



CIO OFFICE MORNING MARKET WRAP

28 November 2024

Wednesday's session ending with lower equities, lower yields, and a lower dollar on firm inflation, while at first sight incomprehensible as per textbooks, should be read keeping in mind the "careful" Fed and the currently high inflation expectations. When there is concern about the possibility of resurfacing inflationary pressures, stoked by the firm Personal Consumption Expenditure Price Index print, any loosening of financial conditions would add fuel to the fire and further spooks investors. Yet, the Fed seems to have just sent the right message, expressing restraint with the recent Powell's declaration in "no hurry" to cut, and with the latest FOMC minutes supporting a gradual approach to easing. If the impression is that monetary conditions will remain sufficiently tight, and future inflation is contained, equity investors may decide to take some profit, while bond investors would be happy to buy the longer end of the curve. And the dollar would be falling in sympathy with yields. Equities sold off (-0.4%), just a little bit, while most of the drama played out around the IT stocks (-1.2%), even as yields at the longer end fell. The point is that investors must see some real Fed restraint on future rate hikes, that would be far from ideal for the 'longest duration' sector in the market. And to put it more simply, tariffs are not that great for the sector either, that relies heavily on global supply chains. Nvidia led losses in the Magnificent Seven, and Dell and HP lost each at least 11% following results. The PC business negatively affected Dell and HP, that both missed on revenue. AI also played a role in the declines. Despite new PCs touted as better for artificial intelligence workloads, buyers held back as they "have yet to see benefits or business value", according to an analyst at Gartner Inc. CrowdStrike (-4.6%) sank on a weak earnings forecast. The yield on the 10-year note declined 4bps to 4.26%, while the Dollar Index tumbled almost 0.9%. Crude was little changed ahead of the weekend OPEC+ meeting.

PCE inflation moved in line with expectations in the month of October, and as per projections it ticked higher. The driver was the rise in core services, in particular financial services fees in the wake of the current bull market. So, headline PCE, up 0.2% monthly, rose 2.3% annually, while core PCE, up 0.3% monthly, rose 2.8% annually. This is enough to put the Fed on a more cautious course and justifies recent declarations about a more gradual approach to policy easing. Indeed, according to some studies putting the current PCE in the framework of a Taylor rule, used by the Fed to drive policy rates objectively, would warrant that rates stay where they are. The Fed will still be inclined to cut, but being data dependent will be watching the next jobs report very closely. Markets are now discounting a 70% chance of a move at the December meeting and basically three cuts into December next year. Also, according to the Personal Income report wages grew faster than expected, and in real terms grew +0.1% for the month. All of this has helped us rediscover the obvious truth that real wage growth keeps inflation in place. And the second print of Q3 US GDP didn't tell us much that we didn't already know, that is that the economy is strong growing at 2.8% YoY, though growth is extremely narrow driven basically by consumption.

Markets this morning:

Markets traded in small ranges in the Asian session ahead of the Thanksgiving festivity today in the United States, where markets are closed. Shares in Japan and Australia rose slightly, while South Korea edged higher, and Hong Kong futures slipped. Contracts for US stocks advanced. Asian trading of Treasuries is closed today to observe Thanksgiving Day. Yields fell in early trading in Australia and New Zealand, following Treasury's advance on the previous day. The yen retraced some of its previous session gains. The Mexican Peso rebounded after Donald Trump held talks with Mexico's President Sheinbaum. The Korean won weakened after the Bank of Korea's unexpected 25bps cut.

Upcoming Key events/data:

In view of the Thanksgiving festivities the economic calendar remains light both for today and tomorrow. The focus will be on Europe with the Eurozone economic & consumer confidence, and the Germany CPI today, and the euro area CPI tomorrow. Tomorrow is data-heavy in Japan. The Tokyo CPI, unemployment, industrial production, and retail sales will be closely watched as key data for the BOJ decision to resume tightening from January as currently expected.

Have a good week ahead!

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