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# Weekly Investment Insights



*Global trade has been a hot topic over the past week as the US election draws closer, and as Trump appeared to top polls in what is a very tight election race. Economists around the world are apprehensive about a potential trade war should Donald Trump take office for a second time. The International Monetary Fund has warned that a trade war would be a major threat to its forecasts for underwhelming global growth in 2025. On a similar note, EU-China trade tensions continued to flare up, with Italian tomato sauce maker Mutti urging Brussels to protect farmers from Chinese competition. This call for protection comes at the heels of the EU's decision to impose tariffs on imports of Chinese electric vehicles, which caused controversy a few weeks ago.*

*A few impressive earnings reports boosted markets last week, with some consumer discretionary and tech companies publishing particularly good earnings.*

*Gold surged to a new all-time high due to geopolitical tensions and the anticipation of further rate cuts. Silver was also pushed higher, hitting a 12-year high for a moment last week amidst tight supply and high industrial demand.*

## IMF predicts stable but underwhelming growth ahead

The **International Monetary Fund (IMF)** published their October 2024 world economic outlook last week, in which it **increased US growth expectations, and reduced expectations for the Eurozone and China** for 2024 and 2025. The IMF expects the **world economy to expand by 3.2%** both this year and next, however, it **warned** that the higher tariffs and **a potential trade war** that could come as a result of the US election, would impact these forecasts significantly. **"Greater global protectionism will endanger the world's growth outlook"**, said the IMF.

Pierre-Olivier Gourinchas, the IMF's Chief Economist, noted that "the decline in inflation without a global recession is a major achievement." Global headline **inflation is expected to continue to fall** in the coming years, to an annual average of 5.8% in 2024 and 4.3% in 2025, with emerging markets and developing economies lagging slightly behind advanced economies. However, **geopolitics, trade frictions and climate events could all lead to supply shocks, short-term price spikes and inflation volatility in the coming years.** The Bank for International Settlements (think of it like the central bank of central banks) recently put out a paper saying that while inflation expectations **remained well anchored** this time around, next time, workers and firms will likely be **more vigilant in protecting their purchasing power** and profits. As such, central banks may have to lean more forcefully against inflation in the future.

A "deeper-for-longer-than-expected" **contraction in the Chinese property sector** is also seen as a threat to global growth, given the potential spillovers. The long-running housing crisis has **wiped an estimated \$18 trillion from household wealth**, and recent measures from Beijing to stabilise the real estate market were viewed skeptically by markets. On top of lowering borrowing costs and easing rules for second-home purchases, Beijing has announced a **4 trillion yuan (around \$562 billion) loan quota** for the "white list" program. This scheme aims to ensure that unfinished homes are delivered to buyers and thus prevent mortgage boycotts. The number of homes that have been sold but not built is estimated at some 48 million according to Bloomberg.

## The European economy continues to struggle

While the IMF is predicting stable global growth, the **Eurozone will be a laggard.** The latest **composite PMI remains below 50**, at 49.6, indicating contraction. **Growth in the services sector eased** (PMI 51.2 from 51.4), while **manufacturing remains mired in a downturn**, even if that downturn appears to be shallower than it was in September (PMI of 45.9 versus 45.0 in September). That said, new business fell, with firms reducing purchases and lowering stocks of materials and finished goods.

An environment of **meager demand** in both the services and manufacturing sectors **strengthens the ECB's case for another rate cut** in December.

Looking in more granularity on a country-by-country basis, the boost that France's services sector enjoyed from the Olympics is fading further in the distance. **France's Services PMI dropped** to 48.3 in October, driven by **lower output amidst weak demand**. New overseas business declined, **with export orders plunging** at the fastest rate since May 2020. The **manufacturing PMI also declined**, down to 44.5 in October from 44.6 in September, marking the 21st consecutive month of contraction with little pointing to a potential recovery. Slowing demand in both services and manufacturing caused companies to **reduce workforce** in October, contributing to a **bleak outlook** for French industry.

In **Germany**, the **manufacturing PMI rose** from a one-year low of 40.6 in September, to 42.6 in October. Despite the rise, Germany's manufacturing sector **remains in a deep contraction**. New business inflows fell sharply, and **sentiment remains negative**. The **services PMI** showed a **slightly more positive** outlook, however, rising to 51.4 in October, from 50.6 the month before. Despite new business inflow falling and companies reducing their workforce, business expectations improved significantly. The **Ifo Business Climate** indicator also **rose slightly for the first time in six months**, increasing to 86.5 in October. Both the perception of current conditions and business expectations improved. Could it be that the so-called sick man of Europe is entering convalescence?

## Resilience in the US economy

Contrastingly, flash PMIs from across the pond signaled a **further rise in US business activity** with the composite PMI at 54.3 in October. The **services PMI rose slightly** to 55.3 in October, from 55.2 in September. This is the fifth consecutive reading above 55, proving the continued strength of the service sector. New orders increased the most since April 2022, with domestic demand helping to offset slowing new export business. **Optimism rose** to a 16-month high according to the survey, **despite election uncertainty still being present**.

