

Charts of the Month

October 2023

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Month in Review: October 2023

Three key themes have shaped the market discourse this month:



The New Global Economy

Investors around the world are paying more attention to the broader macroeconomic picture, rather than to market-specific events. The data proves them right: the global economy is on shakier grounds than previously thought.



Commodity Markets Update

Given the increased geopolitical tensions, commodity markets offer hidden insights into how other asset classes may perform going forward. Here we look at gold and oil in particular.



The World of ETFs

A series of recent articles in the financial press have highlighted the benefits and risks of the growing ETF universe.

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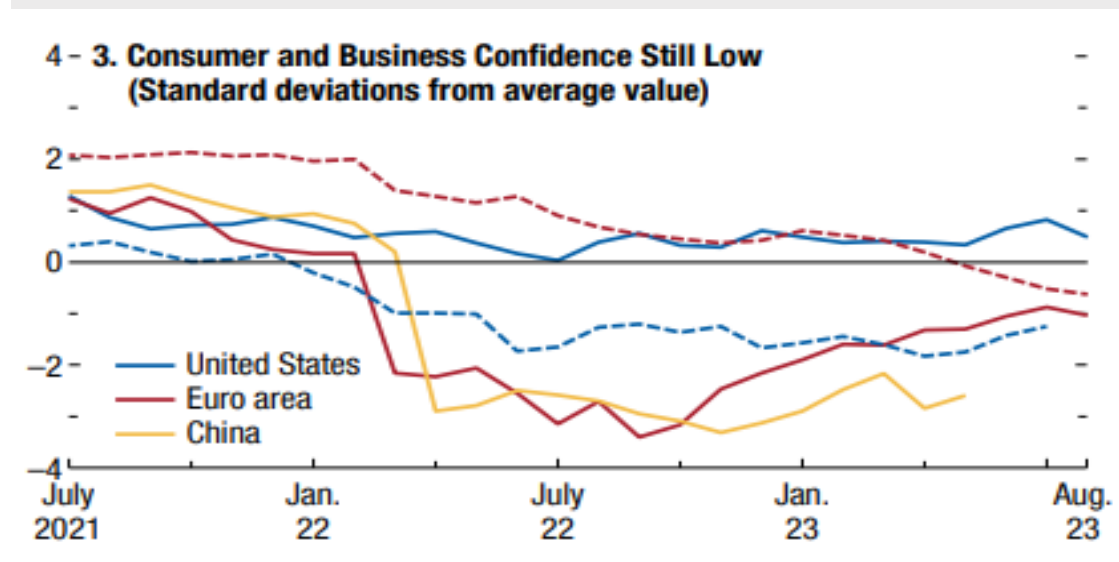
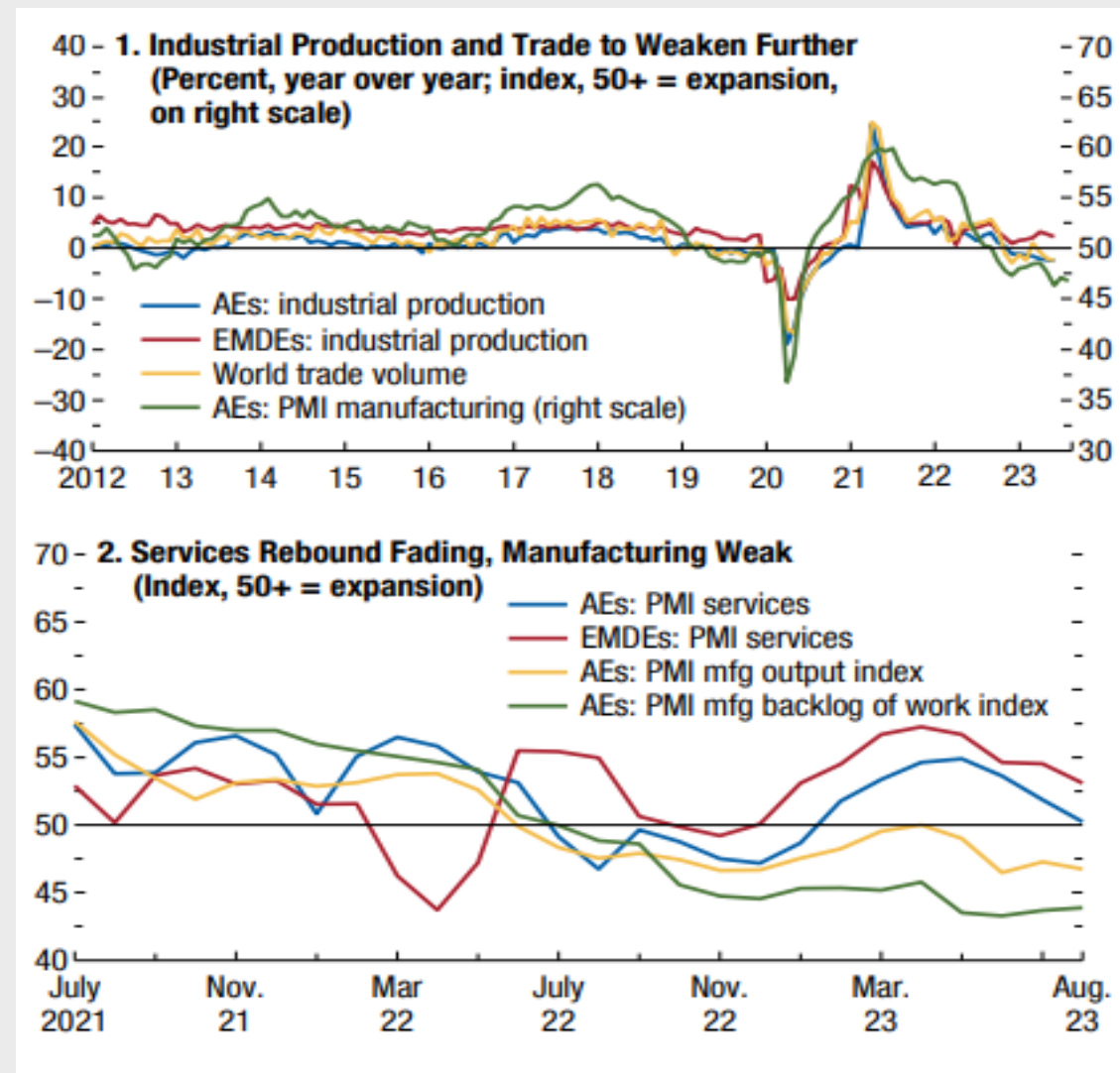
The New Global Economy

