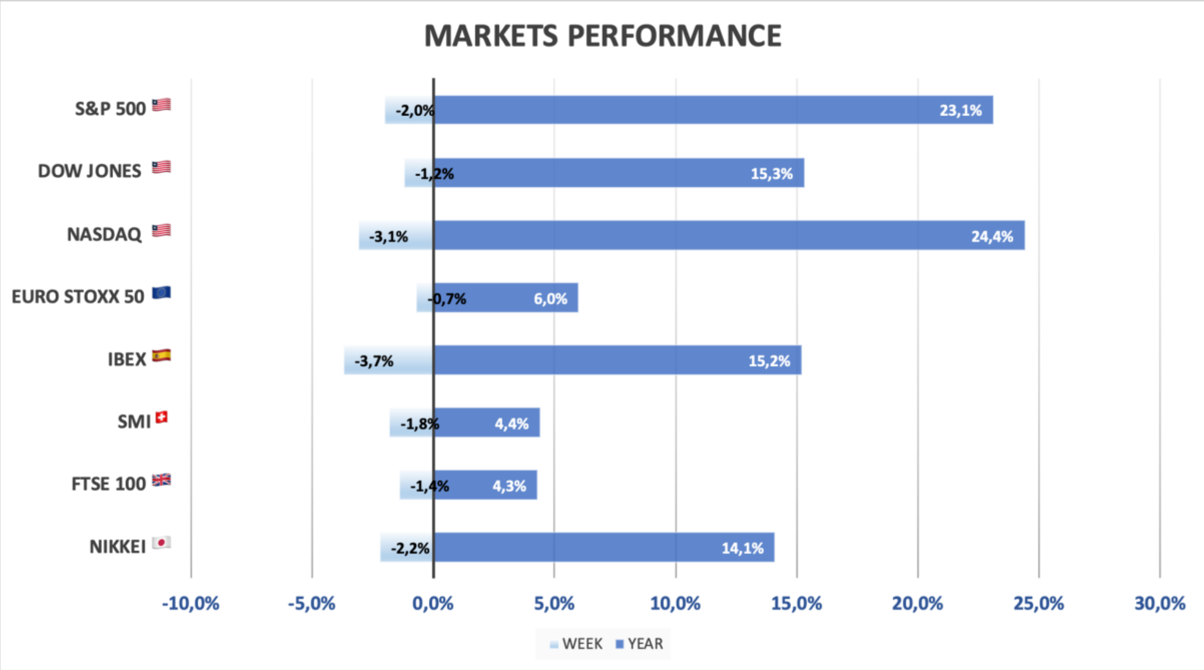
Global markets weekly update

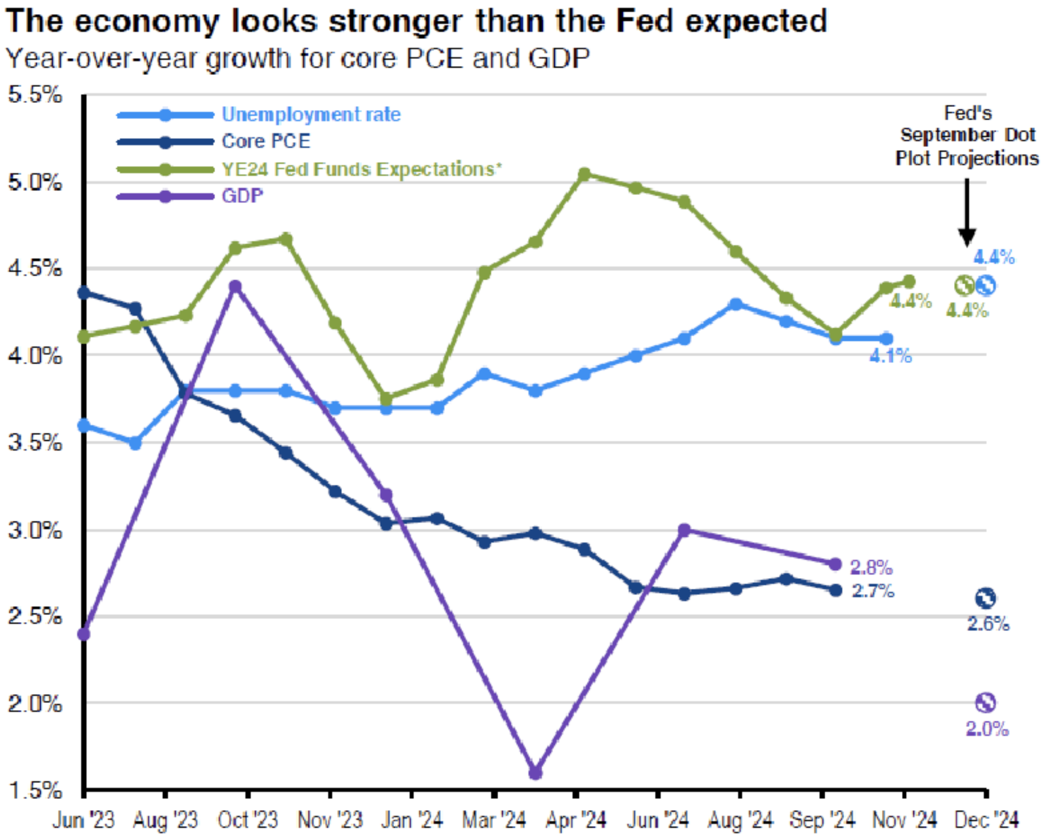
18.11.2024



U.S.

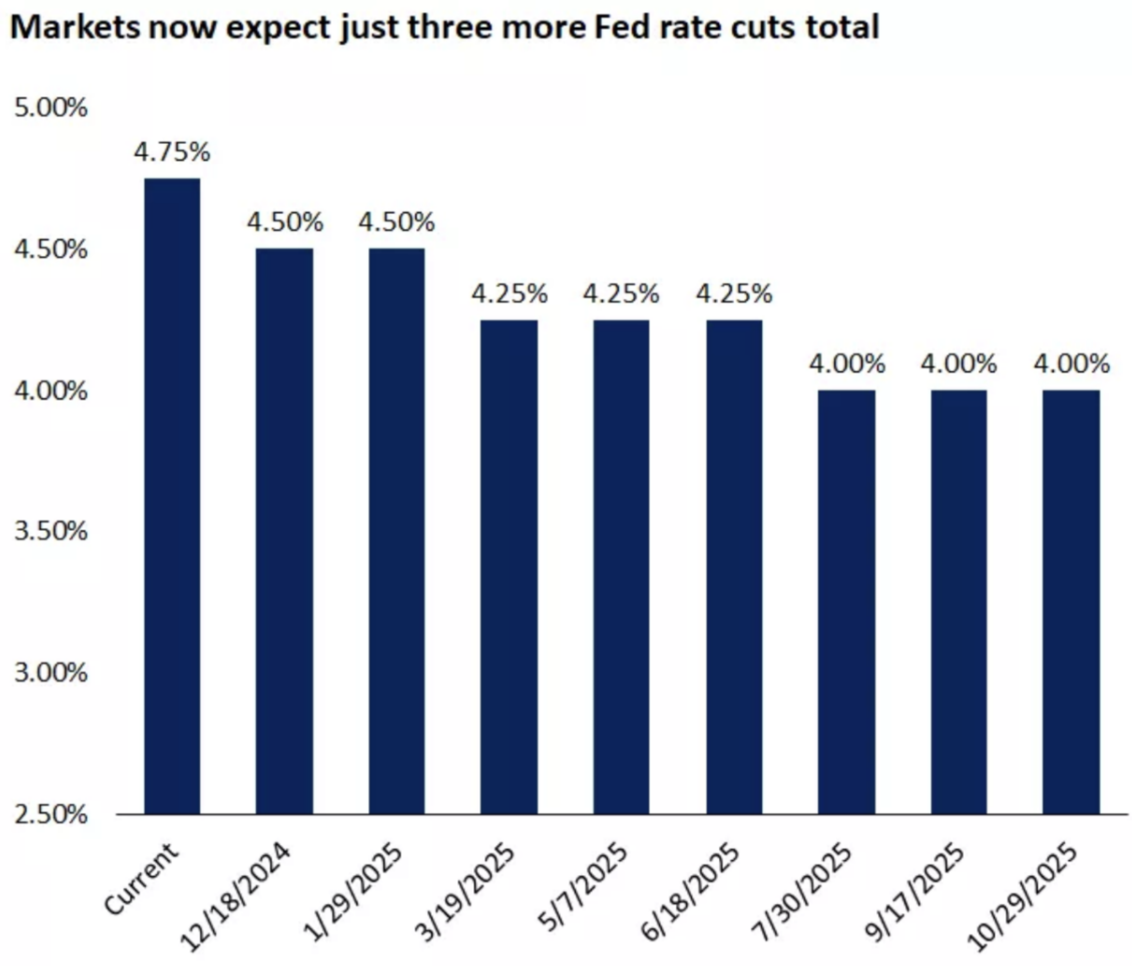
- The major U.S. stock indexes had a mixed performance this week and gave back some of their robust post-election gains, with the S&P500 down about 2%, the Nasdaq sliding 3.1%, and the Dow Jones falling 1.2%.
- Healthcare stocks particularly vaccine and weight-loss drug makers like Moderna, Eli Lilly and Pfizer lost between 4.9% to 7.3% by market close after the nomination of Robert Kennedy as head of the Department of Health and Human Services (HHS), largely due to RFK's reputation as an outspoken critic of vaccines and the FDA. The iShares Biotechnology ETF declined 4.79% following the news.
- US CPI data matched October forecasts. The headline index was up 0.2% during the month and up 2.6% from a year earlier. Core CPI inflation was 0.3% in October and 3.2% year over year. While there continues to be a downward trend in inflation broadly, there are components of prices that remain elevated. Areas like shelter, rent, and even motor vehicle insurance have not moderated as much or as quickly as expected.
- The core PPI, which excludes food and energy prices, rose 0.3% in October, exceeding the 0.2% change in the previous month and the consensus estimate. The year-over-year gain was 3.1%, compared with 2.8% in the 12 months through September.
- Taken together, the readings are adding to an overall picture of persistent, sticky inflation within the economy. Coupled with Trump's inflationary priorities, they have sparked some caution in markets and put into question how deeply the Fed will cut

