Signia Invest Insights

31 October 2024

Signia Invest
One Connaught Place
London
W2 2ET

Contact Us
info@signiainvest.com
+44 (0) 800 756 1094

Website
www.signiainvest.com

Market Summary and Review

- I know this is an October summary but it would be remiss to ignore the huge Trump elephant in the room after a historic US election in November. It has been a talking point all year and if the result has disappointed some people then the drama on the night and market reaction has certainly not disappointed the neutrals, with an unexpected Trump/Republican sweep of the seven 'swing states' and both the Senate and House of Representatives on Capitol Hill. The S&P 500 subsequently hit its 48th record high this year posting the best post-election day return in its history (+2.5%). The 10-year and 30-year US Treasury bond yields surged 16 and 17 basis points, respectively, posting their biggest jump since March 2020 during the pandemic turmoil. Furthermore, the US dollar had its strongest day against the Euro since 2016 (+1.9%), whilst Bitcoin (+6.5%) also closed at an all-time high of $74,507. A truly historic day all round.

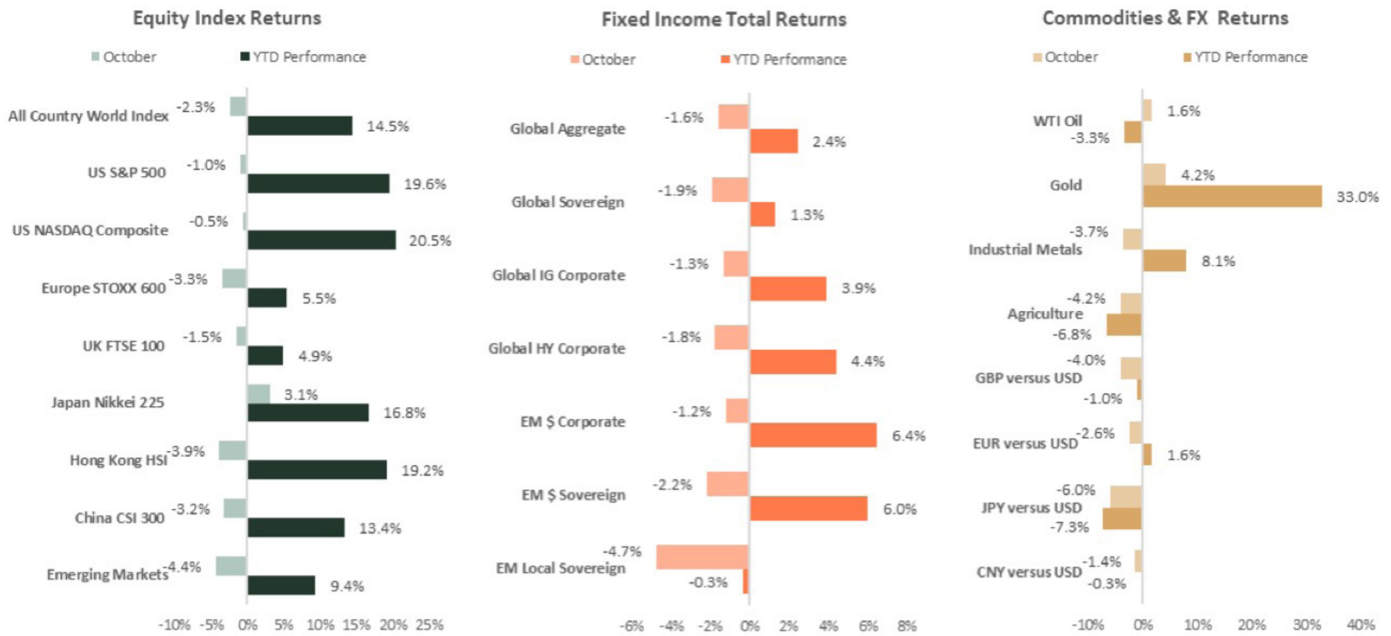
- October was a weak month for markets, with bonds and equities losing ground and paring year-to-date gains across the board. Indeed, it was the worst month for global fixed income since September 2022, back when inflation was still raging and the Fed was hiking interest rates in 75 basis point increments. The October move was partly because US economic data continued to surprise on the upside, which pushed back fears of a downturn and led investors to dial back the likelihood of rapid Fed rate cuts. Fiscal policy risks were back in focus around the world, particularly in the US and UK, which contributed additional pressure to rising bond yields. Equity markets also declined, with the exception of Japan which benefitted from a weaker Yen during the month boosting economic prospects. The S&P 500 lost ground for the first time in six months, declining by -1.0%, whilst world equities declined by -2.3%, as the bull market took a breather.

