



CIO OFFICE MORNING MARKET WRAP

4 November 2024

We are entering a decisive week of the “Year of Answers”, with the US election taking place tomorrow. The race is too tight to call, as there is no clear leader in polls. This will be a photo-finish.

Financial markets do not like uncertainty. Last week’s returns were negative for all asset classes except cash, with significant volatility, along with lots of data to digest. Over the course of the week, stocks fell by -1.2% across developed and emerging regions. US Treasury yields “bear steepened”. The short-end of the curve adjusted lower, following a shockingly disappointing number of US job creations: only 12,000 in October, which compares to a median forecast of around 100,000, with obviously an impact from storms and strikes. Long-dated yields however continued to grind higher, to 4.38% for the 10-year, with no positive surprise in US inflation trajectory, and no fiscal discipline to expect from both presidential candidates. The dollar was flat against trade weighted counterparts, even if the yen fell after the Bank of Japan kept rates unchanged. Gold modestly consolidated, to \$2,735 an ounce, while oil prices fell to \$73 for the Brent, as Israel’s strikes against Iran were overall considered as reasonably restrained. Last week was also rich in corporate earnings. The aggregated metrics are good so far, but idiosyncratic factors make a difference, and market participants pay attention to forward looking elements. Fortunes were diverse for big tech: last week was tough for Microsoft, Apple, and Meta, while markets liked what they saw in Amazon, Alphabet and even Intel’s releases.

The week ahead is emblematic of the “Year of Answers”, with the US Presidential elections, the Fed’s November policy meeting, and China’s National People Congress. First, elections. Given the current state of the polls, there’s no point in speculating on the result, and unfortunately reasons to fear some delay in the final outcome. An unclear or highly disputed result would fuel volatility and our current stance is to be slightly defensive in positioning and wait for the election dust storm to settle to take action, which could be buying a possible dip. While the results will have consequences for the US economic outlook, markets may struggle to find a clear line to act upon. Mr Trump would raise tariffs, lower taxes and reduce immigration: the combination is pro domestic growth but also probably inflationary. It sounds positive for US stocks and negative for bonds; however, stocks are near all-time highs and the US 10-year Treasury yields rose 70 basis points in the last 6 weeks. Mrs Harris would incarnate more continuity, including another stimulative fiscal agenda. How much of that is already priced in, and will she have the required Congressional support, as votes will also reshape both the Senate and House Representatives?

The Fed’s trajectory is probably clearer. We expect another 25 basis points cut to be announced this Thursday. On one hand, the economy is still impressively strong, with Q3 GDP release confirming a strong consumption, while the core PCE index is not falling anymore. Still, it’s not an inflation rebound, and the last unemployment report is a good reason to continue easing, especially as markets could be volatile and as the rest of the world is easing (the BoE should cut rates the same day). Finally, the Standing Committee of China’s National People Congress has just started to meet in Beijing and should conclude by the end of the week, potentially with more quantified details on the fiscal stimulus plan.

The big picture of Asian markets is as foggy as the Dubai’s sky as we write this morning. Japan is closed for a holiday, and stocks are overall in the green elsewhere, from +0.1% in Hong-Kong to +1.5% in Korea, the latter being stimulated by a potential drop of capital gain tax. China’s domestic markets are in the middle, up +0.5%. There is no US Treasuries trading in Japan today, but the dollar is weaker -0.6%, which is a material move for early hours of trading. This supports gold at \$2,740 an ounce, while oil prices are on the rise following Friday’s declarations from Iran’s Khamanei, and as the OPEC+ agreed to push back its December output hike by one month. Brent is up \$1 to \$74.1.

US election day being Tuesday, we should theoretically expect the first projections to be released Wednesday morning in our Dubai time zone. Again, the main risk is not to have a clear result before at best hours, at worst weeks. The FOMC will issue their rate decision and press conference Thursday at 11PM Dubai time (the US is now in winter time). In the meantime, we will look at PMI Services for most regions and see whether the Bank of England cuts 25 basis points as expected on Thursday. The corporate earnings season will continue. Have a great week.

Have a week ahead!

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