How will the global economy fare under revived geopolitical tensions?



The global economy is slowing down...

Slower Growth Momentum Ahead



“Leading indicators for services now indicate weaker growth or declining output [...] in economies that previously enjoyed a strong rebound. [...] Recent data releases point to a wide-ranging slowdown or contraction in the manufacturing sector, with related declines in industrial production, investment, and international trade in goods. This weakness reflects the combined effects of the post-pandemic shift in consumption back toward services, weaker demand stemming from a higher cost of living, the unwinding of crisis policy support, tighter credit conditions, and general uncertainty amid intensified geoeconomic fragmentation.”

Read IMF’s full paper:

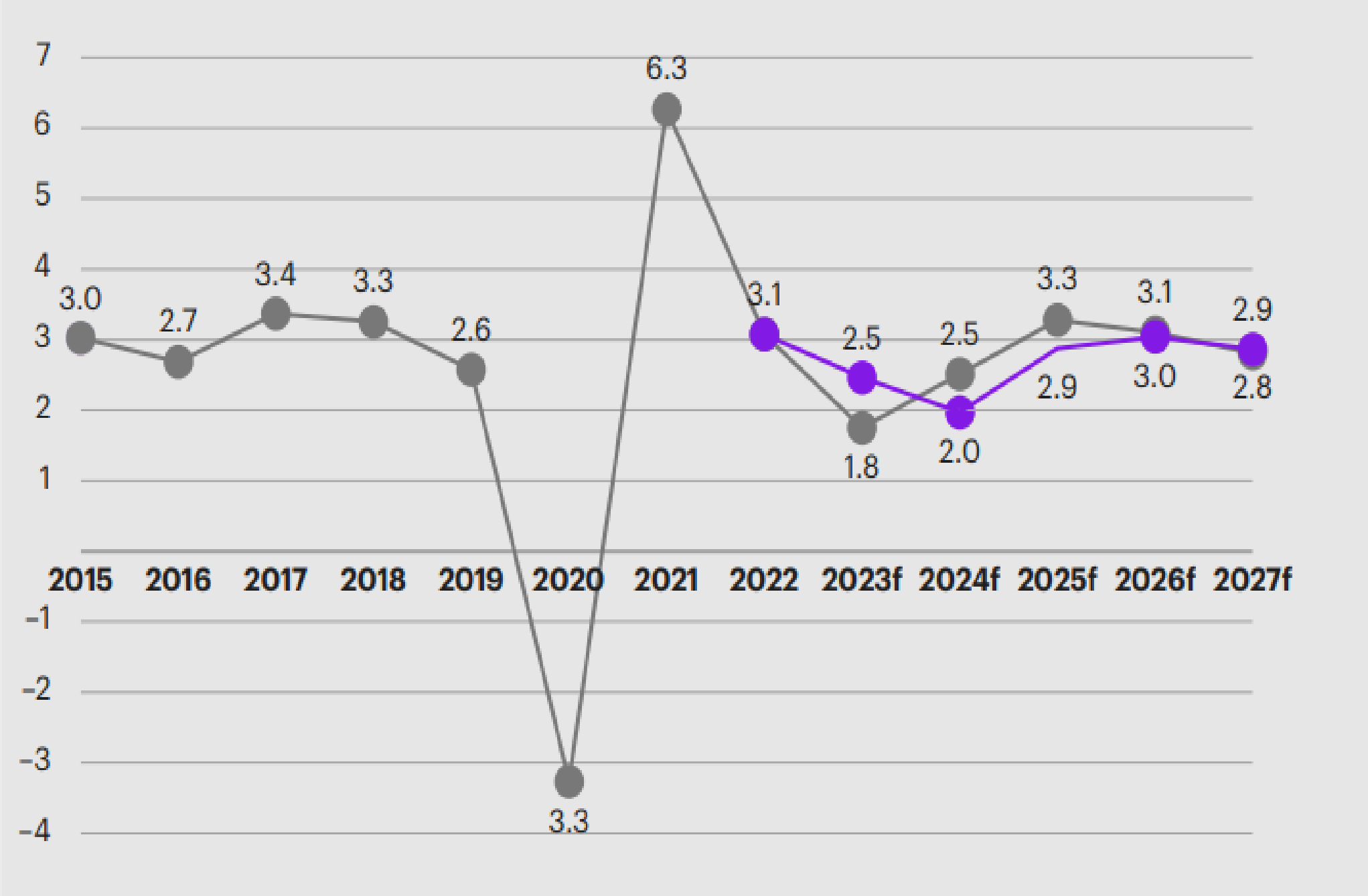
[World Economic Outlook: Navigating Global Divergences Oct 2023 \(IMF\), October 2023](#)

