

COMPANIES & MARKETS

The day in the markets

What you need to know

- Dollar rises to highest level since 2002 as pound and euro retreat
- S&P 500 climbs a further 0.6% while Nasdaq Composite gains 0.5%
- Hong Kong, China and Japan bourses all lose ground

The dollar hit a new 20-year high yesterday as investors braced themselves for an interest rate decision by the US Federal Reserve.

An index measuring the greenback against six peers rose almost 0.8 per cent to its highest level since 2002. The pound fell 0.4 per cent to \$1.133 and the euro lost 0.9 per cent to consolidate below parity at \$0.988. An MSCI index of emerging market currencies slipped 0.3 per cent.

Those moves came ahead of the conclusion of the latest meeting of the US central bank yesterday, where rate-setters were expected to raise borrowing costs 0.75 percentage points — marking the third consecutive increase of such magnitude. The Fed's current target range stands at 2.25 to 2.5 per cent.

Victoria Scholar, head of investment at the fund supermarket Interactive Investor, said that a combination of haven demand and the Fed's expected rate rise were driving demand for the dollar against most major currencies.

"The dollar is rallying more aggressively against the euro than the pound given that the Bank of England on Thursday is expected to follow the Fed with a similarly hawkish rate increase. The interest rate differential allure of the dollar post the Fed is only likely to last one day against the pound if we see a similar 0.75 percentage

US dollar rips higher

Dollar index



Source: Refinitiv

point hike from the Bank of England." Wall Street's S&P 500 share gauge was up 0.6 per cent by the late morning in New York, after closing the previous session 1.1 per cent lower. The Nasdaq Composite rose 0.5 per cent. In Europe, the regional Stoxx 600 rose 0.9 per cent and London's FTSE 100 rose 0.4 per cent.

Earlier in the day, Hong Kong's Hang Seng index slid 1.8 per cent and China's mainland CSI 300 fell 0.7 per cent. Japan's Topix lost 1.4 per cent.

In government debt markets, the two-year US Treasury yield added 0.04 percentage points to hit 4 per cent for

the first time since 2007, extending gains from the previous session. The yield on the 10-year Treasury note was steady at 3.56 per cent, close to an 11-year high.

John Vells, foreign exchange strategist for the Americas at BNY Mellon, said he expected the Fed would raise interest rates as high as 5 per cent early next year, above the 4 per cent peak currently priced in by market. The Fed's new forecasts would probably imply "a sustained period of high interest rates" instead of a quick "pivot" to monetary easing early next year, he said.

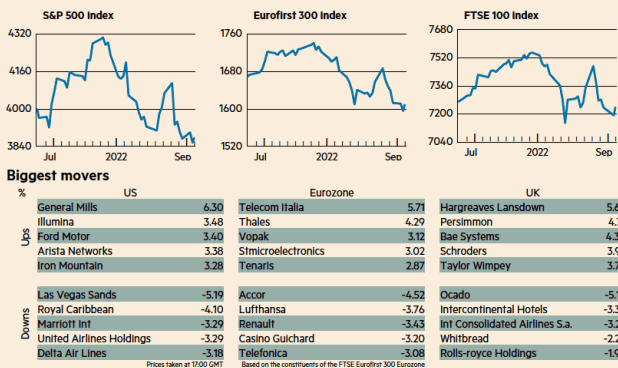
Chris Flood and Nikou Asgari

Markets update

	US	Eurozone	Japan	UK	China	Brazil
Stocks	S&P 500	Eurofirst 300	Nikkei 225	FTSE 100	Shanghai Comp	Bovespa
Level	3876.03	1608.88	2731.15	7237.44	3117.18	112448.03
% change on day	0.52	0.82	-1.34	0.63	-0.17	-0.33
Currency	\$ index (DXY)	\$ per €	Yen per \$	\$ per £	Rmb per \$	Real per \$
Level	110.783	0.988	144.125	1.133	7.053	5.182
% change on day	0.515	-1.200	0.271	-0.701	0.568	0.275
Govt. bonds	10-year Treasury	10-year Bund	10-year JGB	10-year Gilt	10-year bond	10-year bond
Yield	3.558	1.888	0.256	3.307	2.664	12.598
Basic point change on day	-10.60	-3.400	0.150	1.800	0.500	-3.200
World index, Commods	FTSE All-World	Oil - Brent	Oil - WTI	Gold	Silver	Metals (LME)
Level	391.86	90.17	83.36	1664.15	19.32	3684.50
% change on day	-0.04	0.13	0.19	-0.03	1.68	0.15

Yesterday's close apart from Commodities = 16:00 GMT; S&P, Bovespa, All-World, Oil = 17:00 GMT; Gold, Silver = London pm; the Bond data supplied by Tullett Prehn.

