



CIO OFFICE MORNING MARKET WRAP

7 November 2024

In a nutshell:

- Large Republican victory: “America First” trades everywhere, US stocks rally, yields and the dollar surged, cryptos explode.
- Trump 2.0: less immigration, lower taxes, deregulation support growth, with risks on inflation and deficits. Internationally: tariffs (also inflationary and a headwind on global growth), de-escalation of conflicts.
- Market reactions to be more nuanced over time. Inflation an enormous political risk / tariffs a great leverage for negotiation but could not be as hard and systematic as announced in the campaign. Watch key levels to potentially increase duration?
- Asian markets pretty well oriented today, oil prices back to pre-election levels.
- Today Fed at 11PM, BoE at 4PM, both expected to cut 25bps.

Full notes:

The US elections are a loud and clear victory for the Republicans with the White House, the majority in the Senate and probably in the House of Representatives. We actually had a result on day one, avoiding the worst-case scenario of a long uncertainty.

Markets reacted the way we anticipated yesterday for this “red sweep”: gain for stocks and pain for bonds. The S&P500 rallied +2.5%, the Nasdaq +3% and the broader Russell2000 almost +6% - all hitting an all-time high, and setting a record for the best post-election day in US history.

US Treasury yields surged: +8 bps for the 2-year to 4.26%, +12bps for the 5-year to 4.27% and +16bps for the 10-year to 4.43%. The dollar strengthened +1.5% against trade-weighted counterparts, gold fell -3% to \$2,670. The Brent crude oil closed better than its intraday low, just below \$75, only down -0.8%. Stocks fell -2% in China and Europe, but gained +1.4% in India, +0.7% in the GCC and +0.6% in Japan. And of course, cryptos had a fantastic day.

Now a bit of analysis. The broad victory, which includes the popular vote and probably the House of Representatives, represents a massive mandate for President Trump to implement his program, especially the most emblematic items of his campaign, domestically and internationally.

Domestically, we can expect three sets of measures, in no particular order. First, a drastic reduction of immigration, which could increase the cost of labor. Second, tax cuts across the board: extending the Tax Cuts and Job Acts, removing some taxes from Biden’s Inflation Reduction Act, and lowering corporate taxes to as low as 15%. This should increase the US deficit, unless spending is also cut (with Elon Musk making radical statements on this point). Third, a wave of deregulation, probably through executive orders, to ease business in general and energy in particular, favoring nuclear and hydrocarbons over solar and wind.

Then, international topics. First, of course, is trade. The stance is tough on China but not only. Europe, which was so far relatively preserved, is at risk, as Mr Trump pledged “universal tariffs” of 10-20%. It may be more for China, but the 60% number seems way too aggressive, a risk for the global economy and a big drag on consumers’ purchasing power. China already lives with some tariffs. Europe doesn’t, and it could suffer unless complying with some US demands: market access, a tougher stance on China, more defense spending? Then of course, geopolitics. Ending the conflict in Ukraine quickly was a key point of the campaign agenda. It is probably achievable, but it puts Russia in a strong negotiating position. It implies compromises: security guarantees, lifting sanctions, unfreezing assets, more? As a candidate, Mr Trump also said he will drive de-escalation in the Middle-East. The US has theoretically leverage on Israel via weapons supply, but cutting it looks way too radical. Pressuring Iran would bear the risk of a new war for the US, which is not the goal. Finally, regional negotiations, with potentially the UAE and KSA being intermediaries, looks like the right way. This is one of the reasons why our region is not in the crosshair of trade restrictions, but diplomacy will remain very important to be able to maintain harmonious relations with both the US and China, typically.

No surprise then that US stocks rallied, led by the most domestic, while interest rates rose and expectations for Fed cuts adjusted lower. Market implications on the medium-term will however be more nuanced. It’s reasonable to think that the Trump administration will be cautious with inflationary risks. After all, this is the single economic reason for the defeat of the Democrats (growth, employment were fine). This is why we will probably consider adding to duration.

In other news, India PMI Services was very strong at 59.1, while the same measure for the Eurozone came out slightly better than forecast at 51.6. The just released trade numbers for China showed a very impressive jump in October exports, pushing the YoY change to +12.7%, while imports continued to drop. The US election obviously sheds a different light on the outlook for trade, but this is another indication of the recent rebound in China's activity. The National People's Congress is still meeting and probably adapting their plans to the new US political context.

Staying in Asia, the mood is mixed rather than depressed as we write this morning. Stocks are wildly fluctuating, but currently ok: +0.7% in China and Hong-Kong, +0.4% in Korea and -0.4% in Japan, which was up yesterday on a weaker yen. US Treasury yields, the dollar and gold prices are stable, while Brent is up 0.8% to \$75.5, back to pre-election price.

Today will see the conclusion of the Fed's November meeting at 11PM Dubai time. We expect another 25 basis points cut, and of course the press conference may be extremely interesting (or desperately politically correct). The Bank of England will also hold their policy meeting and conclude at 4PM Dubai time, with also a 25 basis points cut being expected.

Have a great day.

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