

November 8, 2024

Weekly Investment Insights



Last week, the result of the US Presidential election was finally announced, with Donald Trump elected as the President of the United States for the second time. Even before all the votes were counted, bitcoin and US bond yields jumped, and the dollar surged as investors placed their bets on Trump. In Europe, renewable companies slumped, the euro fell against the dollar and government bond yields dove in anticipation of Trump's promised trade tariffs.

US stocks soared to record highs in anticipation of lower corporate taxes and looser regulation. The S&P 500 index climbed to its best day in two years and the Russell 2000 index of small-cap companies jumped after Trump's victory, outperforming broader market indices such as the S&P 500 and the Dow Jones Industrial Average.

The aggressive trade tariffs proposed by President Trump and the inflationary environment that could result from them caused investors to sell bonds, pushing fixed income yields sharply higher.

WEEKLY ROUNDUP

The US Fed & Bank of England cut interest rates by 25 basis points

The **Fed** lowered its key rate by **25 basis points** last week, bringing the policy rate to **4.50% - 4.75%**. Fed Chairman Jerome Powell reiterated the Fed's focus on its dual mandate of **maximum employment and stable prices**. He noted that the **unemployment rate** has **moved up but remains low**, and that **inflation** has made **progress toward the committee's 2% objective** but remains somewhat elevated. He also said "that economic activity has continued to expand at a solid pace. GDP rose at an annual rate of 2.8 percent in the third quarter, about the same pace as in the second quarter. Growth of consumer spending has remained resilient, and investment in equipment and intangibles has strengthened."

Turning to the labour market, Powell observed that **job gains had slowed from earlier in the year**, but that labour strikes and hurricanes had had an impact. Overall, **labour market conditions were described as solid**.

Regarding **future rate cuts**, Powell reiterated that the Fed's path has not yet been decided and that it will continue to decide on a **meeting-by-meeting basis**.

The decision to cut rates comes just two days after the **presidential election**, which Powell said would have **no "near-term" impact** on monetary policy. The Fed will need to continue to monitor developments in the labour market and inflation to determine its next steps.

While the Fed is **expected to lower rates further** in the coming months, investors and economists have **pared back expectations** for how low rates will fall this cutting cycle, partly in response to Trump's election.

On the other side of the Atlantic, the **Bank of England (BoE)** decided last week to **cut interest rates by 25bp** for the second time this year, bringing the Bank Rate down to **4.75%**. The decision was widely expected after **inflation fell below the BoE's 2% target** to 1.7% in September. Although underlying inflationary pressures have eased, the central bank **expects inflation to pick up** following the announcement of the Autumn Budget, which the BoE believes will add just under half a percentage point to the inflation rate at its peak.

"We need to make sure inflation stays close to target, so **we can't cut interest rates too quickly or by too much**," BoE Governor Andrew Bailey said.

Investors also expect President Trump's proposed trade tariffs to contribute to rising inflation in the UK.

In terms of growth, the **BoE expects the budget to increase the size of the UK economy** by around **0.75% next year**.

The US dollar surged on Trump's election victory news

As the final votes were being counted in the US presidential election last week, investors betting on a Trump victory **pushed the dollar to the strongest level in a year**. The **high trade tariffs** promised by Trump **risk boosting inflation**, which in turn could force the Fed to **slow the pace of interest rate cuts**. If this happens, the dollar could strengthen further as higher interest rates increase the appeal of the currency.

However, a **strong dollar** could also **hurt US companies that rely heavily on exports**, making their products more expensive for customers around the world. President Trump's promised tariffs could also cause US trading partners to implement tariffs of their own.

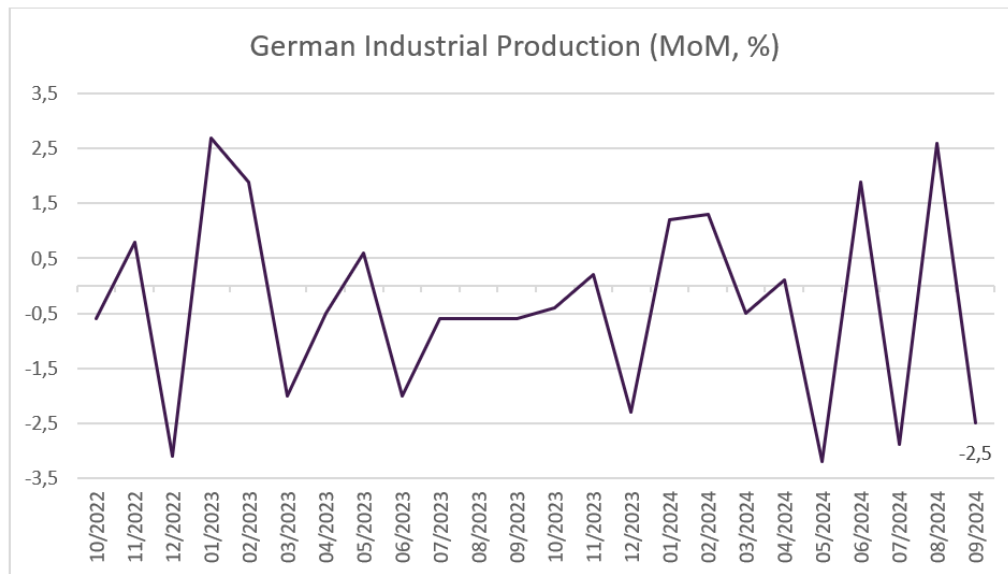
In any case, the **tariffs** are likely to have a major impact on the **direction of the dollar**. It remains to be seen, however, when and how the tariffs will be implemented.

