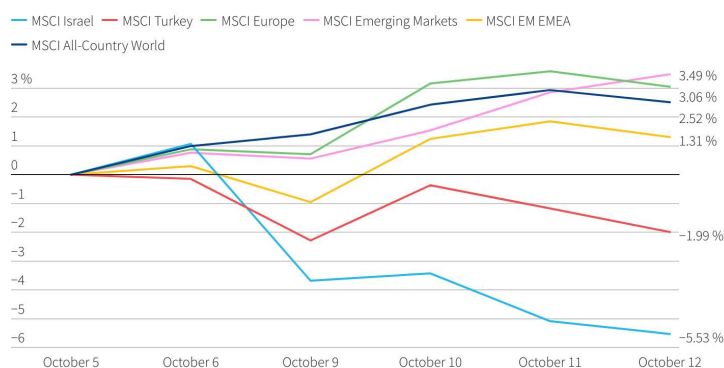


Monthly Commentary 2nd of November 2023

October was marked by a devastating geopolitical event – the Hamas terrorist attack in Israel. While the human toll was and continues to be massive, markets have been fairly muted to the event. The below chart taken by Reuters shows the initial reaction a week after the attack.

Taking stock

Israeli equities have fallen due to war worries but worldwide indexes unaffected



Reuters | Marc Jones @rmarcjonesrtrs
Source: LSEG Datastream

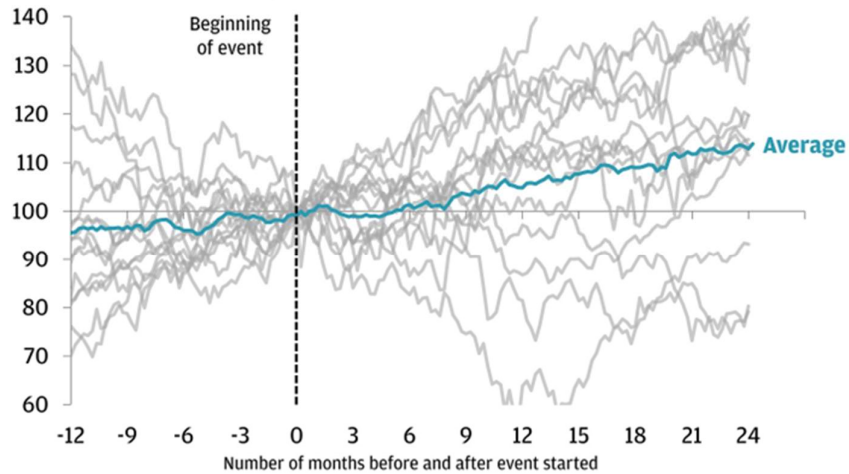
In summary, most equity developed market indices ended the month lower with the S&P500 down 2.2%, MSCI Euro down 2.89% and FTSE 100 3.76%. In the U.S, the persistent selling is more related to the confidence in the economy, corporate earnings, and the rising bond yields. Last month the 10-year U.S. Treasury yield hit 16-year highs near 5.0%. Global bonds were flat to slightly negative. Despite the developments in the middle east, Oil was down by 10.76% in October which is good news as it implies that there were no major disruptions in demand or supply. Gold on the other hand, has seen an increase of 7%. The dollar as measured by DXY Index was stronger by 0.51% against a basket of currencies and Bitcoin was up 27% amid excitement about the launch of a potential spot ETF.

History has consistently shown that geopolitical events, while adding to volatility, haven't had any lasting impact on the markets. The below graphic from JP Morgan examined a number of geopolitical events in post-war history. Invariably, the business cycle has mattered more for investors, which means that barring a major economic disruption or imbalance, the effect of geopolitics on markets has tended to be short-lived.



THE IMPACT OF GEOPOLITICS ON MARKETS TENDS TO BE SHORT-LIVED

S&P 500 around military invasions and conflicts, month of event = 100



Sources: J.P. Morgan Asset Management - Eye on the Market (July 2014 edition), Bloomberg Finance L.P. Data is as of October 2023. S&P 500 Index represents price returns. Events include: Korean War (1950), Soviets into Hungary (1956), Six-Day War (1967), Soviets into Afghanistan (1979), Martial Law in Poland (1981), Falklands War (1982), U.S. invades Grenada (1983), U.S. invades Kuwait (1991), Serbians into Kosovo (1998) U.S. invades Iraq (2003), N. Korea sinks S. Korean Navy vessel (2010), Fall of Mosul to Islamic State (2014), Russia invades Ukraine (2022).

Geopolitical events are unpredictable but can happen and have happened many times in the past. Although volatility is higher during these periods, markets tend to recover fairly quickly. Our portfolios are structured in such a way that they can absorb these shocks, through diversification and careful selection of quality stocks. As such, there is no need for knee-jerk portfolio reactions.

The Elgin Analysts Team

Disclaimer

The information in this article should neither be regarded as an offer nor a solicitation to buy, sell or otherwise deal with any investment referred to herein. As a regular rule, the value of any investment may rise or fall. Past performance is not an indicative of future results. Do not take unnecessary risk and always request advice from an investment professional before undertaking any investment.