



CIO OFFICE MORNING MARKET WRAP

10 October 2024

Wednesday was positive for stocks from developed regions, up +0.5%, while emerging markets were down -0.7% at the index level, dragged down by China: the MSCI China closed -2.6% lower, which was not much compared to the -9% drop in mainland markets. We are not unhappy with that as we implemented our increase on Chinese stocks at market close yesterday, from neutral to overweight, within our emerging markets allocation. Our weighting for China is between 1.5% and 3.5% of a diversified portfolio, depending on risk profiles. US Treasury yields added +11 basis points on average for maturities of 2-year and above yesterday. The 2-year closed at 4.02%, the 5-year at 3.92% and the 10-year at 4.07%. Blackrock strategists agree with us that this is “fair” valuation. The dollar was logically +0.3% stronger against trade-weighted counterparts, which pushed both gold and Brent prices a bit lower, to respectively \$2,608 and \$76.6.

The Fed released the minutes of their game-changing September FOMC meeting which confirmed that the decision for a jumbo cut was highly debated: “some participants observed that they would have preferred a 25 basis point reduction” means, in diplomatic language, a serious pushback. Still, a “substantial majority” supported the move. The bottom-line is simply that the dot-plot is not a commitment, and that the numerous data between now and the next meeting in November will matter: several inflation reports starting today with the CPI, and another monthly NFP report. Oh, and a presidential election. Uncertainty was reinforced by speeches from two Fed officials talking about being gradual and cautious. This explains the rise in treasury yields, which was not dramatic as markets have already adjusted their implied expectations and are not unhappy with the stronger underlying growth. In the US again, hurricane Milton reached Florida’s West coast with a devastating strength, and on a different topic, Joe Biden warned Israel against attacking Iran’s nuclear and energy facilities. Most commentators agree that geopolitical escalation has a favorable impact on Trump’s ratings in polls.

Asian markets are well oriented as we write this morning. Stocks are up a modest +0.2% in Japan, after PPI inflation came out a bit stronger than forecast. But shares gain +0.5% in Korea and +3% on average across China’s onshore and Hong-Kong markets. China’s finance ministry announced yesterday a press briefing on the stimulus to be held on Saturday, and earlier this morning, authorities released details of the liquidity facility provided to international investors to purchase shares. Asia also benefits from a strong set of sales numbers from TSMC, a good news for tech after the turbulences from Google yesterday after the US Department of Justice said they were considering a breakup. India just opens up +0.2%. US Treasuries and major commodities are quiet in Asia trading this morning.

Today’s focus is on the US CPI inflation report at 4.30PM Dubai time. The median forecast is for a moderation of the headline (broad) CPI from 2.5% to 2.3% year-on-year, while the core CPI is expected to be stable at +3.2%. Weekly jobless claims will be released at the same time, expected to increase by 5K to 230K. The ideal situation for markets would obviously be a continuous disinflation with stability in jobless claims. US PPI will follow tomorrow, which will also mark the real beginning of the corporate earnings season with numbers from JP Morgan in particular.

Have a great day.

Chief Investment Office
Wealth Management,
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