German factory orders pick up but industrial production falls

German **factory orders rose by 4.2%** in September compared with the previous month, beating market expectations. The increase was driven by **large orders for aircraft, ships and trains**, as well as a **slight rise in new orders for automobiles**. Total foreign orders rose by 4.4%, with Eurozone new orders rising by a notable 14.6%. Orders from the rest of the world, however, fell by 1.6%.

While this is a positive sign, the **election of Trump** and his promised trade tariffs are **likely to weigh heavily on German industry** going forward. Germany's **trade surplus fell to €17bn** in September from €21.4bn in August, with **exports down 1.7%** on the month. If President Trump's trade tariffs are implemented as promised, this could further depress exports in the coming quarters, as 10% of German exports go to the US.

Industrial production also fell, from a 2.6% rise in August to a **2.5% fall** in September. Most sectors continue to struggle, but the car industry is particularly hard hit. This suggests that German industry is **not yet fully on the road to recovery**, despite the rise in factory orders.



Source: Bloomberg, BIL

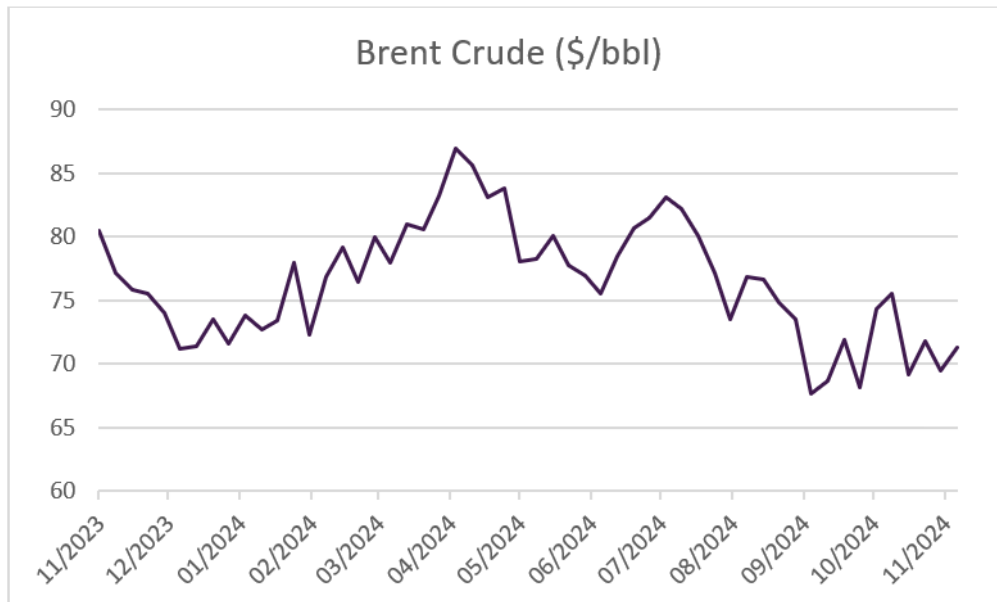
China announces more support

Following Beijing's **monetary stimulus package** in September, a **debt swap package** was announced on Friday. The package aims to **ease the debt repayment burden on local governments** by allocating 10 trillion yuan (\$1.40 trillion) to reduce off-balance sheet debt. Chinese Finance Minister Lan Foan has also **signalled that more fiscal stimulus is on the way**. So far, the announced stimulus has **lacked support to boost weak consumer demand**, which investors have been eagerly awaiting.

The Chinese economy has struggled with a property crisis, deflationary pressures and weak demand this year, and **Trump's threat of 60% tariffs** on all Chinese goods is **likely to add to the pressure**.

Opec+ members delay planned oil production increase

In a further attempt to revive oil prices, **Opec+** announced last week that it would **keep all production cuts in place until the end of the year**. Over the past year, Brent crude has **fallen by almost 14%** amid **weak global demand**, particularly from the world's largest oil importer, China. Prices have **risen on several occasions** over the past year in response to growing fears that an **escalation in the Middle East** conflict could disrupt supply. However, **weak demand** has so far proved to be **persistent**.



Source: Bloomberg, BIL, As at 11 am 08/11/24

Economic calendar for the week ahead

Monday – Bank of Japan Summary of Opinions.

Tuesday – Eurozone & Germany ZEW Economic Sentiment Index (November). Germany Inflation Rate (Final, October). UK Unemployment Rate (September). US Consumer Inflation Expectations (October).

Wednesday – US Inflation Rate (October).

Thursday – UK GDP Growth Rate (Prel, Q3), Balance of Trade (September), Industrial Production (September), Manufacturing Production (September). Eurozone Employment Change (Prel, Q3). US Jobless Claims, PPI (October).

Friday – Japan GDP Growth Rate (Prel, Q3). US Retail Sales (October), Industrial Production (October), Manufacturing Production (October).

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