Source: IMF

Note: : Solid lines in panel 3 show consumer confidence, and dashed lines denote business confidence. AEs = advanced economies; EMDEs = emerging market and developing economies; mfg = manufacturing; PMIs = purchasing managers’ indexes.

...forecasts remain below pre-pandemic levels...

Global economic output (year-on-year percentage growth)



“Significant headwinds remain, however. We are expecting to see annual average growth global output of 2.6 percent over the 2023 - 2027 forecast period [...]”

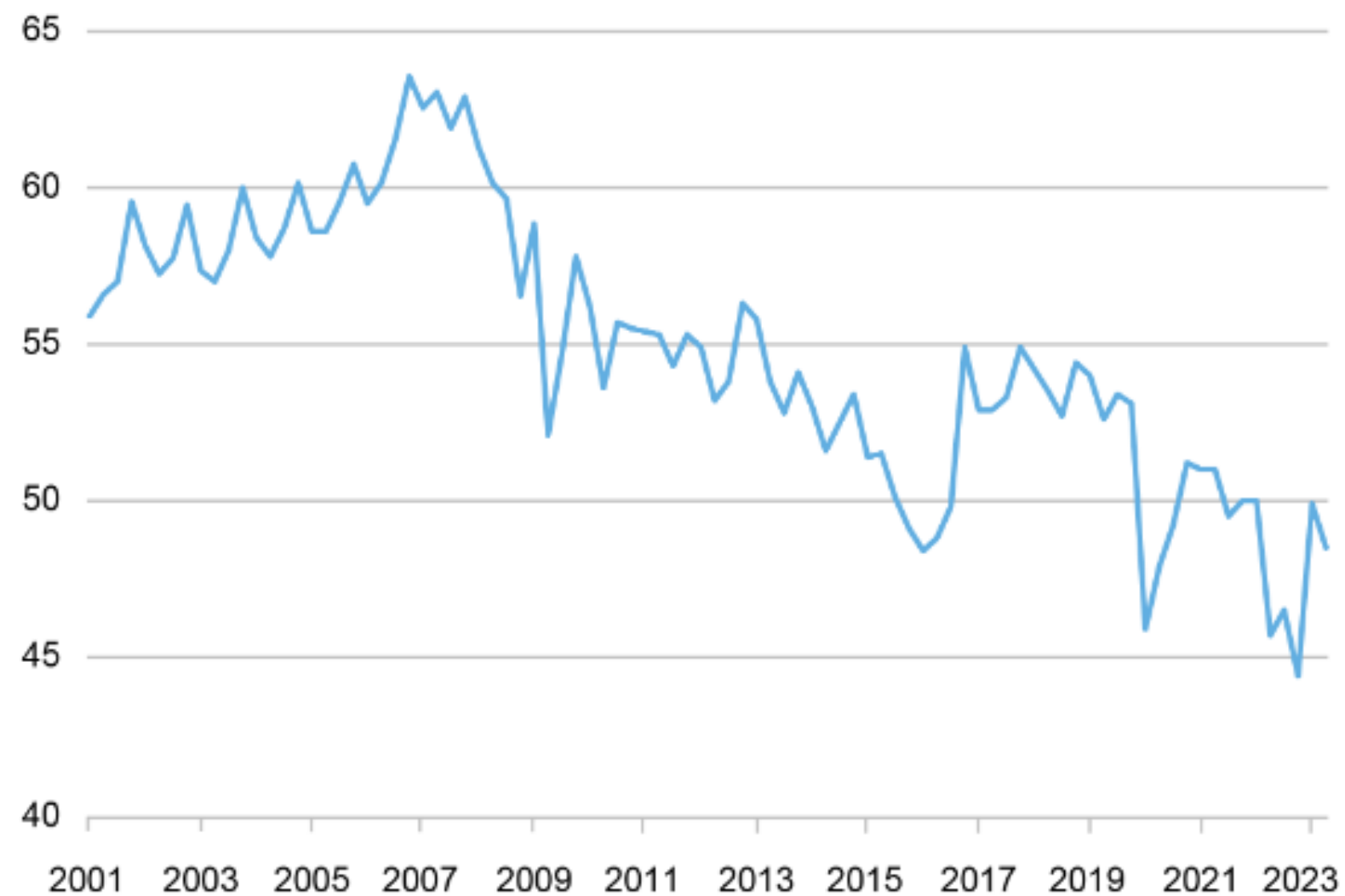
Read Kearney’s full paper:

[Global Economic Outlook 2023-2027: 2H 2023 \(Kearney\), October 2023](#)

Sources: Kearney
Note: The grey line represents GDP forecast in H1 2023, and the purple line represents GDP forecast in H2 2023

...especially as the world's growth engine continues to slow down.

