CARPENTER BOX
FINANCIAL ADVISERS

Building your financial future

Introduction

Welcome to your monthly newsletter.

Where did we leave the soap opera that is British politics? At the end of September, Liz Truss was the Prime Minister, and Kwasi Kwarteng was her Chancellor. As we reported last month, Kwarteng presented his 'fiscal statement' on Friday 23rd September.

Three weeks later, he was gone and Liz Truss had to endure the most public of humiliations as new Chancellor Jeremy Hunt fed her 'plan for growth', policy after policy, into the parliamentary shredder. Eleven days later, Truss offered her own resignation, replaced by Rishi Sunak, the man she had defeated in the race to succeed Boris Johnson. The shortest serving PM on record was replaced by the youngest for over a century, meaning that in 2022, the UK has had four different Chancellors and three Prime Ministers.

There was, though, far more to the news than the UK – neither was it the only country to have a new leader.

As we report below, October brought us the Communist Party Congress in Beijing – and confirmation that Xi Jinping is effectively ruler of China for life. The war in Ukraine continued – and the month ended with Russia pulling out of the grain deal agreed earlier this year, sparking fears of a threat to the world's food supply.

And as Russia gave the appearance of mobilising nuclear weapons, American President Joe Biden called it, "the most dangerous time since [the Cuban missile crisis of] 1962". Finland indicated that it would be willing to host nuclear weapons on its border with Russia.

How did the world's stock markets react to all the news? It was a long way from the doom and gloom that might have been expected. All but two of the markets we cover in the Bulletin made gains in October: shares in China and Hong Kong, however, did not react well to Xi Jinping's third term. As we report below, there are real fears that he will put political ideology, and his zero Covid policy, ahead of economic growth.

As always, let us look at all the news and its impact on the stock markets we cover in the Bulletin.

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Ukraine

October began with the US committing a further $625m (£538m) in defence aid to Ukraine following a telephone conversation between Presidents Zelenskyy and Biden. This takes the total US spend to date to $16.8bn (£14.5bn) – a figure which has not gone down well with some of the country's more right-wing commentators.

The month's first significant event in the conflict came a few days later when a huge blast destroyed sections of a bridge leading to Crimea – both strategically important and a symbol of Russia's annexation of Crimea in 2014.

Retaliatory strikes across Ukraine quickly followed and – still evidently not satisfied with progress – in mid-month, Putin sacked two of his senior military commanders and appointed General Sergey Surovikin to lead the next phase of the conflict. Surovikin is apparently known as 'General Armageddon', which may give some clue to future Russian tactics.

Ukraine has huge, untapped gas supplies in the Dnipro-Donets basin, and held talks with American drillers about pumping this gas to Europe, reducing the region's dependence on Russian gas – and presumably making Europe more willing to supply Ukraine with the weapons it now needs.

October saw China order all its citizens to leave Ukraine. Whether this was in response to the escalation of Russia's shelling following the attack on the bridge, or whether China knows of Putin's further plans, is impossible to say. What we can say is that the war has now lasted for eight months, and there is no end – either military or diplomatic – in sight.

The month ended with another twist to the downward spiral as Russia suspended its participation in the grain deal struck in the summer. This followed what it described as a 'massive' drone attack on its Black Sea fleet, and prompted the ominous Sunday Telegraph headline, 'Food prices to surge after Putin chokes grain supply.'

United Kingdom

Many of the notes we made in the early part of the month – 'Kwarteng to bring forward debt plan from November 23rd – were subsequently rendered irrelevant by the events mentioned above. The medium term fiscal statement, at one time due to be delivered on October 31st, has now been pushed back to Thursday November 17th and upgraded to a full Autumn Statement.

The statement – which will come with forecasts from the Office for Budget Responsibility – is expected to detail billions of pounds worth of public spending cuts in an attempt to reassure the markets about the stability of the UK economy. The new Chancellor has said he is willing to take 'politically embarrassing' decisions.

The beginning of October was turbulent, to say the least. Kwasi Kwarteng swiftly U-turned on his decision to scrap the 45p tax rate, saying it was a 'distraction'. A day later, he was forced to bring forward his debt cutting plan from November 23rd. Small wonder that ratings agency Fitch downgraded its outlook for UK government debt from 'stable' to 'negative,' which put further pressure on the pound.