Main equity markets



Biggest movers

	US	Eurozone	UK
Up	General Mills 6.30 Illumina 3.48 Ford Motor 3.40 Arista Networks 3.38 Iron Mountain 3.28	Telecom Italia 5.71 Thales 4.29 Vopak 3.12 Stmicroelectronics 3.02 Tenaris 2.87	Hargreaves Lansdown 5.69 Persimmon 4.71 Bae Systems 4.30 Schroders 3.97 Taylor Wimpey 3.78
Down	Las Vegas Sands -5.19 Royal Caribbean -4.10 Marriott Intl -3.29 United Airlines Holdings -3.29 Delta Air Lines -3.18	Accor -4.52 Lufthansa -3.76 Renault -3.43 Casino Guichard -3.20 Telefonica -3.08	Ocado -5.18 Intercontinental Hotels -3.36 Int Consolidated Airlines S.a. -3.27 Whitbread -2.29 Rolls-royce Holdings -1.98

Prices taken at 17:00 GMT

Based on the constituents of the FTSE Eurofirst 300 Eurozone

All data provided by Morningstar unless otherwise noted.

Wall Street

Better than expected results sent General Mills to the top of the S&P 500 benchmark. The company behind Cheerios cereal and Häagen-Dazs ice cream reported earnings of \$111 a share for its fiscal first quarter, which was 11 cents above the Refinitiv-compiled estimate.

Jeff Harmenting, chief executive, said the group's ability to navigate a "highly volatile operating environment" gave it the leeway to raise its "full-year outlook for net sales, operating profit, and EPS growth".

The announcement of some ambitious medium-term targets pushed Coty higher. Sue Nabi, chief executive at the beauty group, said revenues were on track to double to \$500m to \$600m by 2025, aided by the doubling of skincare sales in three years.

Engineered materials supplier Glatfelter retreated after suspending its quarterly dividend as part of "efforts to optimise the operational and financial results of the business", it said.

Defence groups climbed following news that Russia's president planned to mobilise the country's army reserves to support its invasion of Ukraine. Raytheon Technologies, Lockheed Martin and Northrop Grumman all rose on signs the conflict could be entering a critical new phase. Ray Douglas

Europe

Uniper plummeted on news that it was being nationalised.

Finnish energy group Fortum, which owns a majority stake in Uniper, agreed to sell its entire holding to the German government for €1.70 a share, which equated to about €500m.

Uniper has been under considerable pressure this year following a large reduction in gas deliveries from Russia.

RBC Europe said this development was "effectively a sorry, but almost inevitable, end to Uniper as a listed entity".

Italian fashion group OVS jumped after chief executive Stefano Beraldo declared an "excellent" half-year performance.

Sales climbed 18 per cent compared with the same period in 2021 and was up 8.5 per cent against the pre-pandemic first half of 2019.

Beraldo expected "full-year results to significantly improve over the previous year" and said OVS would be returning more money to investors through a €20m boost to its share buyback programme.

Paris-listed OL Groupe, the parent company of Olympique Lyonnais, rose sharply following media reports that the Ligue 1 football team was set to be taken over. Sports newspaper L'Equipe said investor John Textor was getting help from financier Mark Afollior in his effort to buy the club. Ray Douglas

London

S4 Capital, the digital marketing group run by ex-WPP chief Martin Sorrell, rallied off the back of half-year results that settled "nerves", said CITI.

S4 reiterated its full-year guidance, having cut its earnings outlook in July in a move that sent its shares tumbling at the time. Even after yesterday's jump, S4 remained more than 70 per cent lower this year.

The group forecast "a significantly stronger second-half performance with a weighting to the fourth quarter".