Confidence Survey Shows Optimism about the Future Has Eroded



“Extended pandemic lockdowns in China further exacerbated balance sheet damage among the most vulnerable households impacted by the collapse in economic activity, job losses, pay cuts, and a weaker social safety net. While households’ pessimism around the future has been declining for some time, recent surveys show households’ confidence in the outlook for future income gains hovering near the lowest level on record [...].”

Read FRBNY’s full paper:

[Why Are China’s Households in the Doldrums? \(FRBNY\), October 2023](#)

Source: FRBNY

Note: The data shows prospects for future income, using a diffusion index

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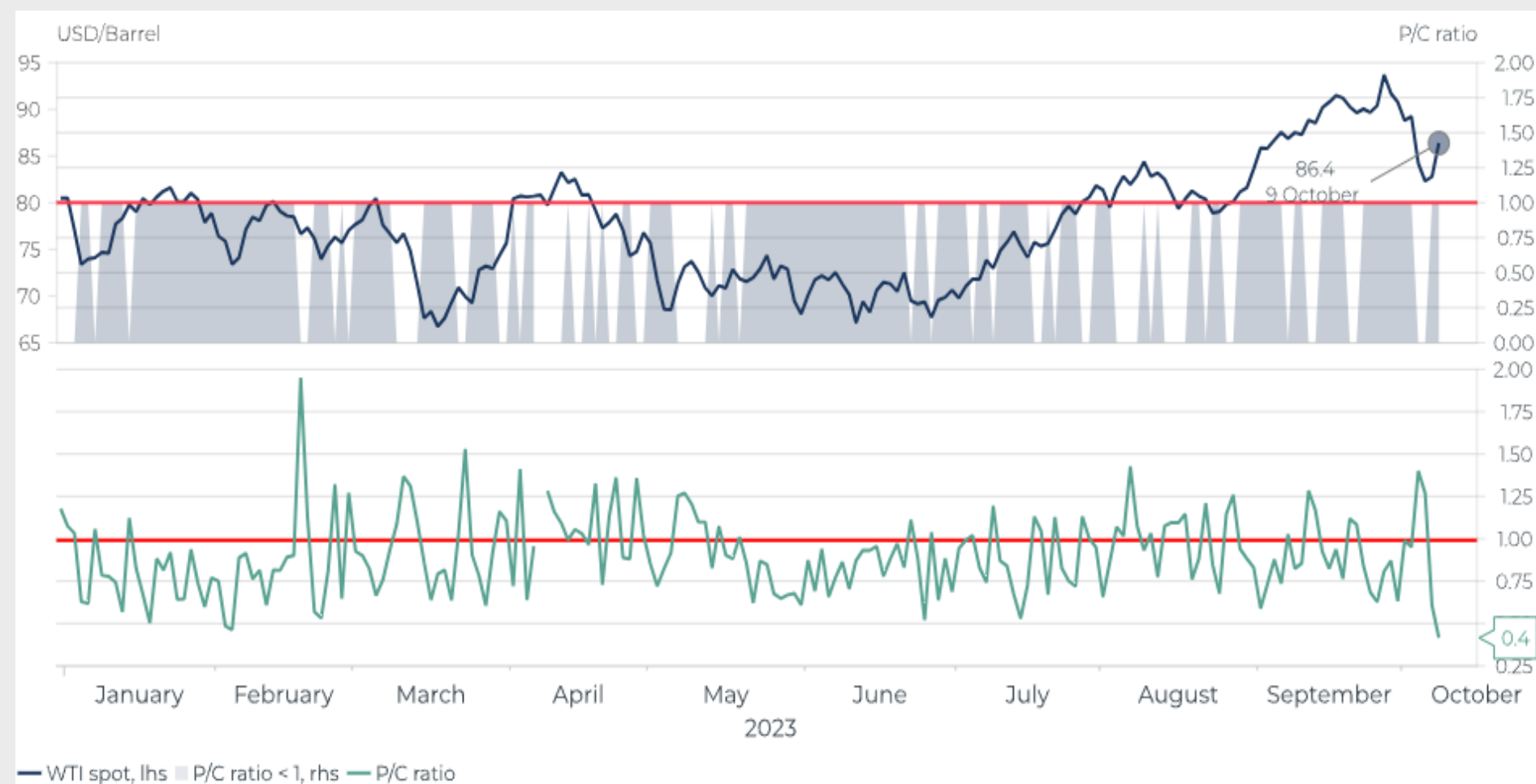
Commodity Markets Update

Navigating chaos: between oil and gold



Recent geopolitical events in the Middle East rocked oil markets...

WTI crude oil Put/Call volume ratio



“[...] there was a steep decline in the ratio of put volume versus call volume for the West Texas Intermediate (WTI) oil price, as the second panel of the next chart shows. This is indicative of upward price risks.

