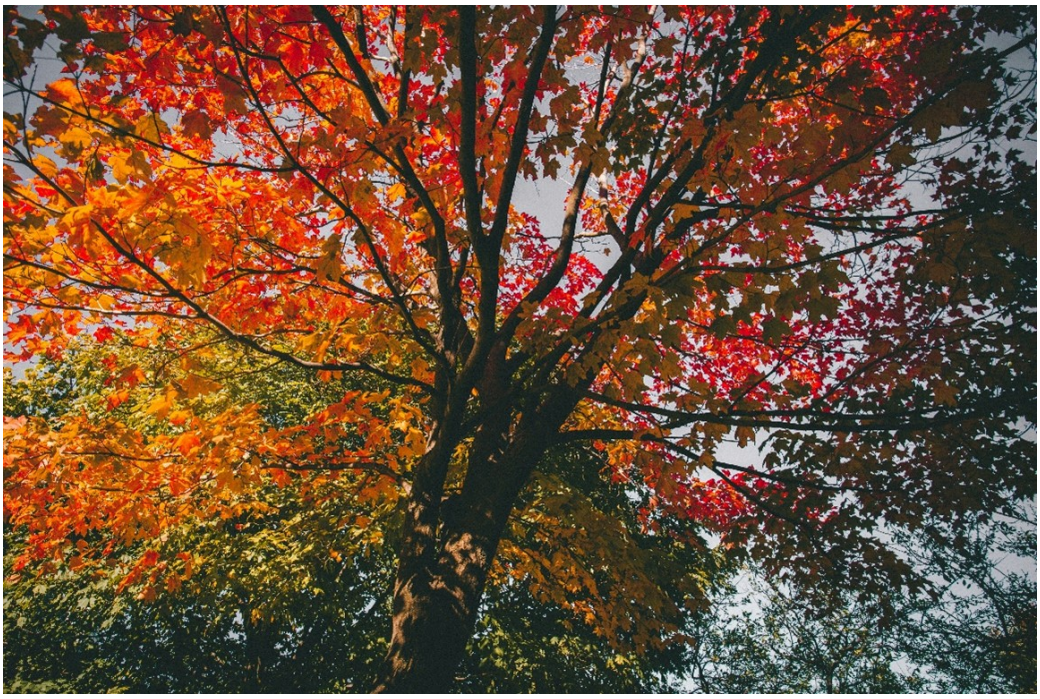
October 21, 2024

Weekly Investment Insights



During the autumn months, bears all over the world prepare for their winter hibernation. The market bears appear to already be asleep, with the current bull market broadening out last week, as evidenced by the fact that the Russell 2000 (which measures the performance of smaller US companies) outperformed both the S&P 500 and the Nasdaq. The lifeblood of the rally is the fact that cooling inflation is allowing central banks around the world to kick off monetary policy easing.

On that note, on Thursday, the ECB lowered interest rates by 25 basis points for the third time this year, bringing the deposit rate to 3.25%. The euro fell to a two-month low ahead of the ECB meeting on expectations that the central bank would take a more dovish stance on rate cuts. It dropped further on the day of the decision before making a mild recovery on Friday. The Pound also fell as UK inflation fell below the Bank of England's target to 1.7%, prompting traders to increase bets on further easing by the BoE this year.

Another strong earnings season is also adding impetus in equity markets. With around 15% of

companies on the S&P 500 having reported their Q3 earnings, the aggregate surprise is 6.2%. Highlights of the earnings calendar next week will be SAP, General Electric, Coca-Cola, Nextera Energy, and Tesla among others.

