



CIO OFFICE MORNING MARKET WRAP

27 November 2024

Neither Trump's rhetoric nor a Fed's measured approach to additional policy easing could stop the market's ascent. Also, geopolitical risks abated as a ceasefire agreement was reached in a Middle Eastern war-torn region. The president-elect threatened in a post to impose 25% tariffs on Mexico and Canada and 10% on all goods from China. And Fed officials expressed support for gradual rate cuts, according to the minutes of the latest FOMC meeting. Macroeconomic data on net surprised to the upside, which is what counted for investors, more inclined to follow the positive seasonal of the year-end rally, than to focus on the impact of presidential policies yet to be worked out in detail. The S&P 500 (+0.6%) closed at all-time highs advancing for a seventh straight session, with gains led by utilities and consumer discretionary. Materials and energy closed in negative territory alongside most commodities. Yields traded in a holding pattern, and gold and the US dollar rebounded. Crude oil steadied with easing geopolitical risks offset by signs OPEC+ would again delay restoring some output.

According to the latest FOMC minutes Fed officials are not keen to accelerate rate cuts as the economy remains solid and inflation is cooling at a very slow pace. The economy remaining near maximum employment, even as the disinflation process towards the 2% target continues, is what would justify a more careful approach towards future easing. This message echoes a previous statement by chair Powell that policymakers are in "no hurry" to cut rates. This message is particularly important at a time when market valuations have become very rich and only additional liquidity could ensure limited volatility. Also, a very cautious stance tightening financial conditions cut put the Fed chair at odds with Donald Trump, that recently expressed the view that the president should have a "say" in the Fed's policy.

One can definitely notice a pickup in animal spirits in the latest datapoints as a Trump effect, visible both in the consumer and manufacturing surveys. That is the case for the improvement in the November consumer confidence, suggesting consumers could be spending more in the forthcoming shopping season. Also, the wealth effect from the late-2024 stock rally should keep consumption sturdy next year. Likewise, though the Kansas Fed manufacturing survey showed some softening, firms grew more optimistic about the outlook. And a joint reading of the Kansas Fed, Philadelphia Fed, and NY Fed surveys previously released suggests that a slight improvement for the ISM manufacturing in November is possible.

Markets this morning:

Stocks wavered in the Asian morning session, as traders digested Donald Trump's latest nominations for his cabinet, as well as the tariff threats issued a day before. The MSCI Asia-Pacific Index was little changed, with equities falling in Japan and climbing in Hong Kong and mainland China. The US Dollar Index edged lower after putting pressure on the Mexican peso and the Chinese yuan amongst others on Tuesday. The impression that Trump means business on tariffs was reinforced by his nomination of Jamieson Greer as US Trade Representative, directly involved in trade-policy restrictions during the president-elect's first term. Kevin Hassett was also appointed to direct the National Economic Council, that during the first administration supported tax cuts and punitive tariffs.

Industrial profits in China decelerated their pace of decline in the month of October as per this morning print, that would be consistent with the economy bottoming out, though not yet recovering. We should then expect that further support, especially on the fiscal front, will be on the way. The sustainability of a rebound in activity would depend on the size of the stimulus and to what extent it would be lifting consumer and business sentiment.

Upcoming Key events/data:

Later today the Fed's preferred inflation gauge, the Personal Consumption Expenditure Price Index will be released, alongside details about consumer income and personal spending. The second print of Q3 GDP and durable goods orders will also be important highlights. Tomorrow US markets will be closed on occasion of Thanksgiving Day.

Have a good week ahead!

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