A put/call ratio below 1 implies there are more expectations of a price rally versus a drop. On Monday, the put/call ratio dipped sharply to about 0.4 from closer to 1.25 earlier.

The chart’s top panel charts the WTI price in 2023 and shows periods shaded in grey where the put/call ratio was below 1; broadly, these coincide with rising crude prices.”

Read Macrobond’s full paper:

[Assessing Scenarios for Oil amid Unrest in the Middle East \(Macrobond\), October 2023](#)

...the risk of higher oil prices does not bode well for the global economy...

World oil demand in 2024*, mb/d

World oil demand	2023	1Q24	2Q24	3Q24	4Q24	2024	Change 2024/23	
							Growth	%
Americas	24.97	24.71	25.33	25.52	25.03	25.15	0.18	0.72
<i>of which US</i>	20.22	20.06	20.59	20.62	20.19	20.37	0.14	0.70
Europe	13.45	13.17	13.53	13.92	13.41	13.51	0.06	0.41
Asia Pacific	7.39	7.84	6.98	7.19	7.65	7.41	0.02	0.29
Total OECD	45.81	45.71	45.84	46.64	46.09	46.07	0.26	0.56
China	16.02	16.30	16.52	16.69	16.88	16.60	0.58	3.62
India	5.38	5.63	5.64	5.44	5.69	5.60	0.22	4.09
Other Asia	9.26	9.60	9.73	9.39	9.54	9.57	0.31	3.35
Latin America	6.68	6.79	6.88	6.95	6.84	6.87	0.19	2.84
Middle East	8.64	8.91	8.76	9.41	8.98	9.02	0.38	4.40
Africa	4.54	4.70	4.42	4.60	5.01	4.69	0.15	3.31
Russia	3.79	3.89	3.70	3.89	4.08	3.89	0.10	2.65
Other Eurasia	1.17	1.27	1.24	1.08	1.28	1.22	0.04	3.77
Other Europe	0.79	0.81	0.78	0.77	0.84	0.80	0.01	1.75
Total Non-OECD	56.25	57.90	57.68	58.22	59.14	58.24	1.99	3.53
Total World	102.06	103.62	103.51	104.85	105.23	104.31	2.25	2.20
Previous Estimate	102.06	103.76	103.43	104.74	105.28	104.31	2.25	2.20
Revision	0.00	-0.15	0.09	0.12	-0.05	0.00	0.00	0.00

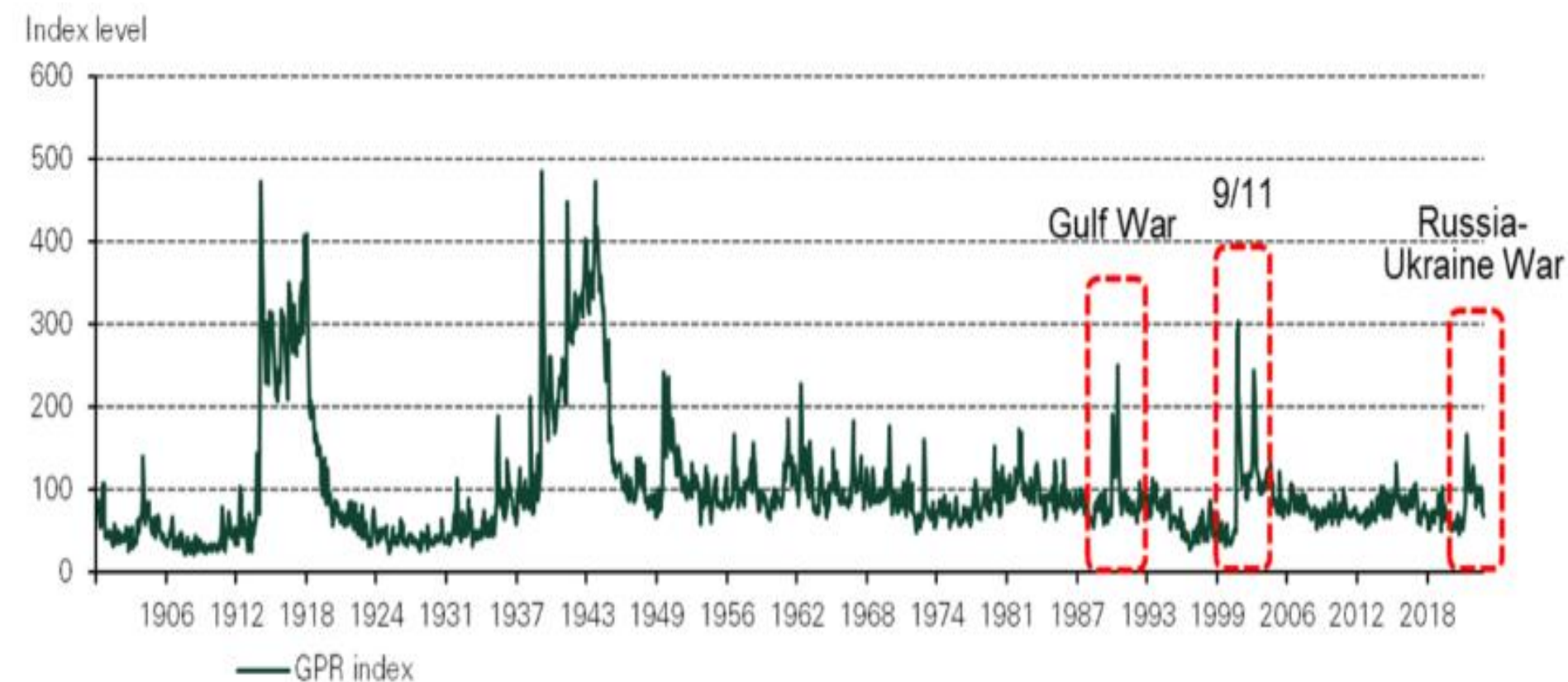
“In 2024, [...] world oil demand is expected to rise by 2.2 mb/d y-o-y, with total world oil demand projected to average 104.3 mb/d.”