- The focus on fiscal policy risk was amplified with the IMF's fiscal monitor in October projecting that global public debt would exceed $100 trillion in 2024. In the US, a Republican 'sweep scenario' of the White House, Senate, and House of Representatives, is seen as raising the likelihood of yet more fiscal stimulus relative to a divided Capitol Hill, and with it, also raising concerns over fiscal sustainability. Remarkably, there are currently 117 companies in the S&P 500 with a lower CDS (credit default swap) spread than the US government itself, or put another way, over 1/5 of S&P 500 companies are now perceived to have a stronger credit worthiness than Uncle Sam.

- US 10-year government bond yields have increased in real and nominal terms – the latter from a low of 3.6% in mid-September to currently around 4.3%, a significant tightening that also led to an increase in US mortgage rates. For now, this increase is similar to what we observed after the first rate cut in the 1995 Fed cutting cycle, which saw a circa 50 basis point bounce in long-term yields before they resumed their downward trend to the ultimate cycle low in 1996. Rising yields were also likely driven by better than expected economic data recently, as evidenced by the substantial rebound in the Citi US Economic surprise index. We have seen a similar albeit somewhat muted move also in the Eurozone, whilst data in the UK generally came in worse than expected.

- Another big theme in October was geopolitics, as tensions in the Middle East remained high. At the start of the month, there was a significant spike in oil prices after Iran launched a missile strike against Israel, and Brent Crude oil prices hit an intraday peak above $81 per barrel. However, Israel's subsequent response was focused on military targets in Iran, rather than any oil facilities, and with the response being more limited than many had anticipated, oil prices have subsequently pared their gains. This backdrop meant that several safe haven assets put in a strong performance in October, with gold prices rising 4.2% and advancing for a 4th consecutive month to an all-time high, and the US Dollar index rising by 3.2% in its strongest monthly performance since April 2022.

MARKET PERFORMANCE AS OF 31 OCTOBER 2024



Source: Bloomberg L.P., Arbion Ltd.

TRUMP 2.0 – IMPLICATIONS FOR MARKETS

- The America First mantra was particularly evident in the US markets on the day following the election as the S&P 500 was up 2.5%, Magnificent 7 up 4.2%, Russel 2000 up 5.8%, KBW US Bank Index up 10.7% and DXY Dollar index up 1.7%. Animal spirits plain to see all over the Bloomberg screens. The reason being that Trump's victory was not certain on election day, and moreover, the amplitude of his sweeping victory was surprising, with the broad trifecta of presidency, the Senate, and House of Republicans, being somewhat helpful for investors as it removes any ambiguity with regards to his mandate. As always, we would judge him by what his administration does rather than what he says, and by that token, it is still early days.

- However, the market's perspective in its initial reaction was clear: Trump is bullish for US stocks, especially domestically focused names, he is unlikely to be a fiscal hawk and therefore deficit spending will continue, exacerbated by potential new tax cuts and tax cut extensions. Benchmark yields have risen as a result and so have inflation expectations, indicating a more reflationary environment ahead. China and emerging markets, and potentially even Europe, could be negatively affected by tariffs and trade wars.