WEEKLY ROUNDUP

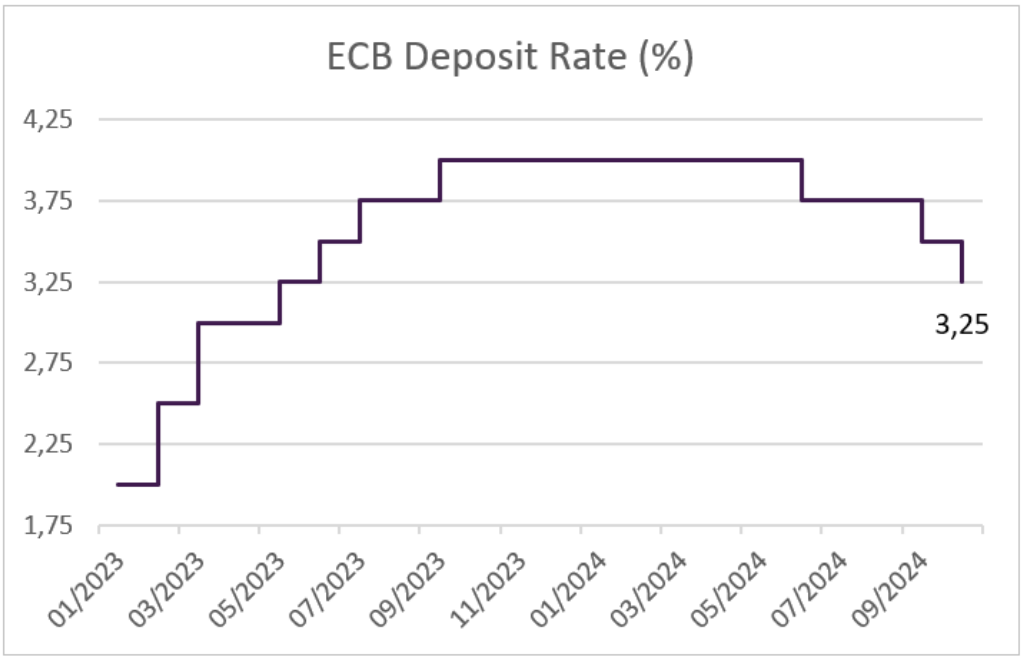
The ECB lowers interest rates for a third time this year

At its October meeting, the ECB decided to cut interest rates by 25bp, bringing the deposit rate down to 3.25%. The widely expected decision comes amid weak growth in the Eurozone and inflation falling below the ECB's 2% target.

Eurozone inflation fell to 1.7% in September and the central bank said the decision to cut rates was based on an "updated assessment of the inflation outlook". This suggests that inflation is expected to fall faster than anticipated in their forecast last month.

Wage growth remains high, but the pressure is easing, making it less of a concern.

Markets are still pricing in another 25bp cut this year, but the ECB gave no indication of the next steps in its monetary policy on Thursday, saying that it was "not pre-committing to a particular rate path".



Source: Bloomberg, BIL

With inflation at a more comfortable level, the ECB's increasing focus will be to **battle the Eurozone's weak growth outlook**.

EU stands firm on banning new petrol cars in 2035

The **European car industry** has been **under pressure** to move away from petrol-powered cars and increase production of electric vehicles (EV). Today, car manufacturers in Europe are struggling to sell their EVs with **high production costs** and **increasing competition coming from China**, putting immense pressure on the manufacturing industry.

Last week, Brussels assured that it will stick to its plans to **ban the sale of new petrol-driven cars in the EU from 2035**, despite pushback from both the car industry and individual member states.

As written last month, Volkswagen said it was **considering closing plants in Germany** because of the challenges it faces. A decision that would be a major blow to the German car industry and its approximately 800 000 jobs. In addition, **profit warnings** have been issued by all the major European car manufacturers this year, with the exception of Renault.

Tougher regulations coming into force in 2025 could also see companies facing **hefty fines** if they don't keep up with the European Commission's planned pace of reducing car emissions in Europe.