Read OPEC’s full paper:

[Monthly Oil Market Report Oct 2023 \(OPEC\), October 2023](#)

...but can gold save investors from this age of volatility? History says “yes.”

The Iacoviello GPR index consistently captures historical acts and threats of geopolitical tension



“As a crisis hedge, gold has a solid history, driven by its lack of credit risk and negative correlation to risk assets. But it is likely that geopolitical tensions on their own might influence gold returns, even when accounting for the change in other factors. [...] The GPR index has a reliable track record of reflecting observed impacts to underlying economic variables at a global level.”

Read World Gold Council’s full paper:

[What’s The Impact Of Geopolitics On Gold? \(World Gold Council\), October 2023](#)

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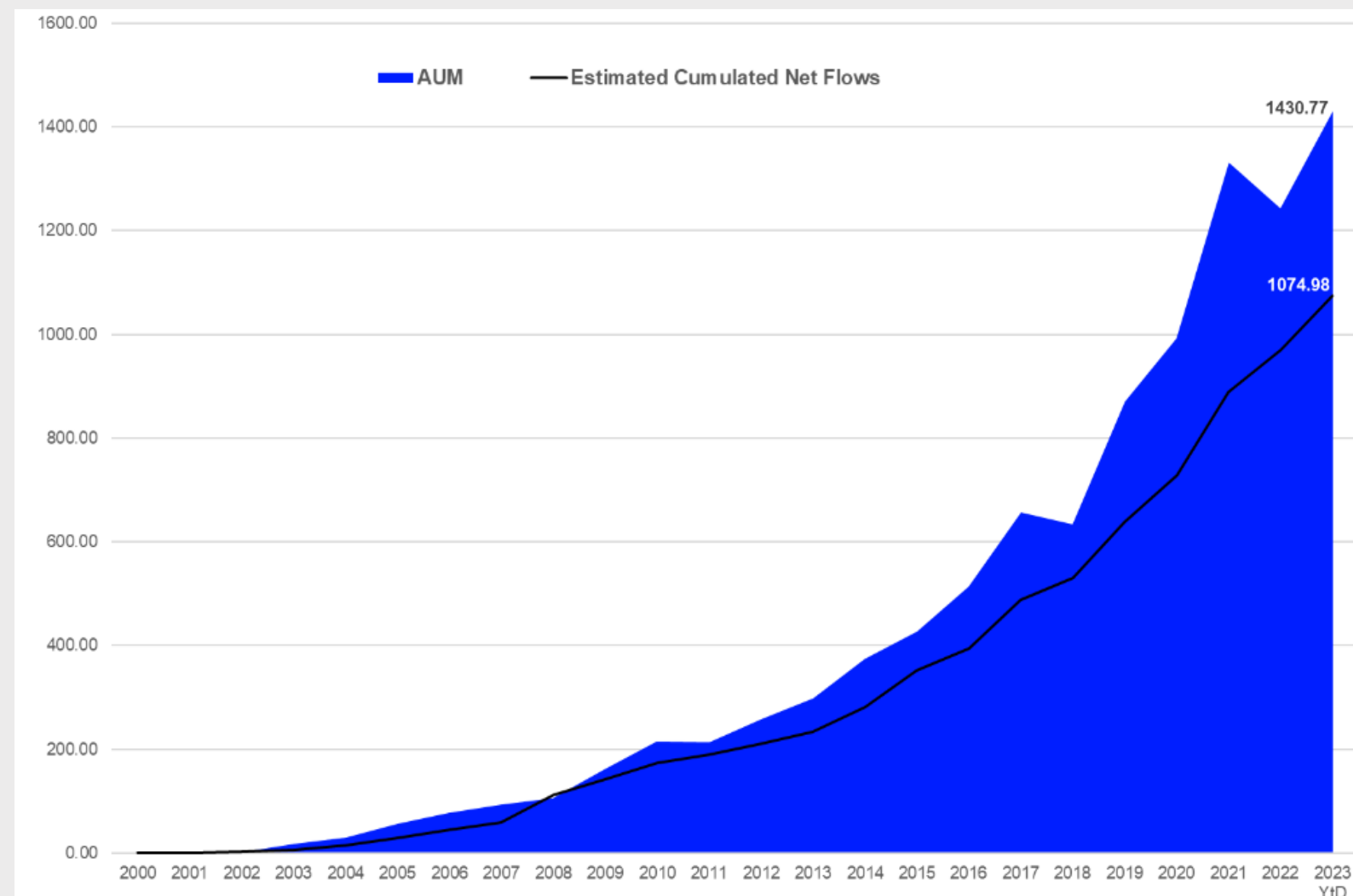
The World of ETFs

Are ETFs still a good bet?



