# Signia Invest Insights

30 November 2024

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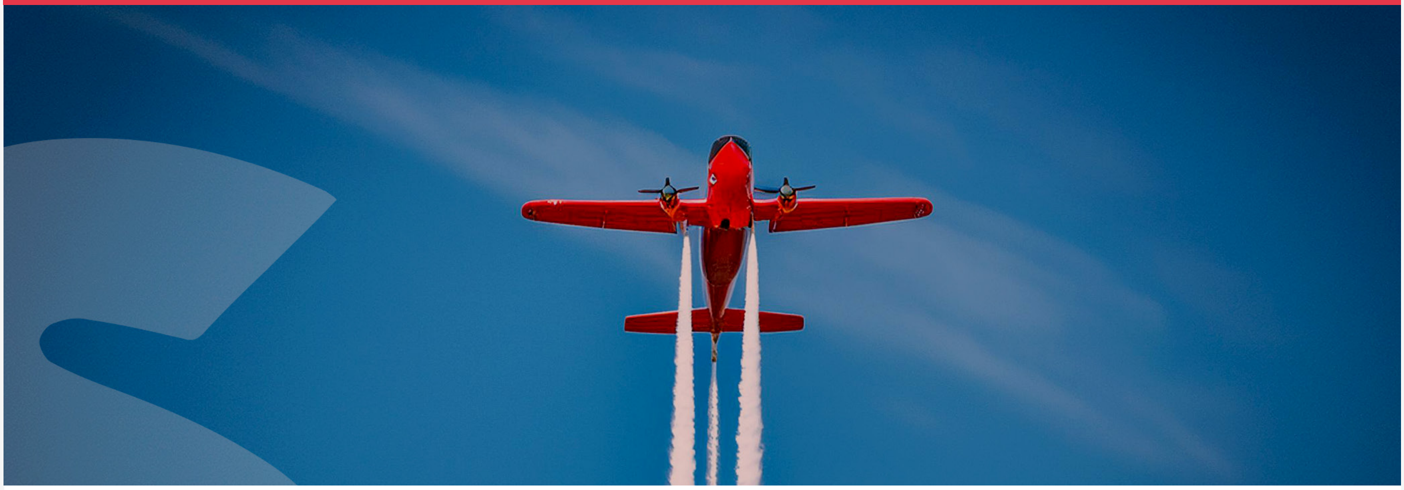
## MARKET SUMMARY AND REVIEW