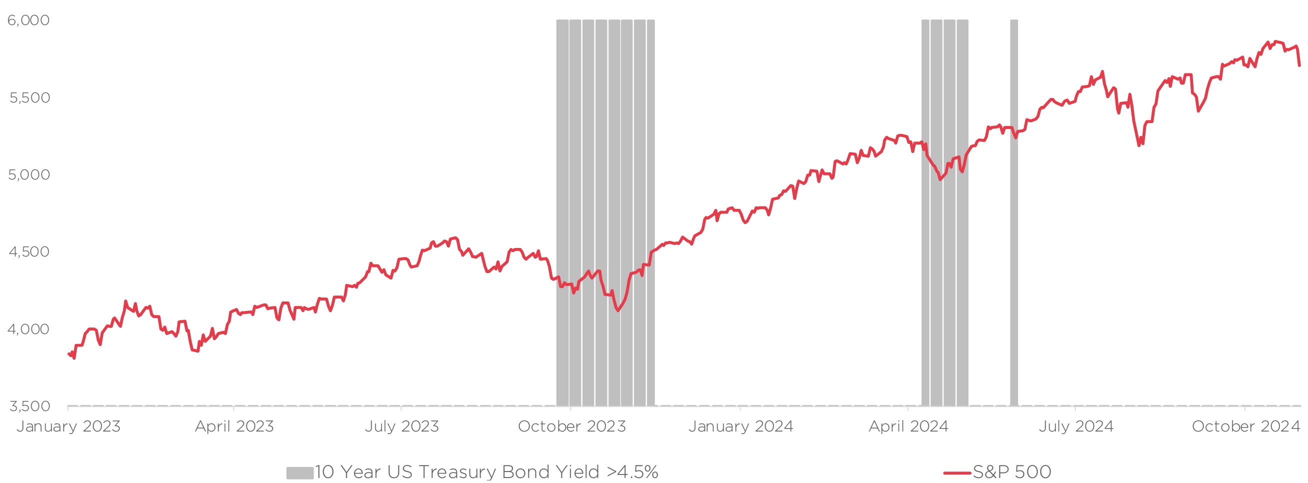
- Fixed Income – For US Treasuries, the prospect of looser fiscal policy and a slightly higher trend in inflation are likely to play a key role for higher bond yields, especially for US Dollar denominated bonds and longer dated issues as the yield curve steepens. However, shorter dated yields could also come under some pressure if the prospect of fewer rate cuts by the Fed is priced in to rate markets. The spread between 10year US-Treasuries and 10year German Bunds has already widened to above 200 basis points, and could rise further in the medium term if monetary policy with Europe diverges.

- Equities – Investors must now decide whether they prioritize the fear of higher inflation and thus fewer interest rate cuts by the Fed or the expected more business-friendly policies of Donald Trump. A further reduction of corporate taxes could add 3-4% in earnings to the S&P 500, but not before 2026. Companies with a high share of domestic US earnings have the most to gain. These are mostly found in the financial sector and small and midcap market segments. However, while the big technology companies have a large share of non-US income, and could therefore benefit less from lower taxes, the Federal Trade Commission could now become less concerned about the market power of these large technology platforms, removing some associated risk

premium from these stocks. US energy stocks could see some benefits from a more pro-oil and gas attitude, and by contrast, renewable sectors may continue to struggle and underperform in expectation of a partial reversal of the Inflation Reduction Act and the related tax benefits allocated to windfarms and solar energy.

- We've seen over the last few years that the red line for equities has been around the 4.5% level on the US 10-year Treasury yield. That said, after the election sell off in the Treasury market, yields on the 10-year are now approaching this level and are something we are monitoring closely. It will be interesting to see how yields will impact risk assets this time around given that the rise in bond yields, especially on the long end of the yield curve, appears to be more tied to stronger economic growth expectations as opposed to previously higher inflation expectations.

THE US 10-YEAR TREASURY BOND YIELD HAS BECOME PROBLEMATIC FOR EQUITIES WHEN RISING ABOVE 4.5%



Data as at 06.11.2024. Source: Strategas, Factset.