interest rates in 2025. Indeed, immigration restrictions could re-heat the labor market, fueling wage growth, and tariffs could increase prices. This, combined with a potential trade-war supply chain disruption, could reverse recent disinflation progress. Altogether, risk seems more skewed toward inflation than in September. Markets are currently only pricing 70bps of easing by the end of 2025, compared to 95bps before the election and 160bps after the September meeting. Future easing could progress slower and end quicker than previously expected.



Source: Bloomberg, J.P. Morgan Asset Management. *YE24 fed funds expectations reflect market expectations for the fed funds rate after the 12/18/2024 committee meeting. Data are as of November 13, 2024.

- October Retail sales rose 0.4%, but only 0.1% when excluding automobiles. Analysts had expected 0.3% and 0.2%, respectively. However, the government made sharp upward revisions to September's report.



Source: CME FedWatch Tool, as of 11/15/24.

- Bitcoin and other cryptocurrencies experienced notable movements, with Bitcoin notching a new record of USD 93'400 on Wednesday, amid expectations of favorable crypto regulation and a push to make the US a top crypto hub.
- Geopolitical tensions in the Middle East add complexity to the global oil supply chain, resulting in fluctuations with potential impacts on energy markets as investors weigh the risks associated with the Strait of Hormuz.

Europe

- The Eurostoxx 600 ended the week 0.69% lower, falling for a fourth consecutive week. Concerns about the incoming Trump administration's trade policies and political turmoil in Germany weighed on sentiment, as did Fed Chair Jerome Powell's cautious comments on U.S. interest rates, by remarking that "the economy is not sending any signals that we need to be in a hurry to lower rates." Major stock indexes were mixed.

France’s CAC 40 Index fell 0.94%, Germany’s DAX was little changed, and Italy’s FTSE MIB advanced 1.11%. The UK’s FTSE 100 Index was down modestly.

- UK economic growth slowed down sharply in the third quarter of the year. The Office for National Statistics said growth during the July to September period was just 0.1%. That was lower than the 0.5% recorded in the previous three-month period and below market expectations for 0.2%.
- Euro area data kept hopes of a soft landing for the economy alive. A second estimate of GDP from Eurostat confirmed the unexpectedly strong 0.4% expansion in the third quarter. In addition, the European Commission projected growth of 0.8% in 2024, although Germany’s economy is expected to contract by 0.1%.