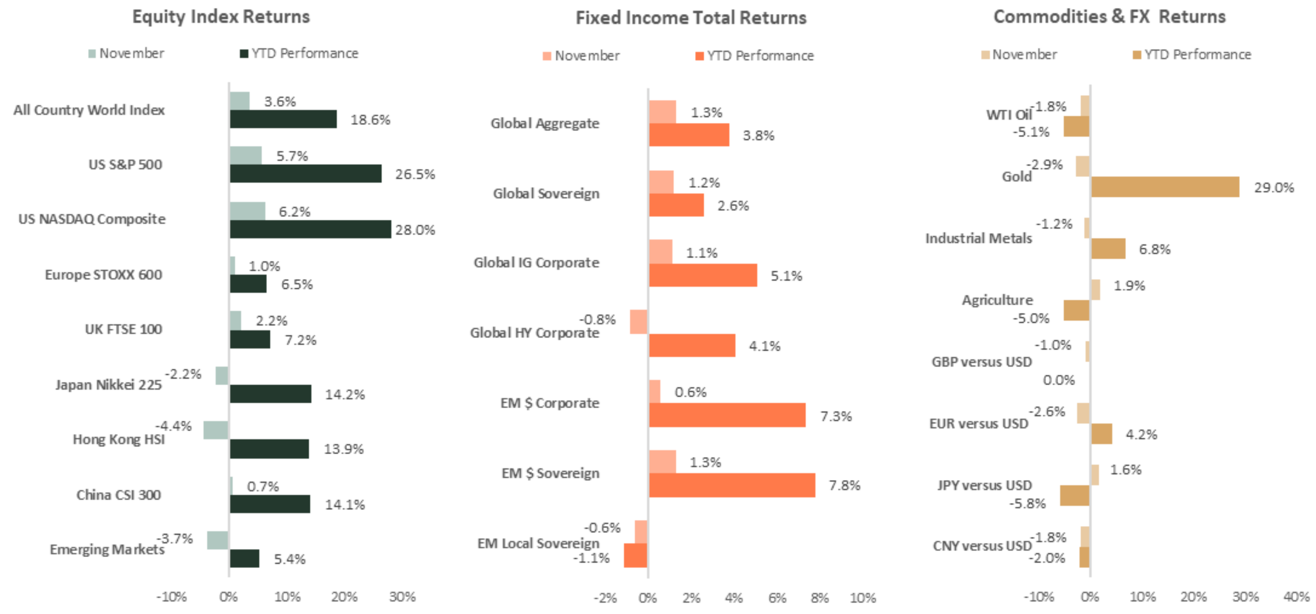
- Markets posted an overall solid performance in November, with US equities bouncing back from their October losses as the S&P 500 hit another all-time high. The US presidential election on November 5th was the main event, which resulted in a clean sweep victory for Donald Trump across the seven swing states, and more importantly, across Capitol Hill with Republicans due to control both the House of Representatives and the Senate. That backdrop saw US equities do very well, and US equities outperforming once again and the S&P 500 rallying 5.7%, its strongest monthly performance of 2024 so far. Moreover, those gains were broad-based, with the equal-weighted S&P 500 seeing an even larger 6.4% gain. Several sectors saw a strong outperformance, with the KBW Bank Index also posting its strongest monthly performance this year, rising 13.6% in November alone. Other equity markets didn't fare so well, with the Europe Stoxx 600 rising only 1.0%, whilst the Japan Nikkei 225 and Hong Kong HSI stock markets declined -2.2% and -4.4%, respectively.

- Overall, fixed income assets performed well, with the global bond aggregate rising 1.3% in November. European sovereign bonds outperformed as investors priced in faster rate cuts from the ECB. But there were a few weaker spots in other markets, with French assets underperforming given the country's budget situation, and the Euro itself posted its biggest decline against the US Dollar in 18 months as investors contemplated the prospect of further tariffs and trade wars with the incoming Trump administration.

- Another continued theme into November was growing scepticism that the Fed would cut rates rapidly over the year ahead. That came as Fed Chair Powell said the economy "is not sending any signals that we need to be in a hurry to lower rates." Then later in the month, data also showed core PCE at a 7-month high in October, coming in at a monthly pace of 0.27% and comfortably above 3% on an annualised basis. So there was growing concern that inflation was proving sticky and settling above the Fed's 2% target.

- Geopolitics was also in focus in November, as Ukraine made its first US-sourced ATACMS strike inside Russia, whilst President Putin signed a revision to Russia's nuclear doctrine, allowing for a wider set of conditions under which they could use nuclear weapons. That led to growing fears of an escalation in the conflict, causing European natural gas futures to rise by 18% during the month. However, in the Middle East, a ceasefire agreement was reached between Israel and Hezbollah towards the end of the month, which put some downward pressure on oil prices and some safe haven assets such as gold.

## MARKET PERFORMANCE AS OF 30 NOVEMBER 2024




Source: Bloomberg L.P., Arbion Ltd.