Global ETF industry has exploded in recent years...

Assets Under Management in the European ETF Segment by Asset Type, January 1, 2000 – September 30, 2023 (Euro Millions)



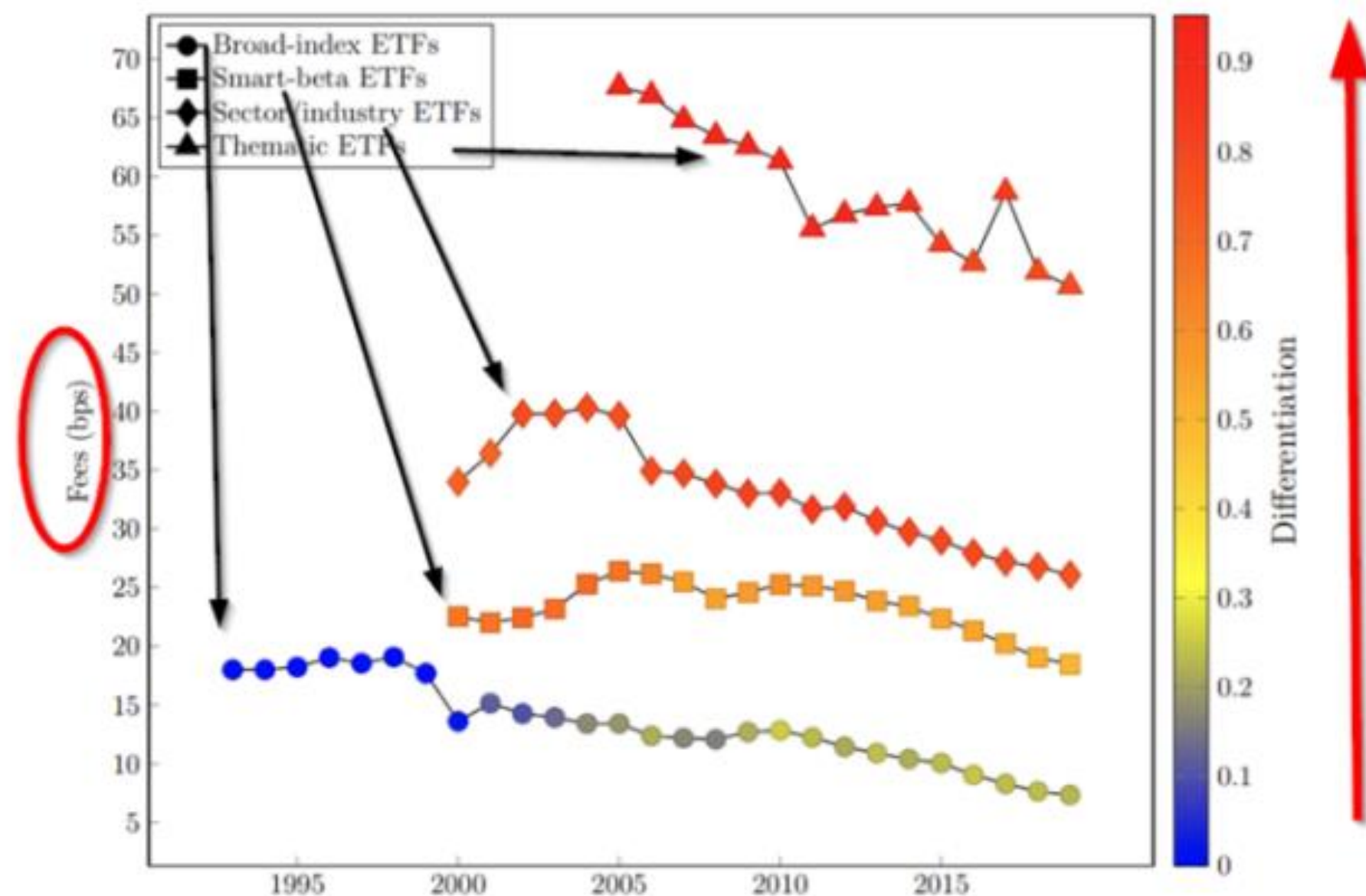
“The performance of the underlying markets led, in combination with estimated net inflows, to increasing assets under management (from €1,242.5 bn as of December 31, 2022, to €1,430.8 bn at the end of September 2023). At a closer look, the increase in assets under management of €188.3 bn for the year 2023 so far was driven by the estimated net inflows (+€105.2 bn), while the performance of the underlying markets contributed (+€83.0 bn) to the increase in assets under management.”

Read Refinitiv’s full paper:

[Global ETF Industry Year-to-date Review: September 2023 \(Refinitiv\), October 2023](#)

...but this growth is killing investor choice...

