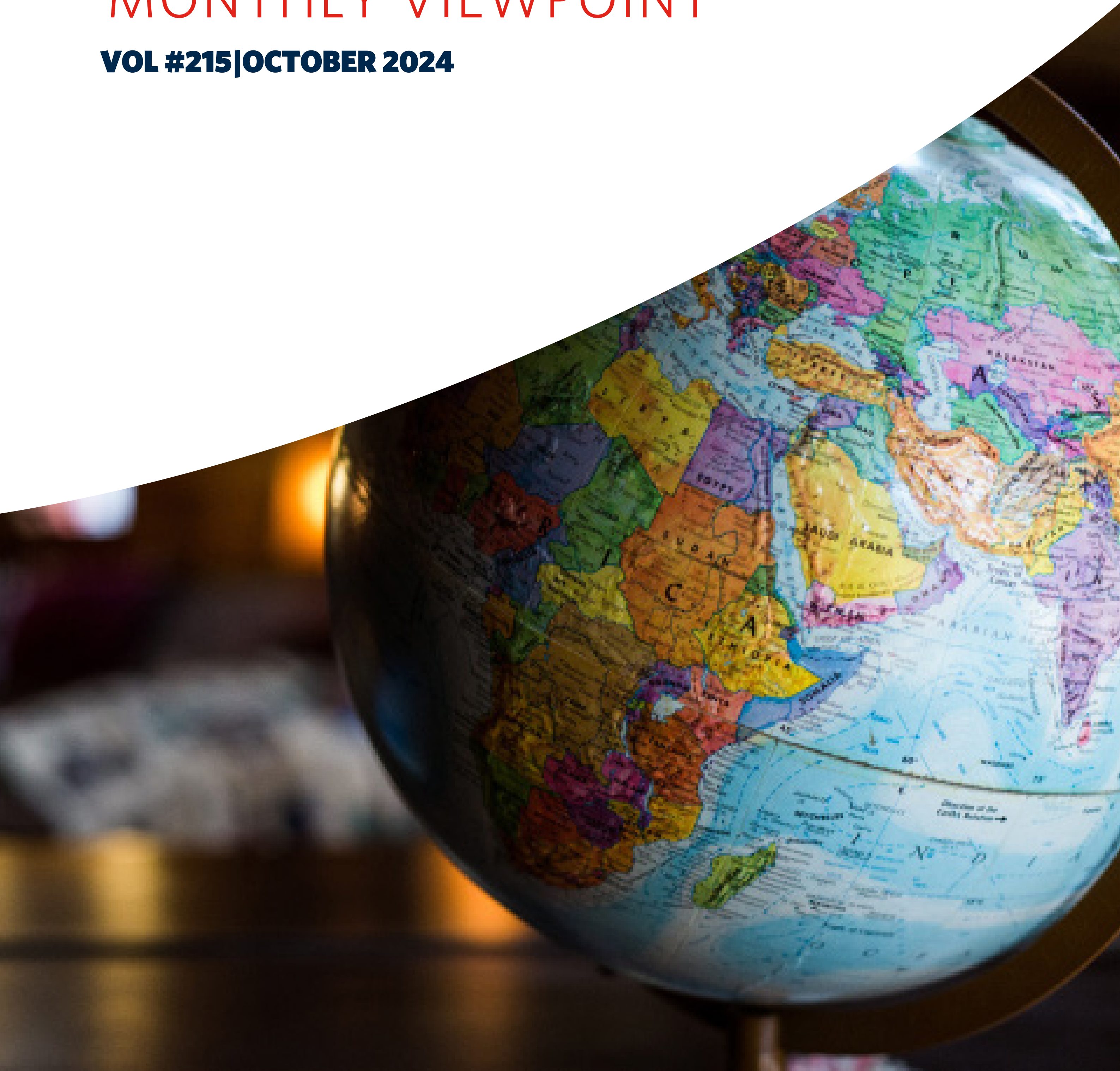
GLOBAL MATTERS
MONTHLY VIEWPOINT

VOL #215|OCTOBER 2024



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Global market review & outlook