## PREPARING FOR TRUMP 2.025 – STORM BEFORE THE CALM, OR THE CALM BEFORE THE STORM?

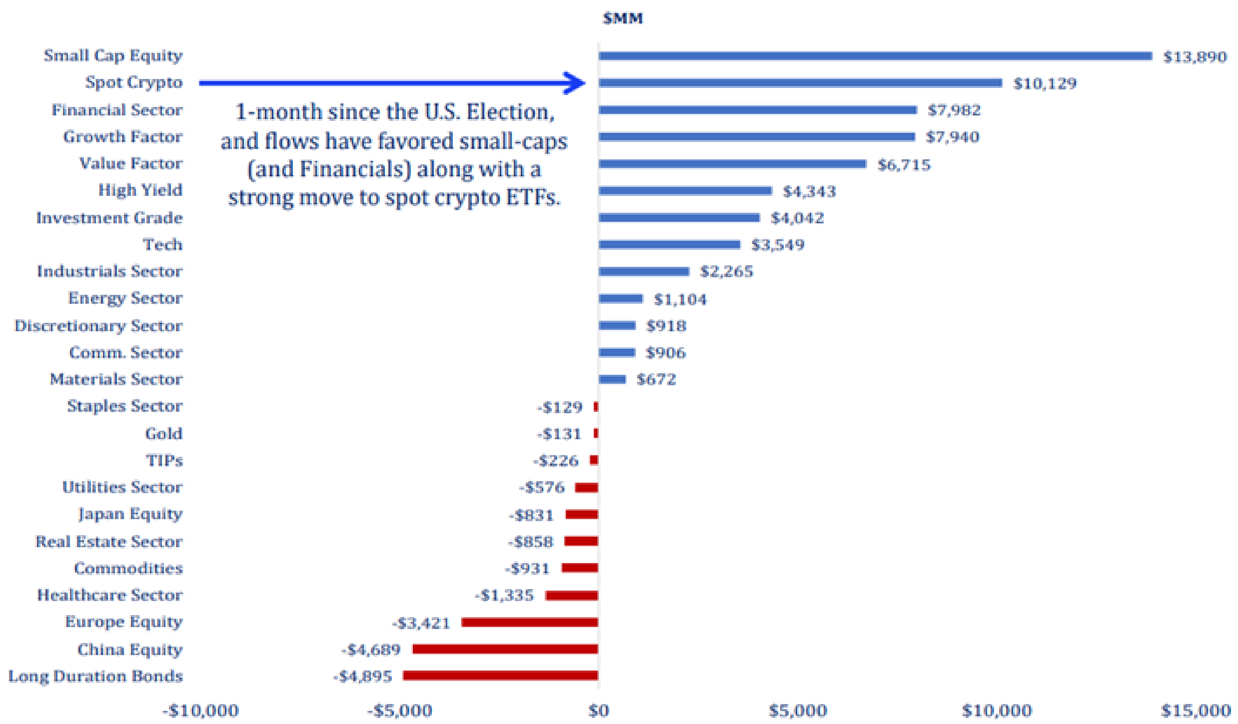
- There is no doubt that this US election has moved markets in a way that no other election has in recent history. The burning question now for investors is whether what we've witnessed in the run up to the election, and the subsequent aftershock, will prove to be the storm before the calm or calm before the storm for markets next year. If Trump's first term as President is anything to go by then one could argue his bark could once again be worse than his bite. If not, and Trump intends to have a very different second term, then perhaps investors should look to instead balance the 'Trump Tails' of both positive and negative outcomes, rather than just buying into the Trump trades that have already done notably well since the election. After two very strong years in equity markets, a more balanced approach to asset allocation in 2025 seems somewhat of a prudent one now, especially as bond yields in absolute terms still offer some of the most attractive income streams since the 2008 global financial crisis.

- In terms of influencing markets, Trump's most influential nomination son far has arguably been hedge fund boss, Scott Bessent, as Treasury Secretary, which helped reverse rising US Treasury bond yields since the US election. That's because Bessent is seen as market-friendly and has supported a gradualist approach on tariffs, so his nomination is seen as a less aggressive option than some of the others would have been. Furthermore, Bessent has consistently argued in favour of cutting the federal budget deficit and is viewed by Wall Street as a pragmatic pick for an administration that has campaigned on a populist economic agenda. He favours keeping Fed Chair Powell until his term expires in 2026 and has espoused a “3-3-3 policy” of cutting the budget deficit to 3%, targeting 3% GDP growth, and increasing US production by 3 million barrels of oil per day. His appointment, if indeed it transpires, should bring an element of calmness and stability to the incoming administration next year.