Kwarteng's position had become untenable and, as we reported in the introduction, the Prime Minister – with a new Chancellor calling the shots and the Bank of England supporting the pound – was forced to undergo a public humiliation which wouldn't have looked out of place on Game of Thrones.

Even away from politics, good news was hard to find in October. Figures for August showed that the economy had unexpectedly contracted by 0.3%, leading to fears of a recession. September saw inflation at 10.1% – back to a 40-year high – as the BBC reported that people 'are delaying turning their heating on'. The International Monetary Fund added to the gloom, saying that it expected inflation in the UK to peak at 11.3% before the end of the year.

Clearly the rising prices are impacting business, with City AM firstly reporting that company insolvencies in the second quarter hit their highest level since 2009, and a few days later suggesting that '50,000 small businesses in London could collapse'. While that last headline might seem a shade alarmist, there is no doubt that the coming year will be a very challenging one for our clients who own and run SMEs.

What about jobs in general and the nation's high street? The month got off to a bad start with Tesco reporting first half profits sharply down on last year. The figure of £413m was 64% down on the first six months of 2021, as the supermarket chain warned that 'shoppers are watching every penny'.

A day later, City AM was reporting that high street spending had 'slumped', with the rate of footfall increase post-Covid slowing sharply, with 'shoppers cutting back on shopping sprees'. The counter-argument to that, of course, is that shoppers simply went online – but as we will see in the US section, Amazon also reported disappointing figures.

United Kingdom

There were two pinpoints of light at the end of the tunnel. The unemployment rate fell to 3.5%, the lowest figure recorded for 50 years. And we may finally be returning to the office, at least in London. Restaurant chain Itsu declared that the capital was ‘back in business’, with increasing numbers of customers being served from Monday to Friday.

And what many of our clients have waited so long for might soon be here. ‘Savers rates finally on the move’ reported the BBC. It is, of course, the flipside of the recent higher mortgage rates, but it appears that there is finally some real competition emerging in the savings market. ‘Experts say banks and building societies are leapfrogging each other on best buy tables,’ said the story – music to the ears of many of our clients.

It is impossible, though, to leave the UK section anywhere other than back with the new Prime Minister and Chancellor. For the time being, their appointment seems to have calmed the markets, with both the pound and the FTSE ultimately making gains in October. Sunak ‘not perfect but the right choice for now’ was how one commentator put it, and that appears to be the view of the markets. Although UK Government debt continues to rise, the cost of servicing it is, at least for now, coming down.

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Europe

While the debate about a windfall tax on energy firms rages on in the UK, the EU has made its mind up.

The 27 member bloc has confirmed it will impose a windfall tax on energy companies' profits, aiming to raise funds to provide relief for families and businesses across the continent. The measures include a levy on fossil fuel companies' surplus profits made in 2022 or 2023, and another levy on excess revenues low-cost producers make from the rising electricity costs.

At the same time, Sweden all but accepted that it will face power shortages this winter. It was hit by a dry and relatively windless summer, meaning less energy was generated from renewables: in addition the country's nuclear power plants are not yet ready to supply consumers.

The Swedish prosecution authority declared the area around the ruptured Nord Stream pipelines a 'crime scene', banning divers and vessels from being within 5.8 miles of the leaks.

There were more twists in the energy tale in the middle of the month, when the biggest oil refinery in Europe, Shell's Pernis in the Netherlands, suffered what was described as a 'malfunction'. This came on top of the pressure on fuel supplies caused by a wave of strikes in France.

In company news, Porsche overtook Volkswagen to become Europe's most valuable car maker, with shares surging to €93 (£80) before stabilising at around €91 (£78), to give the company a valuation of €84bn (£72bn) and take it past Volkswagen.

Long time readers of this Bulletin will remember the travails of Deutsche Bank. Mired in scandals and seemingly-endless losses it was long seen as the 'sick man' of the global banking sector, but a turnaround under Christian Sewing has just seen the bank record its ninth successive quarterly profit, making €1.12bn (£961m) in the three months to September, up from €194m (£166m) in the same period last year.

Europe's stock markets took their cue from Porsche and Deutsche Bank rather than continuing worries about energy, with both the German and French markets rising by 9% in the month. They closed October at 13,254 and 6,267 respectively.

United States

For much of this year, we have been reporting on Elon Musk's on/off pursuit of the social media platform Twitter. The deal was finally concluded with the world's richest man paying $44bn (£38bn) for the company, walking into the headquarters building carrying a sink and promptly cutting a swathe through the senior management team.