> ***"The immediate market reaction following the election result was much more muted than 8 years ago, with moves mostly continuing the pattern of recent trading but volatility subdued"***

We have delayed our monthly commentary to capture the result of the US Presidential election on 5 November, and to provide some comments on its implications. At the time of writing, Trump has been declared as winner, the Senate is firmly in Republican hands and the House is looking set to go the same way, giving the GOP a clean sweep, and Trump with the strongest possible foundation for implementing his policy agenda and facilitating major changes in fiscal policy.

What does that mean for the US and globally? Despite Trump's unpredictability, key elements of his domestic policy seem clear:

- Tax cuts, at the very least extending his 2017 tax cuts beyond their scheduled expiry at end 2025, worth, according to many forecasts, over 1% of GDP, and probably followed by additional cuts.
- Looser regulation, including the relaxation of environmental rules to allow more oil and gas drilling.
- Higher tariffs and protectionism, with a particular focus on China but not excluding Europe.
- Reduced fiscal spending compared with the Democrats but still very loose policy, with no focus on deficit reduction.
- Tighter immigration policy.

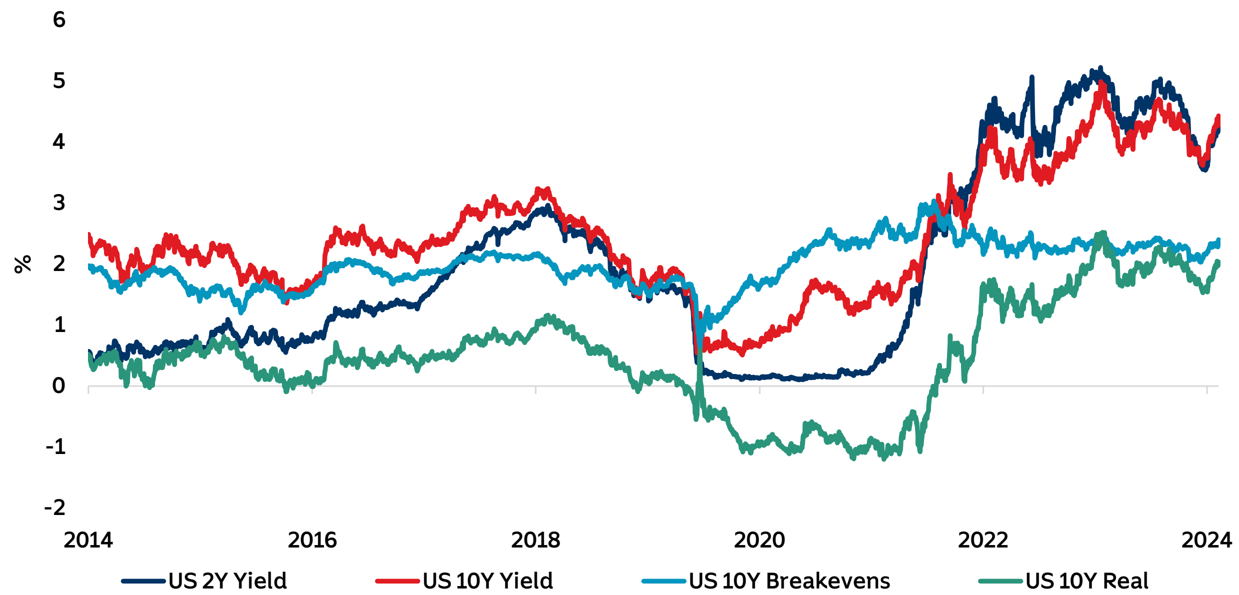
Foreign policy implications are much less clear; a more isolationist policy is likely, but the constraints of realpolitik would suggest continuing support for Israel and Ukraine, albeit with a greater focus on reaching negotiated settlements, and, critically, support for NATO, but with intensified pressure on EU nations to share more fully in defence commitments with substantial increases in spending.