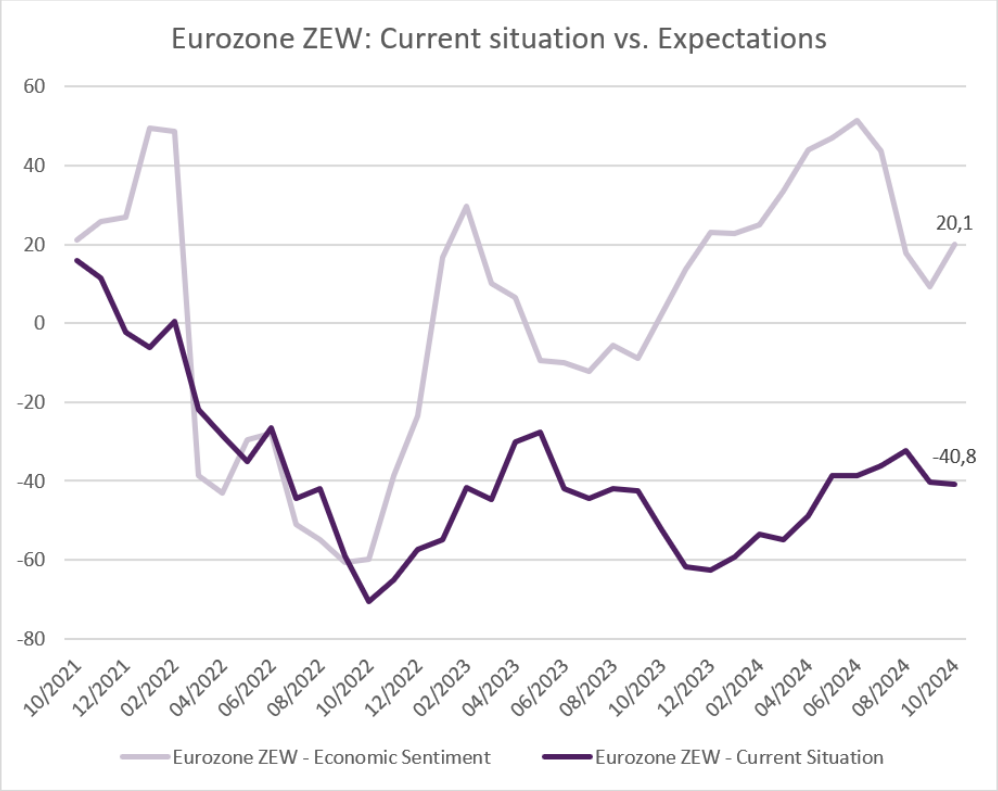
Italy, Germany and France have urged the European Commission to review the ban.

On Friday, Italian car workers gathered in Rome for a **nationwide protest** against job cuts caused by the **slowdown in the Italian car industry** due to slowing demand for electric vehicles. The eight-hour general strike was the first strike by the Italian automotive sector in 20 years.

With the EU standing firm on their plan, the **European auto industry stands at risk** with their struggle to electrify their fleets on time, and in budget.

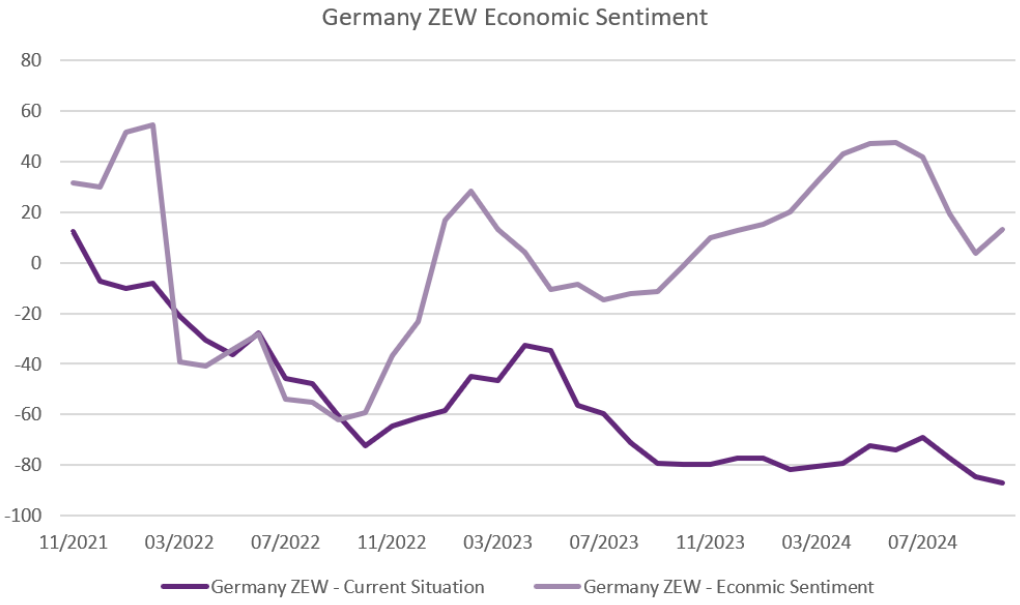
Professional investors grow less pessimistic on the Eurozone

The Eurozone **ZEW Indicator of Economic Sentiment** for October came in at **20.1** last week, with **growing optimism** about the inflation outlook, further rate cuts and improved economic forecasts. This is a 10.8-point climb from September, indicating growing optimism about the economic outlook for the Eurozone.



Source: Bloomberg, BIL

The same indicator also **rose sharply in Germany**, from **3.6 in September to 13.1 in October**. In addition to the aforementioned drivers, the improvement also derived from **positive signals** coming from the **German export market**. The indicator of the current economic situation, however, continued to worsen.



