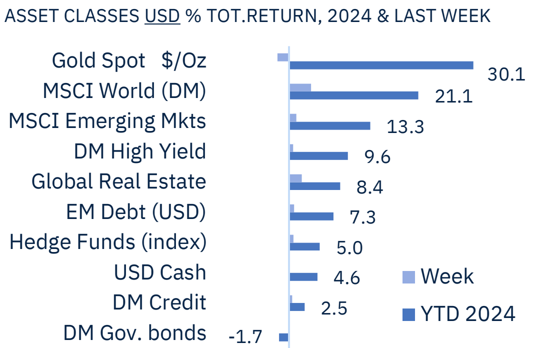
A **clean US electoral result** updates the investment landscape

- **Markets enjoyed the clarity of the US elections results, while central banks did not surprise**
- **Most asset classes had a positive week, while economic implications remain to be seen**
- **Our slightly defensive positioning was not ideal but 2024 returns remain very solid**

All weeks are not equal in the Year of Answers, and the great news is that the US elections had a clear and undisputed result. It removed a critical potential risk against which we were hedged with a slightly defensive positioning. This -fortunately- proved both useless, as global equities rallied, and not too harmful, as our three profiles gained between +0.8% and +2% last week, now between +7% and +15% year-to-date.

With the White House, the popular vote, control of the Senate and likely also the House of Representatives, the Republicans have a loud and clear mandate to implement the key items of their America First platform. Domestically, this is less regulation, lower taxes, and less immigration. Internationally, there is a willingness to shorten or end the conflicts in which the US is involved, but also a clear pledge to trade tariffs, from universal ones which could reach 10 to 20%, to more specific measures, with a 60% number on Chinese exports having been floated. The market narrative of last week was simple: this is great for stocks, especially domestic ones, as well as for bitcoin and the dollar, but more mixed for bonds, with potential inflationary pressures and more deficits.

At this stage, we believe that the actual policy may be cautious on inflation, which was the single economic reason for the Democrats' defeat. Tariffs may be more a negotiating tool than a radical, imminent reality. Both the Fed and the Bank of England delivered a widely expected 25bps cut, while elaborating on their independence amidst political changes. Overall, the investment landscape is not yet dramatically changed, with inflation being the key risk for the future. We will get CPI reports this week to get a better idea of the starting point. Have a great week.



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Cross-asset Update

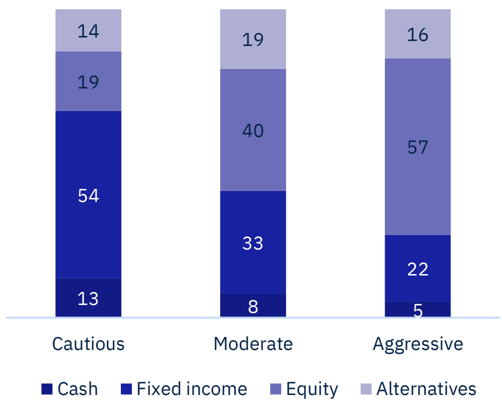
The global macroeconomic scenario emerging after Donald Trump's sweeping victory is still one of American exceptionalism, a subdued Europe, and China striving to revive its economy. It looks like Europe has really got the short end of the stick, while the US is going to make deals with President Trump deregulate, and lowering taxes. Meantime, in 2025 China will have implemented more "powerful" fiscal stimulus, as announced on Friday by the Minister of Finance. This benign scenario is only half so plausible as it seems, since we do not yet know any details about tariff implementation, that would be inflationary and stifle global activity in the worst case. Also, there is a limit to how much the White House can cut taxes without reawakening inflationary pressures. And last but not least, it seems Elon Musk will be tasked with cutting public expenses, at least to somehow offset the promised tax cuts, bringing in a whiff of austerity, a long-forgotten word in the United States.

How will all of the above be working out for the US economy and markets? For now, we can only go by historical patterns and observe that stocks have tended to rally into inauguration day, when the president-elect will be formally admitted to office on 20 January 2025, to then stall for some months as the impact of the new policies is reassessed by investors. According to this logic, it would now be premature to be concerned about inflation, rising debt levels, and tariffs, when we know so little about the actual measures that will be taken, while markets still enjoy their honeymoon with the president-elect. We can also infer, against consensus, that upside for the US dollar and yields could be limited from current levels. Indeed, markets would not be welcoming large tax cuts without some reduction in government expenditure, on concerns about potential inflationary pressures.

Europe finds itself in a particularly tight spot between the US and China. It has lost its energy advantage with Russia, and the new US presidency is a big unknown in terms of growing defence budget, even as rising tensions with China will curb external growth. Something will have to give, and not only in terms of monetary policy that is already on an easing path, but also as far as foreign relations are concerned. The euro area stance towards China will have to soften, lest the common area wants to delve in stagnation for long. A rapprochement with Russia seems less likely and anyway not in the forecast horizon.

As for China, the next timeline for stimulus announcements is the December Politburo meeting. Investors may have been disappointed by the latest, yet conspicuous measures that provide a lifeline to local governments. But more is to follow, as pledged by the MoF last Friday. Surprises in China are slow-moving, yet positive. It is all that matters for global economic activity, for equities, and commodity markets.

