain – none of which enjoy Germany's reputation for balanced budgets.

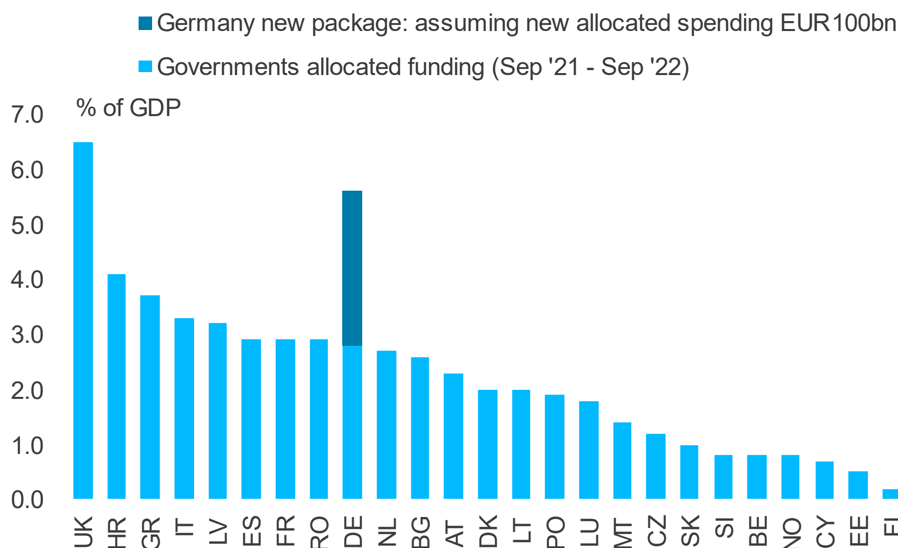


Chart source: Lombard research, Bruegel institute.

The ECB is already in the process of tightening monetary policy, and energy pressures in the winter will give motivation to raise interest rates more severely. This is sure to make financing harder for European governments – at the exact moment many are relaxing their debt constraints. In a report at the end of September, German insurers Allianz predicted this will mean rising debt-to-GDP ratios in France, Italy and Spain, with the former increasing its budget deficit through emergency spending. Contrast this with the US, where latest infrastructure measures were financed by increased taxes and therefore fiscally neutral. The US certainly faces its own debt sustainability problems down the road, especially linked to upcoming medical and ageing liabilities. But for the short-term, the US was able to leave the deficit spending splurge from COVID times behind. Higher-yielding American bonds start to look very attractive by comparison.

Increased growth is usually touted as the flipside of this equation, but supply-side constraints undermine this argument. In a stagnant economy with underutilised capacity, government spending can deliver real growth by stimulating demand. But the current problem is exactly the opposite: there is a sharp undersupply of goods, which demand stimulation will only worsen.

Any additional growth from looser fiscal policy is likely to generate more inflation. At best, this would make it neutral in real terms. At worst, it would mean sharply higher import costs and a real-terms reduction in growth. The UK is an extreme example of this – with a severe current account deficit (capital flowing in minus flowing out) it is hard to see how fiscal stimulus will end up anywhere other than overseas payments.

The above is how the ECB is likely to see the situation, at least. Policymakers are set on taming inflation, a task that requires cooling rather than stoking consumption. The ECB has already lifted rates out of the negative towards 1%, and is set to do more. The real question remains however, how to deal with sovereign spreads, and the omni-present crunch question – or 'Gretchenfrage' – of whether the ECB will ever be able to embark on quantitative tightening (selling assets from its balance sheet). In July, the ECB established the Transmission Protection Instrument (TPI), which is meant to shield some countries from disproportional tightening in monetary policy through higher yields. The country most in the spotlight is Italy. There is still much uncertainty about how the TPI could be deployed, and especially what are the triggers. Is it spread widening? Here, the BTP (Italian government bonds) to Bund spread is still below past highs (see above chart), possibly thanks to the signalling of establishing TPI. Or would it be disorderly moves, akin to the gilt debacle a week ago?

In any case, with the fiscal star pupil Germany now loosening its grip on public finances, the temptation may be higher for others. Not only the ECB will be vigilant, but the bond vigilantes are likely to stand ready also.

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Another oil shock in the pipeline?

News of production cuts from the world's biggest oil exporters pushed crude prices higher this week. Onlookers fear yet another energy price shock, which could be a hammer blow to a fragile global economy. In truth, the world economy has been hit by so many 'shocks' in recent years that each one feels distinctly less shocking – though no less harmful to growth. On top of the pandemic hangover and Europe's natural gas crisis, OPEC+ countries – led by Russia and Saudi Arabia – agreed on Wednesday to cut output targets by two million barrels per day (bpd) from November. That represents about 2% of global oil production and, coming in the middle of rapid inflation across the western world, parallels have been drawn to the devastating oil shocks of the 1970s.

Context is important here. For all the talk of rapid fuel price increases this year, oil has fallen consistently since mid-June. Russia's invasion of Ukraine and subsequent western sanctions saw a dramatic spike in prices in March, but as of the end of September, Brent Crude cost only just above $80 per barrel (pb) – the same as at the start of 2022. Even with the rally this week, the international benchmark is at $94pb at the time of writing, right where it was on the eve of the invasion.