Japan

- Japan’s stock markets ended the week lower, with the Nikkei 225 Index falling 2.2% and the broader TOPIX Index down 1.1%. The weakness of the yen offered some support, but the prospect of Trump’s tariffs weighed on the outlook for those Japanese companies heavily dependent on exports to the U.S.
- The yen weakened to JPY 155 against the USD, from about JPY 152.6 at the end of the previous week. Government again warned that it would take appropriate action against excessive currency moves. The JPY has come under pressure as the USD strengthened after Trump’s victory.
- Japan’s GDP grew 0.2% quarter on quarter in the third quarter of 2024, slowing from the 0.5% increase recorded over Q2. On an annualized basis, the economy grew 0.9%, down from 2.2%.

China

- Chinese stocks declined over the week amid worries about potential tariffs under incoming U.S. President Trump. The Shanghai Composite Index fell 3.52%, while the blue chip CSI 300 gave up 3.29%.
- China’s CPI rose a below-consensus 0.3% in October from a year earlier, down from 0.4% in September, largely due to lower food and energy prices. Core inflation increased 0.2%, from September’s 0.1% rise. The producer price index fell 2.9% year on year, more than the 2.5% decrease expected by analysts, extending the deflationary trend.
- Retail sales expanded a better-than-expected 4.8% from a year ago, up from September’s 3.2% rise and marked the strongest growth since February.

- New home prices in 70 cities fell 0.5% in October from September, when home prices dropped 0.7% from August, according to the National Bureau of Statistics. October's decline marked the second month of slowing home price declines and the slowest pace since March, according to Bloomberg. The improvement came after Beijing implemented a series of stimulus measures designed at boosting the housing sector, including reducing mortgage rates, and cutting taxes on home purchases.

Portfolio considerations

Equities

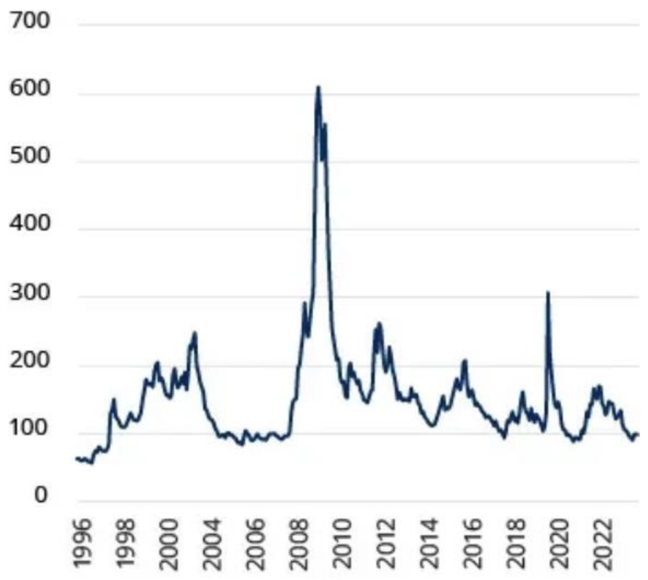
Overall, we are now entering a seasonally stronger time of year for markets. Especially in election years, November and December historically have been positive months in the markets, and the trend may continue in the weeks ahead. However, after a strong year in markets, and an especially strong post-election stock-market rally, some of these gains may have already occurred.
We would expect policy uncertainty to trigger bouts of volatility in the months ahead, but we believe markets will be able to climb these walls of worry over time, especially if economic growth remains resilient and inflation is controlled. We continue to see pullbacks as opportunities to diversify and add quality names.

Fixed Income

Expectations for higher long-term interest rates were reflected in a sharp rise in the yield of the benchmark 10-year U.S. Treasury note, which touched its highest intraday level (4.51%) on Friday since the start of June. The stronger economic and inflation data in recent months suggest that there is no urgency with the pace of rate cuts. Trump's looser fiscal policy next year may lead the Fed to move more slowly than it otherwise would.

Higher yields offer another chance to extend slightly the duration of portfolios. Repositioning into intermediate maturity bonds can lock the high yields for longer, without assuming excessive duration risk, especially given the tight spreads environment.

USD IG spreads (bps)



Source: ICE Data Indices and Schroders. Data as at 30 August 2024.

The week ahead

Monday	Tuesday	Wednesday	Thursday	Friday
Eurozone Trade Balance	Inflation in Eurozone	Inflation in the UK	Philadephia Fed Manufacturing Index	German GDP
Swiss Indutrial Production	Swiss Trade Balance	ECB Financial Stability Review	US existing home sales	S&P Global Manufacturing PMI & Global Services PMI
		German producer prices	Weekly unemployment claims	SNB Speech