



CIO OFFICE MORNING MARKET WRAP

31 October 2024

Asian equities are falling this morning in the wake of yesterday's stock and Treasury losses in the United States. Robust economic data blurred the picture for further Fed cuts, and poor results by IT megacaps weighed on sentiment. Shares in Australia, Japan and South Korea traded lower, with the region's equities headed for a second day decline. Mainland China equities fluctuated, and those in Hong Kong rose, as investors digested unexpectedly positive domestic manufacturing data. US futures declined following the disappointing revenue guidance by Microsoft and Meta's poor earnings results. Treasuries were steady in Asian trading, while global bonds fell to their lowest level in almost three months. Bets on Fed policy easing were further trimmed after data showed yesterday the US GDP expanded at a robust pace in the third quarter, driven by household purchases and defense spending. Underlying inflation rose roughly in line with the Fed's target, the same report showed. The yen traded below 153 per dollar showing fractional gains after the BOJ implemented no policy change, with traders awaiting Governor's Ueda speech later in the day that will set the tone for the currency. Brent crude edged higher, extending gains from the previous session. Gold was steady and traded not far removed from the \$2,800 level, with demand partly supported by pre-election uncertainty. On Wednesday stocks were hit by a rout in semiconductors that dropped 3.4%, as the S&P 500 lost 0.3% and the Nasdaq extended losses late in the session to settle 0.8% lower. The rout was driven by a slide in Nvidia, and underwhelming results at its main competitor AMD. Server maker Super Micro Computer tumbled 33% as Ernst & Young resigned as its auditor. Meta lost 3% after its spending guidance failed to inspire investors, while Microsoft rose 1% as its cloud-computing business and Office software drove quarterly revenue growth above expectations. Homebuilders rallied, as pending home sales saw their biggest advance since 2020. Visa climbed on solid results, while Eli Lilly was hit after lowering its guidance on lackluster sales of its weight-loss drug. Two-year Treasury yields gained 7bps, while the ten-year closed 5bps higher, and the US dollar retreated from a three-month high.

The US economy expanded at a 2.8% rate in Q3, after rising 3% in the previous quarter, an advance estimate showed. Household purchases accelerated, with expenditure rising 3.7%, the most since early 2023, and the government underpinned the cycle by ramping up defense spending. As an icing on the cake, private consumer investment plus business spending, a growth gauge favored by economists, grew by 3.2%, the most this year. And consumer spending grew at a brisker pace even as an underlying measure of inflation was up by 2.2%, indicating a so-called Goldilocks scenario. Meanwhile, in Europe the economy expanded by 0.4% in Q3, above consensus projections, and above trend growth of about 0.3%. This should temper expectations for a 50bps cut in December from the ECB. However, with the slowdown likely to persist in 4Q24, and the disinflation process well advanced, the Governing Council is seen to be on track for another 25bps cut this year. The unexpected uptick in euro area growth was enough to reverse the sharp fall in the euro and trigger a rebound against the dollar.

Equities are expected to resume their rally as uncertainty is reduced after the 5 Nov US election, the market enters the seasonally most favorable period of the year, and selling by mutual funds will have faded by the end of this month. The payrolls report on Friday is the key pre-election event still at the forefront of investors' minds, setting the tone for markets in the shorter term.

Have a good day!

Chief Investment Office
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