- The AI investment theme has been a key area of market strength and ballast over the last two years in what have ultimately been uneven markets. Holding any meaningful exposure to this market segment, and in particular, now highly concentrated US equity indices, will be an important consideration for investors as to whether AI outperformance can continue for a third consecutive year under Trump 2.025. Nvidia’s third quarter results released in November drew a tepid reaction despite a solid Q3 earnings beat as its guidance failed to match some of the loftiest expectations. The company’s earnings call talked of “very strong” demand for its new Blackwell chips that will begin to ship this quarter, but overall, it was still deemed to be an underwhelming outcome with Nvidia’s shares declining in post-market trading. Of course, this has be to put in perspective of the stock’s nearly 200% rally year-to-date at that point! Thus, it is reasonable to assume that, if the AI theme continues apace in 2025, outperformance could instead be led by those customers of Nvidia who have invested heavily with them in 2023 and 2024, and who are starting to realise the productivity and profitability benefits.

- There are now over 50 crypto-related ETF products available in the retail marketplace, ranging from spot price exposure to futures-based, to option income, to trend-following strategies and, of course, leveraged products. The will no doubt be further buildout of this ecosystem in 2025. Total AUM has now crossed $120 billion, and for reference, the entire Commodity ETF universe is approximately $160 billion, yet has existed for 20 years! In the roughly one month since the US election, spot crypto ETFs have seen net inflows of over $10 billion, ranking only behind US small cap equity ETF inflows. These figures are large and a clear indication of where investors think the best asset classes will be in 2025, alongside US financials as part of a powerful Trump deregulation policy theme. On the flipside, long duration bonds, and international stock markets in China and Europe, saw the largest outflows, as US investors grew concerned about the growing size of the fiscal deficit at home, and impact of escalating trade wars overseas.

## ETF FLOWS SINCE THE US ELECTION:




Data as at 05.12.2024. Source: Strategas.

## 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 | 2.7 | 2.1 | 2.6 | 3.3 | 4.1 | 4.75 | 4.24 |
| UK | 1.0 | 0.9 | 1.4 | 2.3 | 3.3 | 4.3 | 4.75 | 4.54 |
| Europe | 0.9 | 0.8 | 1.2 | 2.3 | 2.7 | 6.3 | 3.25 | 2.26 |
| China | 4.6 | 4.8 | 4.5 | 0.3 | 0.2 | 4.0 | 2.00 | 1.34 |
| Japan | 0.3 | -0.2 | 1.2 | 2.6 | 1.2 | 2.5 | 0.25 | 0.46 |

*Bloomberg full year economic forecasts

Data as at 05.12.2024. Source: Bloomberg L.P., Arbion Ltd. All figures are percentages.

## OTHER NOTABLE ECONOMIC AND MARKET DEVELOPMENTS


- **COP29:** Helping developing countries tackle climate change was on the agenda at the United Nations climate change conference COP29. The World Bank and other multilateral development banks announced they expected their combined financing for low and middle-income countries to reach $120bn a year by 2030, a 60% increase on 2023's total. However, COP29 highlighted the obstacles in the way of meaningful climate action and agreements and underlined the need for more collaborative and inclusive solutions. Developing nations increasingly have to choose between debt repayment and funding climate resilience efforts. Many say they cannot commit to more ambitious targets without more clarity on the financial support coming from the developed world. These tensions were a major cause of the faltering of the COP29 process in Baku, with some senior negotiators labelling it the worst in a decade. With the World Meteorological Organization stating 2024 is on track to be the hottest year on record, next year's COP30 in Brazil faces huge urgency and pressure to restore focus and the spirit of multilateralism.

- **US:** The Fed announced a widely-expected 25 basis point cut, which took the target range for the fed funds rate down to 4.50-4.75%. The language in the FOMC statement was largely unchanged, keeping the view that "the risks to achieving its employment and inflation goals are roughly in balance." Looking forward, Chair Powell avoided sending any signal about the December meeting, emphasising the data still to come before then. Powell mentioned how recent data pointed to "diminishing downside risks" as "the economy remains strong". He also added that "the right way to find neutral… is carefully, patiently", pointing towards a slower and steadier policy path lower for interest rates in 2025.