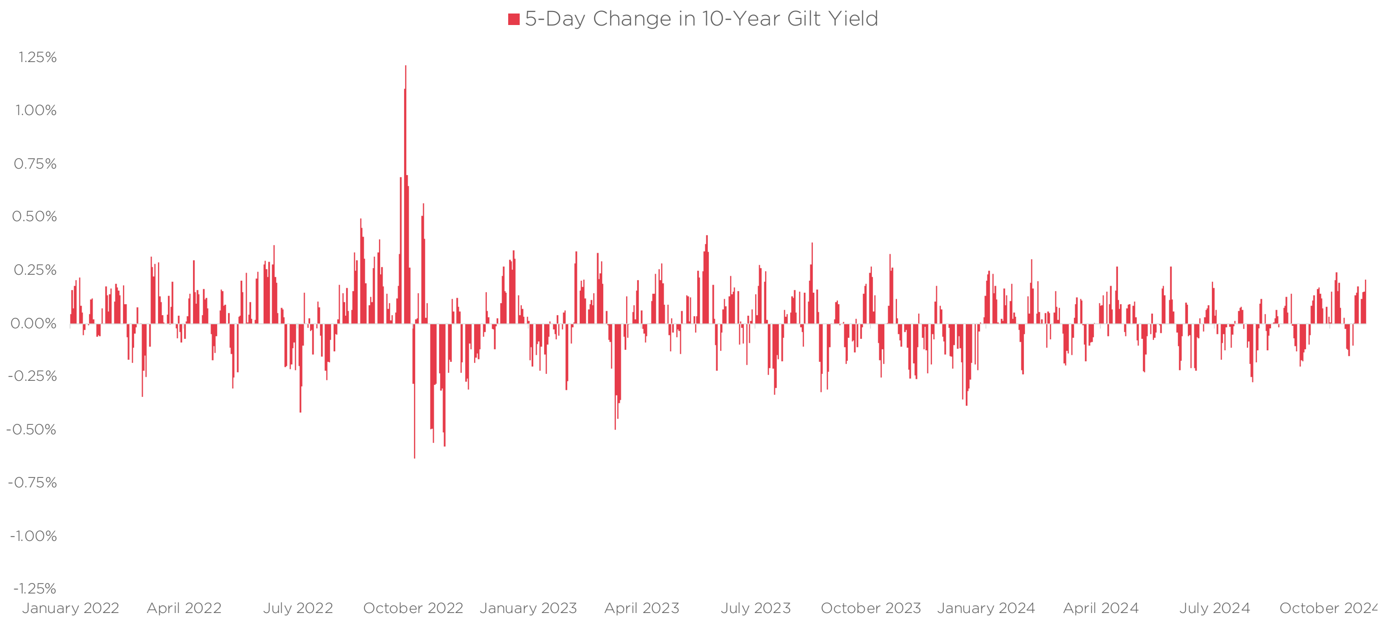
THE UK BUDGET FEATURED THE USUAL TRICKS BUT THIS TIME NOT MANY TREATS FOR BRITISH TAXPAYERS AND BUSINESSES

- The Labour Party and new Chancellor of the Exchequer, Rachel Reeves, delivered a much anticipated inaugural Autumn Budget, with some unwelcome surprises for businesses. Larger-than-expected minimum wage increases and a tax hike for employer National Insurance contributions will prove substantially costly for some businesses and likely inflationary for the economy, making it more difficult for the Bank of England to deliver on series of sequential rate cuts. The fiscal remit for the upcoming tax year was in line with expectations but medium term gilt issuance forecasts were higher than expected, pointing to around £110 billion in additional gilt supply to be issued by the UK over the next 4-5 years.

- Including these effects in its baseline forecasts, the Bank of England highlighted the potential impact in its Monetary Policy Report, raising inflation by just under 0.5% and GDP growth by 0.75% at its peak in a year's time, and projecting the government to raise public expenditure by £70 billion a year from 2025-26 onwards.

- The impact on the UK financial markets was evident, particularly in the currency markets with Sterling depreciating by around 1% against both the US Dollar and Euro, and 10-year UK gilt yields rising intra-day by 20 basis points at their peak. This left the yield spread of 10-year gilts over their 10-year German bund counterparts at over 200 basis points, the highest since October 2022 when Liz Truss was Prime Minister after the now infamous 'mini budget'. Despite the recent pick up in UK rate volatility, the gilt market did not experience the severe stress and turbulence that was endured two years ago, with the 5-day rise in 10-year gilt yields still only a fraction of the 1.2% yield spike in September 2022.