TACTICAL ASSET ALLOCATION: SIMPLIFIED POSITIONING

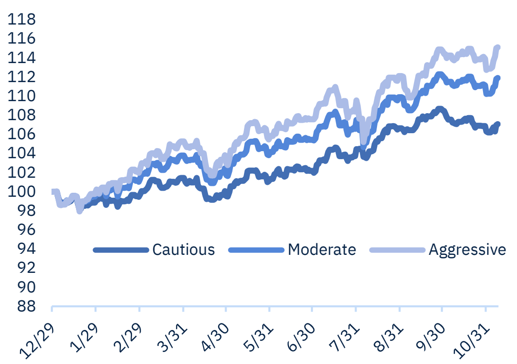


TAA – RELATIVE POSITIONING – MODERATE PROFILE

UW/N/OW: Underweight/Neutral/Overweight

	UW	N	OW
Cash			>>>
DM Gov.			>>
DM Credit		=	
DM H. Yield		=	
EM Debt		=	
DM Equity	<<		
EM Equity	<		
Gold			>
Hedge Funds	<<		
Real Estate	<		

TAA – 2024 INDICATIVE PERFORMANCE



Source: Bloomberg. CIO Office calculation based on TAA applied to market indices, net total return in USD.

Fixed Income Update

A couple of weeks ago we had presented four scenarios for the bonds market. The worst-case one for bonds came true in the US Elections. US bond yields moved up as the US 30-year ended the week at 4.46%. The 10-year touched a high of 4.47% before settling at 4.3%. The popular narrative seems to that the Trade, Immigration, Tax and Energy policies of Mr Trump would lead to higher inflation and higher fiscal deficits thereby pushing bond yields higher. However, we would do well to remember that the new mandate for the president-elect is not "Growth at Any Cost" but "Growth at reasonable inflation." US citizens decisively voted against the pressures of inflation. Hence, it would be interesting to see the implementation of the hyperbole pre-election promises in action. We have increased our portfolio durations and changed our stance to neutral duration at the moment. If 10-year yields touch 4.5% it will present an interesting opportunity to go OW duration.

This is a time to step back and realize that this is not 2016 again. The moves in bond yields and inflation expectations have moved in line with the early days of the last Trump Presidency. Tariffs and immigration policies even if implemented partially would put upward pressure on inflation. Hence, the level of fiscal profligacy this time has to be contained since yield and inflation are already high. Yields moving higher from these levels may not be good for credit spreads and would act as growth dampers.

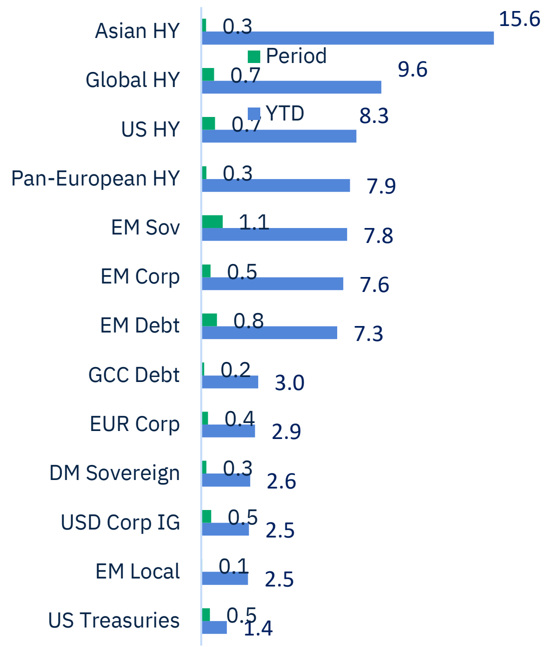
The Fed as expected cut rates by 25 bps to bring down the Fed Funds Target rate to the 4.5%-4.75% range. But the Q&A was splashed with questions about Fed's relationship with Mr Trump. Powell was direct and said he would not resign if Trump pressured him to leave, ending speculation that he might step down before his term is over. The Fed chair said it is "not permitted under the law" for the president to fire or demote him. Powell's term ends in May 2026 and his term on the Board expires in 2028. The market now discounts a 65% chance of a rate cut in the 18th December meeting. There is still a lot of data between now and the December FOMC meeting, and that will likely tip the scales in one direction or the other.

Last Thursday, the BoE also cut the policy rate by 25 bps. While the BOE acknowledged on Thursday that Reeves' policies would push up inflation by almost half a percentage point to a peak of 2.8% along with issuance of additional $184bn of borrowing in the next 5 years, Bailey told reporters on Thursday that there was no immediate need to change the trajectory of easing. He effectively endorsed a further four quarter-point rate reduction to 3.75% by the end of next year.