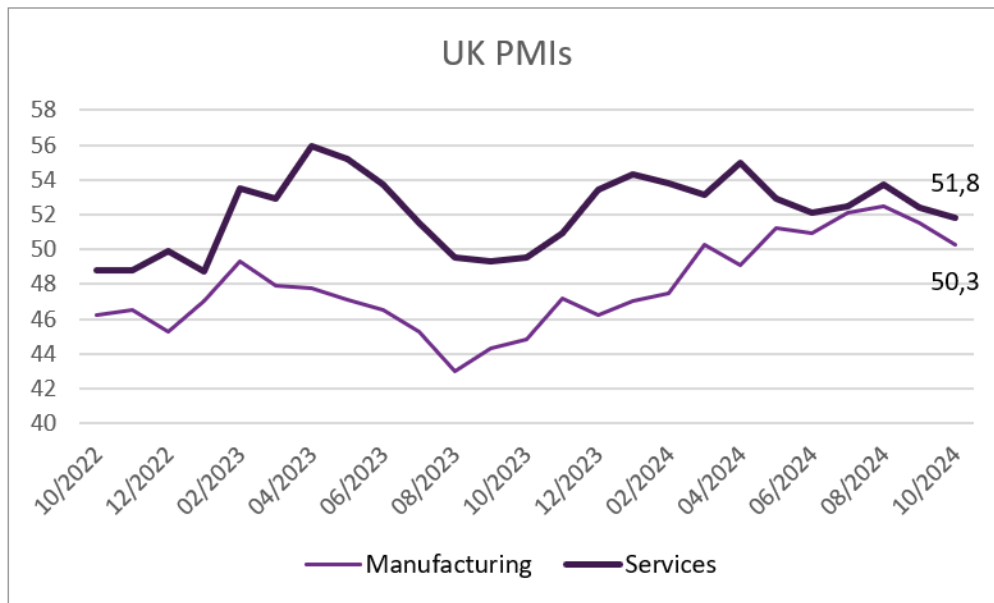
On the **manufacturing** side, the **PMI increased** to 47.8 from 47.3 in September, which was a 15-month low. Business conditions deteriorated with falling new orders and stocks of new purchases; however, the **rate of the deterioration is slowing**. We expect activity to thaw once election uncertainty is in the rearview mirror. Selling price inflation cooled and input cost growth fell to a seven-month low.

The Fed released its **Beige book** last week, summarising the current economic conditions in the US. The tone of the report was more **modest**, saying that "economic activity was little changed in nearly all Districts since early September, though two Districts reported modest growth". With inflation pressure easing, and the job market holding steady, the **US election** at the beginning of November **remains the main uncertainty** for businesses at this time.

## UK Autumn Budget weighing on confidence

As Halloween approaches UK businesses are afraid that the **budget contains more tricks than**

**treats.** Just as the US election has US companies caught in a freeze frame, **UK firms are also stuck in a wait-and-see mode**, pending the Autumn budget. **Private sector growth dropped** to the lowest level in nearly a year, with the **composite PMI at 51.7** in October, down from 52.6 in September. "Gloomy government rhetoric and uncertainty ahead of the Budget has dampened business confidence and spending," said Chris Williamson, chief business economist at S&P Global Market Intelligence.



Source: Bloomberg, BIL

The anticipation of the budget is also impacting the mood of the consumers. The **GfK Consumer Confidence** indicator **dropped slightly more** in October to -21, from -20 in September. The **potential tax increases** that are expected to be announced in next week's Autumn Budget has households and businesses worried.

The **Autumn Budget** will be announced on **30 October** and businesses have put hiring on hold as they wait to get more clarity on the economic outlook. The Budget is **expected to include several tax raises** including for businesses, the wealthy, private schools, UK residents whose permanent home is outside of the UK, and capital gains tax, which could weigh heavily on businesses and individuals going forward.

### Economic calendar for the week ahead

**Monday** – UK CBI Distributive Trades (October).

**Tuesday** – Japan Unemployment Rate (September). **Germany GfK Consumer Confidence** (November). US Goods Trade Balance (Adv, September), House Price Index (August), **JOLTs Job Openings** (September), **CB Consumer Confidence** (October).

**Wednesday** – Japan Consumer Confidence (October). **France, Germany, Italy, Eurozone, US GDP Growth Rate QoQ** (Prel, Q3). Switzerland KOF Leading Indicators (October), Economic Sentiment Index (October). **Germany Unemployment Rate** (October), **Inflation Rate** (Prel, October). Eurozone Consumer Confidence (Final, October).

**Thursday** – Japan Industrial Production (Prel, September), Retail Sales (September), **BoJ Interest Rate Decision**. Germany & Switzerland Retail Sales (September). **Eurozone, France, Italy Inflation Rate** (Prel, October). **US Challenger Job Quits** (October), Jobless Claims.

**Friday** – UK Nationwide Housing Prices (October), S&P Global Manufacturing PMI (October). Switzerland Inflation Rate (October), procure.ch Manufacturing PMI (October). **US Non-Farm Payrolls** (October), **Unemployment Rate** (October), ISM Manufacturing PMI (October).

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