THE UK GOVERNMENT BOND SHOCK WAS NOT REMOTELY AS BIG AS THE TRUSS/KWARTENG 'MINI-BUDGET' SHOCK TWO YEARS AGO



Data as at 06.11.2024. Source: Bloomberg.

WORLD ECONOMIC DASHBOARD

	GDP (YoY)	2024 GDP Forecast*	2025 GDP Forecast*	Headline CPI	Core CPI	Unemploy-ment Rate	Central Bank Policy Rate	1Y Yield (Implied Path)
US	2.7	2.6	1.9	2.4	3.3	4.1	4.75	4.29
UK	0.7	1.0	1.3	1.7	3.2	4.0	4.75	4.66
Europe	0.9	0.7	1.2	2.0	2.7	6.3	3.25	2.46
China	4.6	4.8	4.5	0.3	0.2	4.0	2.00	1.40
Japan	-1.0	0.0	1.2	1.8	1.1	2.4	0.25	0.37

*Bloomberg full year economic forecasts

Data as at 08.11.2024. Source: Bloomberg L.P., Arbion Ltd. All figures are percentages.

OTHER NOTABLE ECONOMIC AND MARKET DEVELOPMENTS

- **International Monetary Fund:** Global public debt is expected to surpass $100 trillion, around 93% of GDP, by the end of 2024, and approach 100% by 2030. This is 10 percentage points above 2019's pre-pandemic level, with China and the US largely driving the increase. Public debt is expected to stabilise or fall for two-thirds of the world's countries, but future debt levels could be higher than projected, partly due to large spending pressures and sizable unidentified debt, the IMF said.

- **US:** Job openings fell to their lowest level since January 2021, at 7.443 million versus 8 million expected. The jobs report also showed the quits rate of those voluntarily leaving their roles decline from 2.0% to 1.9%, which is the lowest since mid-2015 if you exclude the Covid months of March-June 2020, and another sign of the slowing US labour market, albeit overall it remains in a relatively healthy state but one that require close attention. On the plus side, the Conference Board's US consumer confidence indicator surged to its highest level since January, at 108.7 versus 99.5 expected. Moreover, the difference between those saying jobs were "plentiful" and "hard to get" finally rose after 8 consecutive monthly declines.

- **Canada:** The Bank of Canada ramped up the pace of its easing cycle with a large 50 basis point cut to a 3.75% target rate, having now cut 125bp since June. Further rate cuts are coming, with the Bank confirming the size and timing would be determined by the incoming data, with GDP and labour trends likely to be in the driving seat here. In the press conference, Governor Macklem said that their focus was "to maintain low, stable inflation. We need to stick the landing." Moreover, he said that they "anticipate cutting our policy rate further to support demand and keep inflation on target".

- **Eurozone:** The economy grew at a better-than-expected pace of 0.4% on a quarterly basis in Q3, up from 0.2% in the previous three months, boosted by an Olympic-inspired lift to French GDP. The European Central Bank cut interest rates by 25 basis points to 3.25% for a second consecutive meeting, saying the disinflationary process was "well on track" and sticking to its meeting-by-meeting approach. "We are going to continue doing exactly the same thing," ECB president Christine Lagarde told a news conference, adding that the decision to cut was unanimous given lower-than-expected inflation data and a weaker economy.

- **Middle East:** Israel said that Hamas leader Yahya Sinwar was killed in Gaza during a military operation. Sinwar's death follows a previous Israeli strike which killed Hassan Nasrallah, the leader of Hezbollah, as tensions in the Middle East remain elevated.

- **China:** The CNY 500 billion Securities, Funds and Insurance companies Swap Facility announced by the People's Bank of China last month resembles the US Term Securities Lending Facility deployed during the 2007-2008 financial crisis, though it will only target equities. The PBOC has signalled it could increase its size if needed by expanding the range of collateral eligible for the facility. Currently it accepts bonds, stock ETFs, and CSI 300 shares, which institutional investors can exchange for high-grade liquid assets such as government bonds and central bank bills. The PBOC also announced a CNY 300 billion relending tool for stock buy-backs, in a further sign of the emphasis policymakers are placing on targeted tools, which are more flexible and less balance-sheet intensive.