Quite what Musk's plans are for the company remain to be seen: there is talk that he wants to create a 'super-app' that will take care of every aspect of our lives, much like some of the apps in the Far East. You suspect we won't have long to wait to find out…

Staying with Elon Musk, October was a good month for Tesla. A few days after the company announced that it would deliver its first trucks in December – Pepsi has apparently ordered 100 – came the news that it had sold 83,135 China-made vehicles in September. That was a new record, and up 8% on August, according to figures from the China Passenger Car Association.

If October was a good month for Tesla, it was emphatically not a good month for some of the tech giants, who were badly hit by the slowdown in the economy and the consequent caution on the part of advertisers. Both Google and Microsoft reported slowing sales growth – Alphabet, the parent company of Google and YouTube reported sales up just 6% in the third quarter – while Facebook shares slumped to a six-year low.

The chill wind also blew through Amazon: analysts were disappointed with the 3rd quarter figures, as revenue growth slowed to 27% from the 33% recorded in the second quarter. The company said it expected the challenges of inflation, rising fuel costs and weaker demand to persist 'through the holiday quarter'. CEO Brian Olsavsky said the company 'will be looking at our cost structure and areas where we can save money'. The net result of all this was a fall of nearly 20% in the company's shares, wiping $202bn (£174bn) off the company's value.

In the wider US economy, jobs growth slowed to 263,000 new jobs in September – the lowest figure since April 2021 – as the fight against inflation continued. Analysts continue to expect further rises in US interest rates.

We have mentioned above the EU's decision to impose a windfall tax on energy companies. How they must wish they could get their hands on Exxon Mobil: the company – headquartered in Irving, Texas – is expected to unveil another quarter of huge profits in the coming week, powered by high natural gas prices. The company is currently on track for an expected $54.8bn (£47.2bn) profit this year – more than its cumulative earnings since 2018.

October also saw the price of coal go above $200 (£172) a ton for the first time ever. We have written previously about China greatly expanding its coal production: you suspect that in the current climate plenty of countries will be following suit.

On Wall Street, it was a similar picture to the markets in London, Frankfurt and Paris. The Dow Jones index was up by an impressive 14% to close the month at 32,733. The more broadly-based S&P500 index rose 8% to 3,872.

Global

Far East

There were two major stories in this section of the Bulletin last month: confirmation that Xi Jinping is effectively 'ruler for life' in China, and the Hong Kong stock market.

Let's begin with what appears to be absolute power. October brought us the Communist Party Congress in China, an event held once every five years. Previously it has been the rule that a Chinese leader can only serve two five-year terms but, as we have reported in previous Bulletins, that rule has been removed.

The Congress saw Xi Jinping handed a third term as President, effectively making him the most powerful Chinese leader since Mao. What was noticeable about the Congress – apart from Xi's fierce defence of his 'zero Covid' policy – was that the Politburo Standing Committee, the 'seven men who rule China', now consists wholly of Xi loyalists. As several commentators pointed out, Xi prizes loyalty far more than ability.

Widely believed to be 'number two' to Xi is Li Qiang, the Shanghai party chief. Earlier this year, there was speculation that Li's career was doomed because of the two-month lockdown in Shanghai. But he is a close ally of Xi, showing him absolute loyalty, and is now likely to be China's next Premier and, effectively, the man in charge of the Chinese economy.

…And hence the concerns, especially in Hong Kong. The lockdown in Shanghai did huge damage to the Chinese economy but was deemed worth it – and was ruthlessly enforced – as part of the zero Covid policy. The fear now is that in his third term, Xi Jinping will put ideology first and economic growth a distant second. Bloomberg reported that Chinese workers are already experiencing the worst job market prospects on record as the economy continues to slow.

Shares in tech companies like Alibaba and Ten Cent fell sharply on the confirmation of Xi's third term, and the market in Hong Kong was especially badly hit: on the 20th of the month the market stood at 16,280 – a nine-year low. But as we will see below, the damage didn't end there.

Away from China, the other big story was action by the Bank of Japan to support the yen. Speculation was rife on how much the BoJ had spent selling dollars and buying yen: the figure was eventually put at 2.8 trillion yen – equivalent to $19.7bn or £17bn. Did it work? At the time of writing this section of the Bulletin, the Yen was trading at 147 to the dollar – with 140 generally held to be a crucial support level.