- **France:** The French government lost a no-confidence vote for the first time since 1962. President Macron has said he will serve out his presidential term until 2027, but Le Pen continues to pressure him to resign in order to break the political gridlock. In the short term, the government can remain in office as a caretaker government, but snap elections cannot happen again until the summer, as the French Constitution requires a one year wait until another dissolution can take place. President Macron must propose a new Prime Minister, which could in theory be Barnier again, but there's no reason to think a new government would be any more stable given how fractured the National Assembly is.

- **Middle East:** Israel announced a cease-fire agreement with Hezbollah in Lebanon. The agreement mandates a 60-day halt to hostilities, during which Israel will withdraw its forces from Southern Lebanon, and Hezbollah will withdraw its forces to the north of the Litani River.

- **Japan:** The Bank of Japan should rapidly normalise easy policy to avoid falling further behind the curve on inflation, a former BOJ executive director, Kenzo Yamamoto, reported, adding that a December hike would not be surprising as economic activity and prices are on track. Yamamoto questioned the BOJ's cautious approach amid inflation that has risen towards 3% when excluding government-subsidy affected electricity and gas prices.

- **New Zealand:** The Reserve Bank of New Zealand lowered the cash rate by half a percentage point to 4.25%. It was the second straight cut of 50 basis points as the RBNZ seeks to revive the economy now that inflation is under control, making it one of the most aggressive cutters among its western peers. RBNZ Governor Adrian Orr signalled that another 50 basis points cut is coming in February if the economy evolves as expected.

## SUMMARY AND PARTING THOUGHTS

- If risk assets are ultimately a function of earnings and interest rates then, despite higher equity and credit valuations now, the backdrop for financial markets in 2025 remains positive with strongly rising earnings and loosening monetary policy. Corporate America came through third quarter earnings season in strong form, posting a 9% year-on-year gain, and a stellar 11% excluding the Energy sector. There appear few catalysts signalling imminent downward revision to 2025 estimates before the US debt ceiling is cleared and tariff policy is clarified. Thus, in the near-term markets are operating in a settled environment. Setting aside the recent post-election bounce, Big Tech has struggled to keep up with higher-beta small cap and cyclical sectors as market leadership for 2025 hints at change. Coming into 2024 the consensus was for a broadening out of the equity bull market, which up until the US election, did not transpire. Perhaps this was just a false start and Trump is indeed the catalyst for the broadening out of the rally in 2025, after all, this is now the clear consensus trade… or perhaps, given this is the decade of non-consensus surprises, then 2025 could prove to be another 20%+ year for equity markets, led again by the magnificent seven stocks. Something to ponder over your turkey and mince pies this Christmas!

- I find it increasingly difficult each year not to be reflective at year end. Perhaps in part being a father of two young children it is a rare opportunity to draw breath and take stock of another whirlwind year, both in life, and of course, in financial markets. If you can't be grateful for family and a second consecutive 20%+ year in equity markets then something is very awry! When it comes to markets, and in particular year end market outlooks, those who know me will be aware that I am not a fan of these, as we operate in a dynamic and ever-changing world where 12 month plans rarely make it to Q2. In 2020, the pandemic put a swift end to all year-ahead outlooks; in 2021, a surge in inflation surprised virtually everyone; in 2022, markets were caught completely off guard by the most aggressive rate hiking cycle since the 1980s; in 2023, the consensus wrongly expected an impending US recession; and in 2024, absolutely no-one expected an S&P 500 return that could get anywhere near 30%. So as we look forward to 2025, it's safe to say that the most surprising thing would actually be a lack of surprises. We shall see, but I am not getting my hopes up! Hence, the best outlook for positioning is one that remains invested but diversified, and most importantly, humble to change.

**Wishing you good tidings and good health over the festive period. See you in 2025!**

## 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.

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