The net result is probably stronger growth, boosted by tax cuts and deregulation, but offset by higher tariffs/protectionism and lower immigration; continuing high fiscal deficits – the Federal budget deficit for the year to 30 September 2024 was $1.8tn, 6.4% of GDP, with interest costs on the debt pile at $1.1tn, 3.9% of total spending (higher than the defence department). It is likely to improve prospects for corporate earnings, support equities, require continuing high Treasury bond issuance, and probably put upward pressure on inflation, with a slower pace of rate cuts from the Fed and a stronger dollar. On balance the result has negative implications for China, Mexico and Europe through protectionism and tariffs. While Europe, the UK and Japan largely stagnate, US exceptionalism seems alive and well.

Although pre-election uncertainty regarding the winner is removed, considerable uncertainty remains about policy details, implementation and impact. However, this is nothing like Trump's 2016 election, when he was much more of an unknown quantity, his victory was a big surprise and his team not well prepared for government. This time the markets have been progressively discounting a Trump Presidency in recent weeks, with the polls in battleground States and betting odds moving in his favour through October, and financial markets reflecting the likely winners - 'the Trump trade', bond yields moving higher, the yield curve steepening, inflation expectations rising, fewer interest rate cuts priced in, equities up selectively, the dollar strong.

The immediate market reaction following the election result is therefore much more muted than 8 years ago, with moves mostly continuing the pattern of recent trading but volatility subdued. We would not expect the result to be a major market-moving event, and initial reaction to the moves will probably settle down quickly and markets will return to focus on the path of growth, inflation and the Fed's rate cutting cycle, with the added twist of uncertainty ahead of Trump's inauguration.

"Trump Trade" - US bond yields rise ahead of Presidential election



Source: Momentum Global Investment Management, Bloomberg Finance L.P., as at 6 November 2024.

"The Trump trade was an important factor driving markets in October, but not the only one. The US economy continued its strength, with Q3 GDP growing at 2.8% annualised qoq"

Reflecting on markets in October, the most significant shift was a big rise in bond yields, reversing much of the move in Q3. On 18 September, when the Fed delivered its 50bps interest rate cut, the 10-year Treasury yielded 3.7%. It had fallen by 100bps in the preceding five months, producing strong returns from bond markets in the US and elsewhere. By the end of October the yield had risen by almost 60bps since the Fed cut, taking it back to its mid-year levels of around 4.3%, and has risen further to close to 4.5% in the immediate aftermath of the election. At the same time, expectations for rate cuts have changed materially: in mid-September markets were pricing in Fed Funds at 2.78% by the end of 2025; by the end of October this had risen to 3.62%, with a further move to 3.78% after the election, meaning that the Fed Funds rate is now expected to be a full 1% higher at end 2025 than predicted only 6 weeks ago. It meant that bonds had a poor month in October, in turn weighing on valuations across most asset classes, with the notable exception of gold which rose by 4.2%. Over the month US Treasuries returned -2.3% and the JPM global government bond index -3.8%, while the MSCI World index of developed market equities returned -2.0% and MSCI emerging markets -4.4%. A strong dollar, up 3.2% on a trade weighted basis, held back returns in dollar terms, and was a particular headwind for emerging markets.

The Trump trade was an important factor driving markets in October, but not the only one. The US economy continued its strength, with Q3 GDP growing at 2.8% annualised qoq, and labour market data, while somewhat more mixed, reflected a generally resilient employment market. As a result, the Fed pushed back on the market's forecast path of rate cuts.

Outside the US, the ECB made its second 25bps rate cut of this cycle in the face of a fall in Euro Area CPI to 1.7% in September and continuing weakness in the key manufacturing sector; the Japanese Prime Minister's decision to call a snap election backfired as the LDP led coalition government lost its majority, leading to some uncertainty in a country renowned for political stability; China continued to unfold stimulus measures to turn around its flagging economy, including cuts in its prime interest rates; and in the UK the Labour government finally set out its policy stall as it announced its first budget.