The fall in prices is one of the reasons OPEC+ moved to slash output. Cost-of-living crises, sharply higher interest rates and recessions across multiple developed economies have dramatically slowed global demand. Not only has this caused a 40% drop in spot prices from the June peak, but has cooled investment flows for oil producers. Adjusting supply lower to meet it was expected, following the smaller 100,000 bpd cut last month.

Showing cohesion among the group is another big factor. Since OPEC added its 'plus' members back in 2016, maintaining discipline on production has been difficult. But things have been different over the last two years, following the unprecedented drop in prices at the start of the pandemic (which saw the price of West Texas Intermediate (WTI) crude turn negative). Russia and Saudi Arabia are the cartel's largest producers and de facto leaders, though some have questioned whether Western sanctions on the former might splinter the group. This has clearly not happened, much to the anger of US and European leaders.

The G7's planned price cap on Russian oil comes into effect at the beginning of December. If successful – and Moscow does not retaliate by cutting exports – it should mean a continuous oil flow westward but only limited revenue for the regime. It is an addition rather than a replacement to the EU's Russian oil embargo, but the incentive for President Putin to flex his muscles by cutting off supplies is high. And, given the cohesion showed by OPEC+ (not to mention Russia's influence within the group) we should not expect other countries to fill any shortfall.

In fact, whether many even could is questionable. Exceeding quotas has historically been the group's main problem in terms of balancing supply and demand, but in recent months the opposite has been true. According to Bloomberg, August's production levels were significantly below target, with most members falling well short of their individual lots. This underlies another major reason for the production cut that has been somewhat overlooked: many countries are already at capacity, meaning the previous targets for individual members were unrealistically high.

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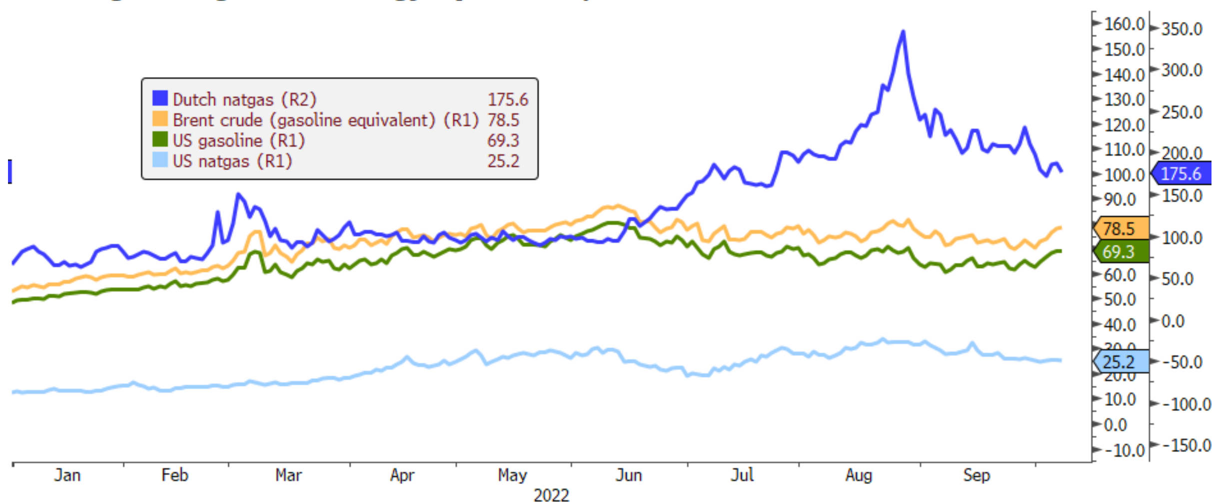
This is a crucial consideration in thinking about the threat of supply cuts. As well as raising oil prices, Wednesday's announcement knocked equity markets down on the fear of higher fuel costs, inflation and lower growth. But the two million bpd cut applies to previously agreed targets, rather than actual pumping volumes. Given the gap between what most countries can produce and what they are allowed to, the hit to supplies will be considerably less.

That is not to say it is insignificant. The two million bpd cut was much larger than many had anticipated, and we suspect this is in part down to the considerations above. That is, Saudi Arabia likely wanted to deliver a genuine rather than merely token production cut to support prices, and therefore needed to adjust for members that have struggled to meet previous targets. This supply tightness led Goldman Sachs to predict a WTI oil price of $110pb next year (compared to $91pb as of Friday PM, 7 October), assuming Russian production is not tightened in retaliation for embargoes. If it is, Goldmans think Brent Crude could reach as high as $125pb next year.

We should therefore expect the post-June decline to turn around, as we have already seen this week. Crude prices above $100pb would certainly bring unwanted inflationary pressure, but the likely increase is not so huge as to destabilise the world economy. Moreover, Saudi Arabia's willingness to stick by Russia puts it on a political collision course with the US. We have already seen tensions between the Biden administration and the Kingdom's Crown Prince, and further escalation could bring damaging uncertainties.