So we come to the region's stock markets. At the beginning of this year, Hong Kong's Hang Seng index was trading at 23,398. It closed September at 17,223 – and it closed October at 14,687, a fall of 15% for the month. For the year as a whole, the Hong Kong market is down by 37%. China's Shanghai Composite Index also fell, albeit by a much more modest 4% to 2,893. In complete contrast, the markets in Japan and South Korea both enjoyed good months, rising by 6% to close at 27,587 and 2,294 respectively.

Global

Emerging Markets

We have, as is now customary, covered the war in Ukraine in its own section above. It may, though, be appropriate to ask, 'what's going on in Russia?' Rumours of a coup have swirled around all year and October brought the sudden death of another of Vladimir Putin's long-time allies. Nikolay Petrunin, a multi-millionaire, close confidant of the President and dubbed the 'Gazprom wonderkid' died, reportedly from complications associated with Covid. The official line did little to quell speculation, with his death coming just five weeks after that of the head of Russia's biggest privately-held oil producer.

Rumours also continue to persist over Putin's health and the inevitable question, 'who might take over from him?' One name that came to the fore in October was Sergei Kiriyenko, the so-called 'Viceroy of the Donbas' (everyone in Russia seems to have a nickname). A Kremlin insider and the man credited with the recent 'successful' referenda in the Donas region, Kiriyenko is apparently the man Putin wants as his successor – at least for this week.

Everyone reading this Bulletin will know that the world's population continues to increase, with the latest figures suggesting that the number of people on our planet has doubled since 1973. At that point, there were only six countries with a population of over 100m: today there are 15, with India expected to overtake China next year to become the world's most populous country, with an estimated population of 1.43bn (compared to 1.425bn in China). India and China are followed on the list by Pakistan, Nigeria, Indonesia and the US.

The month ended with a close-run election in Brazil, with former President Lula challenging current incumbent Jair Bolsonaro. Left-winger Lula beat Bolsonaro by five percentage points in the first round of voting, but the run-off was expected to be much tighter. In the event the 77-year-old Luna – who served two terms as president between 2003 and 2010 but was subsequently accused of corruption – prevailed, winning 50.89% of the vote.

What of the region's stock markets in October? Like most of the world's stock markets they made gains in October. The Russian market led the way with a gain of 11% to end the month at 2,167. The Indian market was up by 6%, breaking through the 60,000 barrier to reach 60,747. In Brazil, the market rose by 5% to close October at 116,037.

In other news

And so we come to the ‘And finally…’ section of the Bulletin – a bastion of sanity compared to the recent goings-on in Westminster.

Sadly, bizarre stories were in short supply in October so we must content ourselves with discussing cheese – and the end of the world.

Older clients will remember apocryphal stories of the European Union’s ‘wine lake’ – the overproduction of wine in the EU around 2005-7, with the surplus wine having to be turned into industrial alcohol.

Quite what the equivalent for cheese is we’re not sure – mountain? Wedge? – but the USA is going to need to find a word for it. A report revealed that the country had approximately 1.5bn pounds of cheese in cold storage as of April 2022, worth an estimated $3.4bn (£2.9bn).

The largest constituents of this surplus are processed American cheese (there has been a long-running overproduction of milk in the US), Swiss cheese and good old Cheddar. Where does the country store that much cheese – enough to make the Statue of Liberty out of cheese many times over? Much of it is, apparently, stored in a huge underground facility just outside Springfield, Missouri.

Speaking of going underground, October brought news of Oppidum, a Swiss company which makes luxury underground bunkers in which the ultra, ultra-rich can ride out the coming apocalypse. The L’Heritage bunkers – designed by a French architect – can obviously be customised to an owner’s taste, and can include extra facilities such as an extra-large garage (presumably for Mad Max style vehicles), a private art gallery, meeting lounges, indoor gardens and a spa with a private pool.

Security is, of course, paramount, with the fortified blast doors controlled by a system that scans a resident’s face, iris, palm and fingerprints. The bunkers are available in the UK, EU and United Arab Emirates. Plus, inevitably, the USA.

So it’s good to know that whatever happens, Elon Musk will be safe. There may be an apocalypse, ladies and gentlemen, but don’t worry. You’ll still be able to tweet about it…

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