FIXED INCOME KEY CONVICTIONS (2024)

DEVELOPED MARKETS
Overall overweight DM FI
OW Government Bonds
Neutral corporate (IG & HY)
EMERGING MARKETS
Neutral EM Debt
Favor quality and selectivity
Including in GCC

FIXED INCOME SUB ASSET CLASS RETURNS (YTD, LAST WEEK)



Source: Bloomberg

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Equity Update

DM: OW US/UK, Neutral Japan, UW Eurozone

EM: OW China/ UAE, Neutral India

Lat week was about the Republican win: President Trump's return to the White House, indicative of lower corporate taxes, a stronger USD, more M&A expected, less financial regulation, oil & gas production in focus over clean energy and higher inflation as a result of higher tariffs and tougher immigration policy. The Fed cut another 25bps in line with expectations, and we see a trajectory of loosening monetary policy. Global equities gained over 3% last week and the leaders were US banks +11% (strong economy), the Russell 2000 +8.7% (small and midcap companies could benefit from lower rates) and the Mag7 stocks +8.5% (in line with a strong economy). The S&P 500 had its best week in a year gaining 4.7% with tech, energy and financials leading and healthcare lagging in line with the industries expected to gain and lose from Republican policy changes.

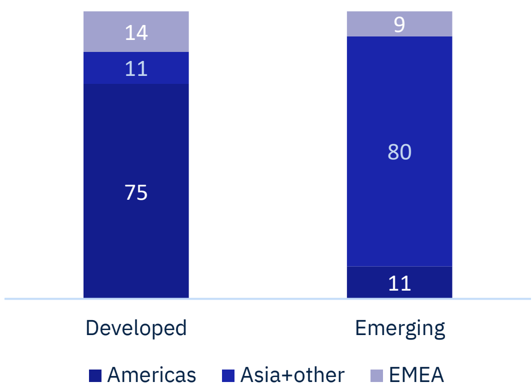
As of date global banks (+31%) are the best performers on steepening yield curves. The Russell 2000 also has rallied and we expect US banks and mid-cap companies to continue rallying as the US economy looks resilient and corporates would benefit from any tax cut.

Globally equity markets have robust YTD gains with the Nasdaq leading, and the US and China, the other major markets, with gains of over 25% YTD. Equity markets are likely to focus on two major macro themes -- taxes and trade -- as most impactful to stocks in a second term for President Trump. Markets may look toward potential permanent tax cuts as a positive. Meanwhile, an anti-China trade policy and 'America First' may lead to higher inflation.

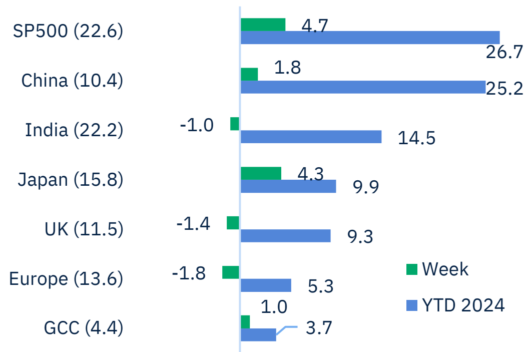
We expect earnings will be the primary driver of equity returns. S&P 500 3Q profits grew 6% y/y, better than the expected 3% growth. 90% of firms have now reported, awaited is Nvidia to release results on Nov. 20th. Mag7 stocks are up 55% YTD and Nvidia results seen favourable to the AI theme. S&P 500 EPS expected to grow by 10/11% (similar to 2024) to $268 in 2025 but we await changes to tax and tariff policies, before we come to our 2025 fair value for the Index.

European market saw autos and luxury fall recently, the former not only on possible 20% increase in tariffs from the US, but also on slowing demand especially from China. Whilst there is talk of 60% tariff on China goods and 20% on the rest of the world, this will vary across industry and service and probably a lot lower. China stimulus disappointed and whilst YTD performance is strong recently China equities have underperformed.

EQUITY RECOMMENDED REGIONAL POSITIONING

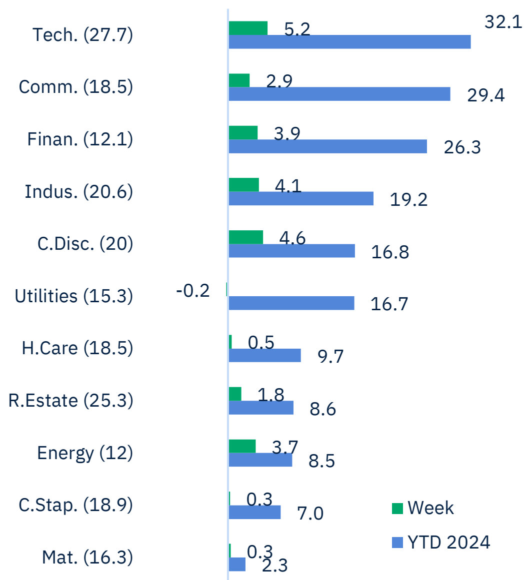


MAJOR INDICES PERFORMANCE (TR, US$), P/E in brackets



Source: Bloomberg consensus. MSCI Indices unless specified.

GLOBAL SECTOR PERFORMANCE (TR, US$), P/E in brackets



Source: Bloomberg consensus. MSCI All Country World sectors US$.

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