The evolution of ETF species



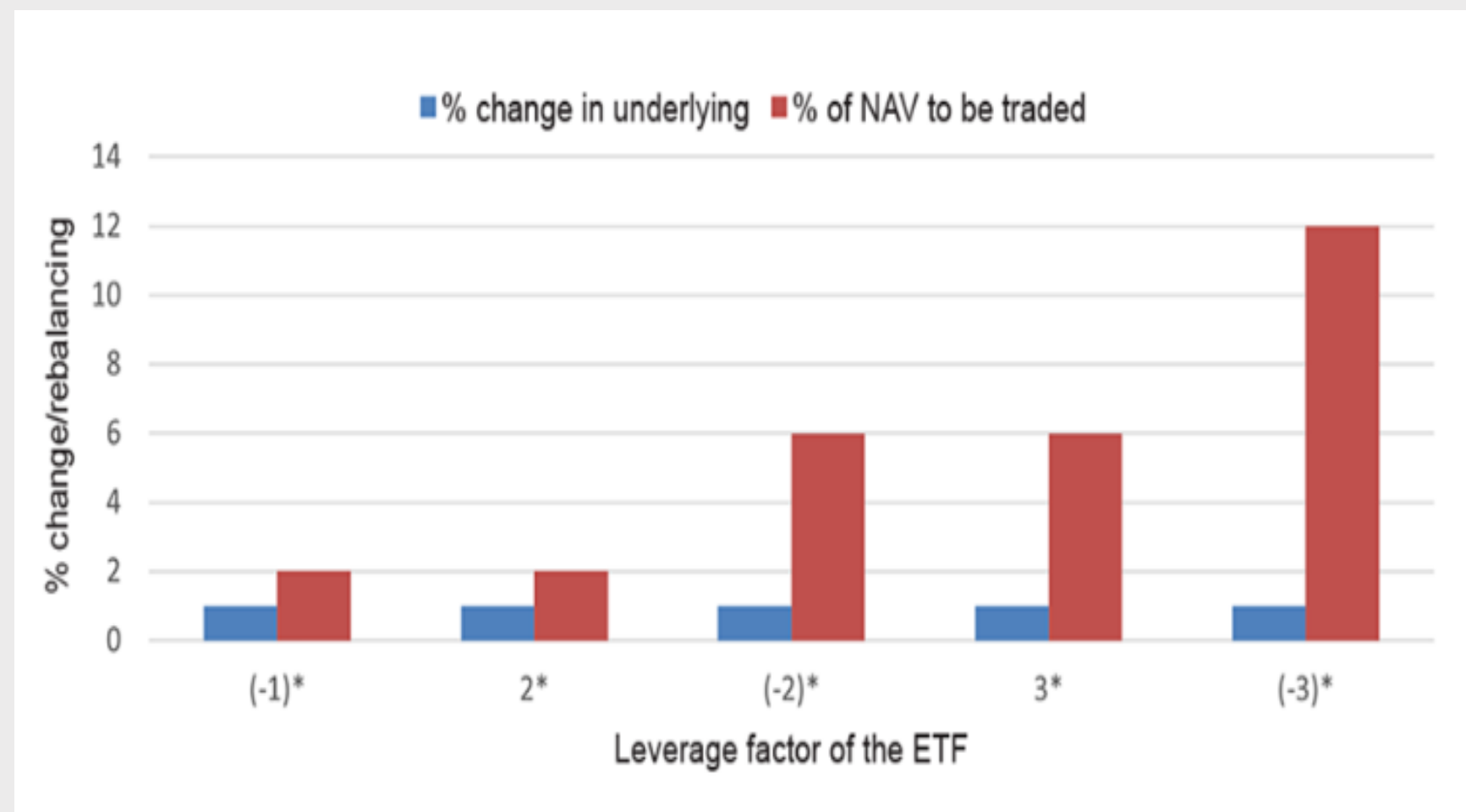
“The implications of the competitive landscape for ETFs are mixed. On one hand, they have truly democratized investing. Investors now have access to the benefits of financial markets in one instrument that provides diversification at very low fees. Recently advertised fees on broad-based bond funds have fallen to 3bps. On the other hand, ETF providers have been able to satisfy investor demand for increasingly specialized products even though the evidence suggests they underperform. Are investors becoming worse off due to the effectiveness of the marketing strategies by providers of specialized ETFs?”

Read Alpha Architect’ full paper:

[The Democratization of Investing and the Evolution of ETFs \(Alpha Architect\), August 2023](#)

...leading to some potentially risky but innovative ETF products.

Rebalancing flows for differently leveraged ETFs



“Leveraged ETFs are designed to deliver a multiple of the return on a basket over a one-day period, typically the underlying basket 2* or 3*, while Inverse ETFs are designed to deliver the opposite of the return on a basket (basket return -1*). [...]”

On 13 September 2022, equity markets had their largest sell-off since 2020, with the Nasdaq 100 down 5.2% and the S&P 500 down 4.3%. [...] Nomura Holdings Inc. estimate L&I ETF rebalancing flows to be US\$15.5 billion on the day, and although our precise estimates of the flows differ [...], we agree that these flows are likely to have amplified the sell-off.

Selling flows hitting a market towards the end of a down day risk a sudden and severe drop in prices and liquidity, and significant losses can occur – a flash crash.”

Read Wellington Management’ full paper:

[Leveraged and Inverse ETFs – The Exotic Side of Exchange-traded Funds \(Bank Underground\), October 2023](#)

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