US & Europe relative fuel energy costs
Natural gas and gasoline (energy equivalent) prices in €/MWh



Source: Tatton IM, Bloomberg: G1086
TZTF3 Comdty (TTF NAT GAS F Jan23) US EU gas oil equiv Daily 31DEC2021-07OCT2022 Copyright© 2022 Bloomberg Finance L.P. 07-Oct-2022 11:51:23

One of the reasons for this is that the US arguably has the most to lose from higher oil prices. While Europe has struggled with natural gas supplies, its economy is much less sensitive to oil and refined fuel prices than the US, despite the latter's access to shale production. American shale producers do not have the capacity to make up for global shortfalls or price jumps, particularly in light of President Biden's shift towards renewable energy.

US energy prices are much more closely tied to the price of crude oil, which puts the world's largest economy most at risk from higher prices. Investors seem to agree, judging from Wednesday's market reaction: US stocks fell 1.5%, while European and British equities dropped 1% and 0.5% respectively. This is an interesting reversal of what we have seen for most of the year, when America seemed to weather the storm better than all its western counterparts.

The recent cut is not at the level of an oil shock, but it could bring unwelcome volatility all the same. For now, it seems the US market is the main victim – not so good for global growth if it leads to a yet more hawkish Fed. However, the track of European natural gas prices remains the most world's most important energy price.

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Global Equity Markets

Market	Fri 15:50	% 1 Week*	1 W	Technical Short	Technical Medium
FTSE 100	7009	+1.7	+115	↘	⇘
FTSE 250	17393	+1.3	+225	↘	↘
FTSE AS	3823	+1.6	+60	↘	↘
FTSE Small	5931	+0.9	+53	↘	↘
CAC	5884	+2.1	+122	↘	↘
DAX	12327	+1.8	+213	↘	↘
Dow	29513	+2.7	+788	↘	↘
S&P 500	3676	+2.5	+91	↘	↘
Nasdaq	10788	+2.0	+212	↘	↘
Nikkei	27116	+4.5	+1179	↘	⇘
MSCI World	2478	+4.2	+100	↘	↘
CSI 300	3805	-1.3	-51	↘	↘
MSCI EM	911	+4.0	+35	↘	↘

Top 5 Gainers

Company	%
BP	+8.5
Intermediate Capit	+7.7
Imperial Brands	+7.4
International Cons	+6.9
BAE Systems	+6.8

Top 5 Decliners

Company	%
Ocado	-7.9
UNITE/The	-6.8
Next	-6.2
DS Smith	-6.0
Smurfit Kappa	-5.2

Currencies

Pair	last	%1W
USD/GBP	1.113	-0.4
GBP/EUR	0.879	-0.2
USD/EUR	0.979	-0.2
JPY/USD	145.14	-0.3
CNY/USD	7.116	+0.2
Bitcoin/$	19,647	+2.1

Commodities

Cmdty	last	%1W
Oil	97.00	+10.3
Gold	1701.9	+2.5
Silver	20.326	+6.8
Copper	339.9	-0.4
Aluminium	2347.0	+6.8
Soft Cmdties	224.26	+2.0

Global Equity Market - Valuations

Market	Div YLD %	LTM PE	NTM PE	10Y AVG
FTSE 100	4.0	10.1	8.7	14.3
FTSE 250	3.8	7.7	11.7	16.4
FTSE AS	4.0	9.6	8.9	14.5
FTSE Small x Inv_Tsts	4.0	6.2	9.1	15.6
CAC	3.3	11.5	9.4	15.2
DAX	3.8	11.9	9.9	13.8
Dow	2.3	15.4	15.7	17.0
S&P 500	1.8	17.6	16.3	18.3
Nasdaq	1.0	20.5	24.1	24.4
Nikkei	2.0	15.1	14.8	17.8
MSCI World	2.3	14.8	14.8	17.2
CSI 300	2.3	12.9	12.4	12.8
MSCI EM	3.3	9.1	11.0	12.7

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Fixed Income

Govt bond	%Yield	1 W CH
UK 10-Yr	4.21	+0.12
UK 15-Yr	4.49	+0.28
US 10-Yr	3.88	+0.05
French 10-Yr	2.81	+0.09
German 10-Yr	2.20	+0.10
Japanese 10-Yr	0.25	+0.01

UK Mortgage Rates

Mortgage Rates (Nationwide)	07-Oct	07-Sep
Base Rate	2.25	1.75
2-yr Fixed Rate	6.14	3.64
3-yr Fixed Rate	6.14	3.74
5-yr Fixed Rate	5.64	3.61
10-yr Fixed Rate	5.34	3.73
Standard Variable	5.10	4.89

* The *% 1 week* relates to the weekly index closing, rather than our Friday p.m. snapshot values
** LTM = last 12 months' (trailing) earnings;
***NTM = Next 12 months estimated (forward) earnings

Please note:
Data used within the Personal Finance Compass is sourced from Bloomberg/FactSet and is only valid for the publication date of this document. The value of your investments can go down as well as up and you may get back less than you originally invested.

Lothar Mentel