- **Japan:** Japan faces a period of political instability after the LDP-led ruling coalition failed to win a majority in parliament for the first time since 2009, setting up a race among two main blocs to form a government. With the main opposition CDP well short of a majority, this leaves a highly uncertain political situation.

- **New Zealand:** The Reserve Bank of New Zealand cut interest rates by half a percentage point, stepping up the pace of easing as policymakers become more concerned about a domestic economic slowdown.

SUMMARY AND OUTLOOK

- As we approach the end of the year and with US elections now out of the way, other than a seasonally strong period for equity returns, there are not many significant catalysts left for markets. Taking into account relatively strong technical factors combined with somewhat positive market sentiment, we would not assume major changes to asset allocations in the near-term. We remain fully invested in equity and credit markets, and importantly at this point in the market cycle, diversified across regions and sectors but with a moderate preference for US assets. Given that S&P 500 Q3 corporate profits grew 8% year-on-year, which was better than the expected 3% growth rate, and that forecast S&P 500 earnings-per-share is expected to grow by a further 11% in 2025, it seems that the Trump rally could well drift on into next year.

- With clarity on the US election and solid US corporate profit growth on the horizon, business activity has support and there's a pathway forward for healthy US economic growth. Profits support hiring, hiring supports consumer income, and income supports consumer spending (the bulk of US GDP). There will undoubtedly be more unexpected bumps that lie ahead in the road for this bull market, so despite the relatively rosy outlook, we remain nimble and vigilant to any emerging risks, especially the ones we can't see yet!

SIGNIA INVEST

ROBERT LEE

CO-HEAD OF MULTI-ASSET INVESTMENTS, HEAD OF RATES

Robert has been managing the wealth of private clients since 2006 as a portfolio manager and fixed income specialist. He is jointly responsible for the multi-asset investment team, global fixed income strategies, and Arbion's retail funds business. Previously, he worked for Lehman Brothers on the European Capital Markets team, and then Coutts & Co where he was a member of the fixed income and foreign exchange selection committees, responsible for managing the advisory and discretionary portfolios for private clients and institutions.

Robert is a Chartered Financial Analyst and a member of the Chartered Institute for Securities & Investment.

CONTACT US

Signia Invest

One Connaught Place,
London, W2 2ET

www.signiainvest.com
info@signiainvest.com

Signia Invest is a trading name of Arbion Limited.

The information in this document is for general purposes only and should not be construed as any type of solicitation, offer, or recommendation of any investment, engage in any transaction or make use of the services of Signia Invest. The performance shown above (net of management fees) .

Performance is simulated performance based on the funds actual holdings and weighting by the prospectus's strategic asset allocation. Information in relation to past performance is not an indication of future performance. Any targeted returns set out in this document are provided as an indicator and are not intended to be viewed as a representation of likely performance returns. There can be no guarantee that targeted returns will be realised and there is no guarantee as to the quality of the investment or a representation as to the adequacy of the methodology for estimating returns. The information and opinions enclosed are subject to change without notice.

No responsibility is accepted to any person for the consequences of any person placing reliance on the content of this document for any purpose. No action has been taken to permit the distribution of this document in any jurisdiction where any such action is required. Such distribution may be restricted in certain jurisdictions and accordingly, this document does not constitute, and may not be used for the purposes of, an offer or solicitation to any person in any jurisdiction were such offer or solicitation is unlawful.

IFSL are the ACD for the fund, Investment Fund Services Limited is authorised and regulated by the Financial Conduct Authority (Reference No.464193) (www.fca.org.uk). It is registered in England and Wales (Company Registration No. 06110770). Registered office: Marlborough House, 59 Chorley New Road, Bolton, BL1 4QP. Signia Invest is a trading name of Arbion Limited.

This document has been approved and issued by Arbion Limited, Authorised and regulated by the Financial Conduct Authority FCA Registration No 513138. Registered in England and Wales No 7044573. Registered office One Connaught Place, London, W2 2ET