



## CIO OFFICE MORNING MARKET WRAP

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Asian trading saw gains across most markets. Shares were higher in Hong Kong, Tokyo and Australia, while China fluctuated. US futures slipped alongside Treasuries. Gold held close to all-time highs further decoupling from changes in government yields. Markets are bracing for the prospect of Donald Trump returning to the White House, with major polls showing him in a close race with Kamala Harris. More so-called Trump trades are emerging, from a broadening of the equity rally to dollar and cryptocurrency strength, and Treasury losses. Bitcoin surged past 70,000 for the first time since June. According to a Bloomberg survey Harris would be somewhat more favorable for housing costs, while 38% of respondents see equities accelerating in next 12 months under Republicans, but only 13% share that view for Democrats. On Monday US stocks recorded modest gains, with all industry groups ending in positive territory barring energy as oil prices tumbled, and technology that was basically unchanged. Traders will have much to digest in the busiest week for corporate earnings that also sees the release of key economic data set to trace the course of monetary policy. And in the following one the US elections and the November Fed meeting will be at the forefront of investors' minds. The S&P 500 climbed 0.3%, while the Dow outperformed and gained 0.65%. The yield on the 10-year note reached the highest level since July to settle at 4.28%, though the dollar did not follow suit with a new high. Brent crude slumped by almost 6%, as the reality of weaker demand overtook risks of wider conflict in the Middle East.

So far, the earnings season, with one third of US companies that have posted results, has not been overwhelming. Almost 75% of them surpassed consensus expectations for profits, below the five-year average of 77%. According to some strategists the bottom for cyclical stocks, that cite sluggish demand, seems to be near. Investors will be looking closely into the results of the five of the Magnificent Seven scheduled to report this week. Alphabet is due today, Microsoft and Meta Platforms on Wednesday, and Apple and Amazon on Thursday. At the opposite end of the spectrum, China industrial profits extended declines on Sunday, a sign of deflation taking its toll. The woes of the Chinese economy prompted the authorities to initiate stimulus on multiple fronts, with the next important announcements expected during the meeting of the top legislative body, to be held November 4 to 8.

The US fixed income market is making quite some headlines in these days. Bond vigilantes, investors selling bonds to set the government back on a course of restraint, are expected to make a comeback with mounting new issuance looming. On Wednesday, the Treasury will announce its borrowing plans for the three months ahead, projected to be maintained at the same size for the next several quarters, despite some auction sizes already at record levels. Demand at the 2- and 5-year auctions was on the weaker side yesterday, pointing to investor concerns about surging supply. Meanwhile in credit, investors suffered their first losses in top-rated mortgage-backed securities since the Great Financial Crisis. The pain was felt in a new breed of bonds called SASBs, Single Asset Borrower CMBs. According to a Bloomberg analysis, creditors across numerous deals tied to US office property would be getting only a portion of their original investment back. SASBs are typically tied to one mortgage, issued just by one building, a kind of risk not even the AAA rating could mitigate. And there we go again!

Japan's labour market tightened in September, a positive sign for wages and a positive environment for the BOJ preparing for its policy meeting on Thursday. The job-to-applicant ratio edged up to 1.24 in August, a shift in favour of rising labor demand, while the jobless rate decreased to 2.4% in September, the lowest level since January. While no policy change is seen this week by economists, the central bank is projected to hike the benchmark rate either in December or January.

Have a good day!

Chief Investment Office  
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