Source: Bloomberg, BIL

Another encouraging data release was **Eurozone industrial production**, which **rose by 1.8%** on

the month in September, driven by rising demand for capital and durable consumer goods. The year-on-year figure was up 0.10%, the first growth figure of the year. Germany impressed with a 3% rise on the month. This release gives more confidence with regard to the Q3 GDP print (due 30th October), but underlying issues remain, including low demand from China, high energy costs and increased competition.

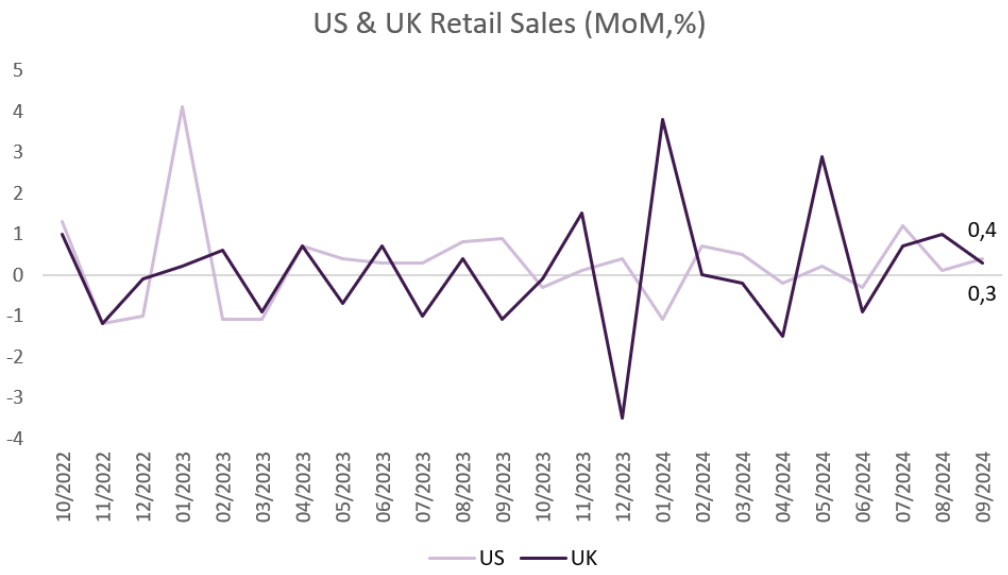
US & UK consumers continue to show resilience

US retail sales rose by a stronger-than-expected 0.4% month-on-month in September, well above the 0.1% increase in August. Consumers spent more on clothing, personal care products, food and beverages, sporting goods, hobbies, musical instruments, books, building materials and garden equipment. Meanwhile, they spent less on electronics, petrol and furniture.

Sales excluding food services, car dealers, building materials stores and petrol stations, which are used to calculate GDP, rose by 0.7%, the most in three months. This points to a continued consumer-driven expansion in the US, powered by strong demand for goods and services and real wage growth.

Across the Atlantic, UK retail sales also beat expectations, rising 0.3% in September. Non-food sales rose 2.5%, while supermarket sales fell 2.4%. On a year-on-year basis, retail sales rose by 3.9%, the biggest annual increase since February 2022.

Consumers in both the US and the UK beat expectations, lending real credibility to the strength of the consumer in the months ahead.



Source: Bloomberg, BIL

US industrial production declined for a third straight month, falling 0.6% YoY in September. However, we do not put too much emphasis on the figure, given that the results are skewed by Boeing strikes, the two hurricanes that struck the South East, and election uncertainty which is causing companies to postpone capital expenditure.

Economic calendar for the week ahead

Monday – Germany PPI (September).

Tuesday – US Money Supply (September).

Wednesday – Eurozone Consumer Confidence (Flash, October). US Existing home sales (September), Fed Beige Book

Thursday – UK Car Production (September), S&P Global Composite PMI (Flash, October). Eurozone, Germany, France HCOB Composite PMI (Flash, October). France Business Confidence (October). US Jobless Claims, S&P Global Composite PMI (Flash, October), New Home Sales (September).

Friday – UK Gfk Consumer Confidence (October). France Consumer Confidence (October). Germany Ifo Business Climate (October). Italy Business & Consumer Confidence (October). US Durable Goods Orders (MoM, September), Michigan Consumer Sentiment (Final, October).

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