



CIO OFFICE MORNING MARKET WRAP

26 November 2024

There is a Trump effect on markets following the clear-cut election result, and now there seems to be a Bessent effect as well, following the nomination of hedge-fund manager Scott Bessent as Treasury Secretary. Stock and bonds climbed and the dollar fell as investors bet Mr Bessent would bring a Wall Street mindset to the role. The new secretary advocates for a 3% growth target, 3% budget deficit and lower oil prices to put America back on track. The perception that he would lessen the negative effects of some of Trump's policies on bonds sent the yield on the 10-year note 13bps lower, alongside Brent crude that lost 3% on the prospect for increased supply. Easing tensions with a possible cease fire in the Middle East did not help oil either. And while the lower yields would at first sight be seen as a positive for gold, the fact that actually some notion of austerity is flaunted by an authoritative person is the worst possible scenario for gold that previously rallied based on deranged public finances. The dollar fell in sympathy with yields, while also being technically overextended. US large caps were led higher by the Dow Industrials (+0.99%), with the S&P 500 and the Nasdaq recording more moderate gains. Falling yields pushed smaller companies (+1.50%) to new highs for the year, though the sustainability of the move is in doubt, given high yield levels in absolute terms as well as anaemic earnings growth.

On the other side of the pond more macro doom and gloom was the order of the day, with Germany's economy failing to gain momentum in the final quarter of the year. The downtick in the Ifo business climate survey represented a slightly negative surprise. Political turmoil at home, the threat of tariffs, and the loss of the energy advantage due to the Ukraine war are factors that suggest a long-lasting malaise. In the US the Dallas Fed's manufacturing survey showed some softening as well, although future conditions improved. This would lower the outlook for the November ISM manufacturing, that has now been in contraction for two years.

Markets this morning:

The dollar opened higher and Asian markets dropped on heightened concerns about trade after Donald Trump said the US will impose more tariffs on China, Mexico, and Canada. He posted about extra 10% rates on Chinese imports, and 25% on all products from Mexico and Canada on his Truth Social Network. In his typical style a punch in the face via a bold statement should be followed by deals down the road. Counterparties will find out how tough the deals are meant to be. The offshore yuan fell 0.4%, the Canadian dollar and the Mexican peso more than 1%. Shares in Japan, Australia, and South Korea all dropped, while Treasury yields ticked higher. Commodity currencies also tumbled. But Chinese stocks rebounded, with the CSI 300 index climbing 0.4% from oversold levels. The market may be already in the mood to view any rate below 60% on imports from China as a 'positive'.

Upcoming Key events/data:

Quite expensive equity valuations put the burden of ensuring the continuation of the current rally on easier financial conditions. That means lower yields, and in turn easier policy and contained inflationary pressures. The latest declarations by Fed officials do not bode well in this respect. They echoed what recently mentioned by chair Powell, that a December cut is not a done deal, and the pace of accommodation can be slowed given risks to the economy. The release of the FOMC minutes today should provide some perspective on this, with impending risks to inflation possibly emerging more clearly in the PCE report tomorrow. More highlights for today in pecking order are consumer confidence, new home sales, and the Richmond Fed manufacturing survey.

Have a good week ahead!

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