Vodafone climbed on news that French billionaire Xavier Niel had bought a 2.5 per cent stake in the telecoms operator.

A statement from the investment vehicle that bought the holding on behalf of Niel suggested he planned to shake up the group, stating there were "opportunities to accelerate" such as the streamlining of Vodafone's footprint.

Fantasy figurines manufacturer Games Workshop sank despite raising its dividend. What sounded sentiment was a slide in pre-tax profit to £39m for the quarter against £45m for the same period last year.

Rumours that chancellor Kwasi Kwarteng planned to cut stamp duty on properties at this week's mini budget lifted housebuilders Persimmon, Taylor Wimpey and Barratt. Ray Douglas

Choose the right alternative to pricey investments

Cliff Asness

Markets Insight



My colleagues and I have been saying for years that traditional portfolios are expensive and therefore face low prospective returns over the long term. In fact, expected returns for such portfolios with 60 per cent of funds in equities and 40 per cent in bonds appear to have been hovering around the lowest ever.

However, our prediction had not panned out — until recently (frankly we would prefer it never did, we like markets to go up too), but that is not surprising, as long-horizon predictions are just not about short-term market timing.

Stocks, bonds and a range of other asset classes have struggled this year amid persistent inflation, hawkish central bank responses, geopolitical turmoil and recession concerns. Much of this has come from a reversal of the low and seemingly always falling real interest rates that kept markets high. The silver lining, some may hope, is that after all we have seen this year, markets may finally be cheap.

Unfortunately, they are not. Yes, markets are not as expensive as at the start of the year, but a few months of cheapening after a decade-plus of richening is a tiny drop in an awfully large bucket. We still live squarely in the world of low expected returns over the long term for most traditional investments.

What is the solution? Something investors probably already know, but may have abandoned during an exceptionally long bull market: diversification. But when it comes to diversification, we need to be careful, just because something appears different does not mean it is diversifying, and just because something is called an "alternative" does not mean it is not basically the

same thing (private equity is still equity, for example).

The alternatives industry, while a varied bunch, can be very roughly categorised as: 1) strategies where most of the return relies on exposure to market factors such as private equity and private credit and 2) strategies where returns are mostly unrelated to the overall performance of capital markets, such as some macro hedge funds, equity market neutral strategies and managed futures.

The first type, privates, has seen stupendous growth over the past decade — not surprising given those strategies, by and large, have posted very strong

Many strategies posting above-average returns in the past decade are now likely to underperform

returns. But why? Undoubtedly, many of these managers are skilled, but the historically strong environment for stocks and bonds also helped. Any strategy with returns that are economically tied to markets should do well when markets do well, particularly if the bets are leveraged.

Privates also benefited from reported volatility that often understates the risk of the actual assets — something I have cheekily called "volatility laundering".

This understatement of risk has been so successful in attracting investors that it has perhaps inverted the typical illiquidity premium (the return boost from being willing to own illiquid assets) into a headwind. In effect, illiquidity has become a feature you would pay for, not a bug for which you would

require compensation. Nevertheless, a long-term low-return environment for equities cannot be hidden from forever.

In comparison, the second type of alternatives has not had the same tailwinds. If anything, a strong trailing decade for stocks and bonds has led many to reduce their exposures to the truly diversifying types of investment due to disappointing relative returns (an unfair comparison, but that does not mean it does not happen). We collectively seem to learn and unlearn these lessons in a painfully cyclical manner.

Now, back to today. Markets are still offering much less than normal, and the first type of alternative is in this same boat. Frankly, many of the strategies that posted above-average returns over the past decade are more than likely to underperform over the next decade.

However, this is not the case for the second type of alternative. Because they mainly try to generate returns regardless of market direction, these strategies may prove to be the more valuable in the decade ahead. Given that these are our strategies, we are arguing here with obvious self-interest. But I would note that market-neutral strategies that go long cheap and short expensive stocks are actually at close to record levels of cheapness. Another self-serving shout-out should go to managed futures, which often trails when beta — or tracking the market — is king but then shines when it is not (as in 2022).

The current environment is giving plenty of short- and long-term reasons to diversify. When investors are looking to alternatives, just make sure they are actually an alternative.

Cliff Asness is a founder and chief investment officer at AQR Capital Management

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