The key take-away from the budget was a substantial transfer of resources from the private to the public sector, with a big rise in taxes, in a textbook socialist tax, spend and borrow policy on a scale not flagged during the election campaign. In one of the biggest tax rising budgets in history, a fiscal expansion of £70bn pa, over 2% of GDP, is to be financed with a net £36bn of tax rises, the rest in borrowings. Two thirds of the additional spending is to be allocated to current spending, the balance to investment. Having boxed itself in with manifesto commitments not to raise income tax, National Insurance, VAT and corporation tax, which together raise 80% of total tax revenue, the government turned to the remaining taxes, falling heavily on companies, wealth and jobs creators, and savings, which were raised substantially to go some way to finance the spending spree. Alongside a tightening of employment laws and a big rise in the minimum wage, the growth aspirations of the government have been brought into question, and the higher borrowing plans, which will leave government debt at close to 100% of GDP through the next 5 years, have worried financial markets. Inflation risks have risen, and the UK gilts market has fallen, with yields on 10-year bonds rising to over 4.5%, close to the highest since pre-GFC, and the spread between UK and German bonds has risen close to multi-decade highs. It is a high risk strategy for the government, which is unlikely to succeed without substantial productivity improvements in the public sector, something that has eluded successive governments.

The UK's travails are not dissimilar to those in Europe, with high tax, high spending and tight regulatory regimes stifling growth at a time when structural factors are already big headwinds. The US is in a more favourable situation, and on balance its economic advantages will probably be enhanced by the Trump Presidency ahead. It is not difficult to identify risks - policy errors, the possibility of the US economy weakening, while growth outside the US is under pressure, high government debt levels which constrain fiscal flexibility and result in heavy bond issuance, and a deterioration in geopolitical tension points. But the policy easing cycle has further to progress and provides a strong foundation for valuations of equities, while the sizeable sell-off in bond markets in the past few weeks brings better value into fixed income markets. There might well be a period of consolidation after the initial positive reaction to the Trump win, but we remain cautiously constructive about markets and intend to use periods of weakness to add to risk assets in our portfolios.

Yield spread between 10-year UK and 10-year German government bonds

Source: Momentum Global Investment Management, Bloomberg Finance L.P., as at 6 November 2024.

Market performance - Global (local returns) as at 31 October 2024

Asset Class / Region	Index	Ccy	1 month	3 months	YTD	12 months
Developed Markets Equities						
United States	S&P 500 NR	USD	-0.9%	3.6%	20.6%	37.4%
United Kingdom	MSCI UK NR	GBP	-1.5%	-2.3%	8.2%	14.9%
Continental Europe	MSCI Europe ex UK NR	EUR	-3.4%	-2.0%	7.1%	19.4%
Japan	Topix TR	JPY	1.9%	-2.6%	16.4%	22.4%
Asia Pacific (ex Japan)	MSCI AC Asia Pacific ex Japan NR	USD	-5.0%	4.9%	14.0%	28.1%
Global	MSCI World NR	USD	-2.0%	2.4%	16.5%	33.7%
Emerging Markets Equities						
Emerging Europe	MSCI EM Europe NR	USD	-8.4%	-10.9%	3.0%	14.6%
Emerging Asia	MSCI EM Asia NR	USD	-4.6%	4.8%	16.0%	28.9%
Emerging Latin America	MSCI EM Latin America NR	USD	-5.1%	-2.6%	-17.0%	2.4%
BRICs	MSCI BRIC NR	USD	-6.8%	6.3%	14.1%	22.4%
China	MSCI China NR	USD	-5.9%	17.7%	21.7%	21.7%
Global emerging markets	MSCI Emerging Markets NR	USD	-4.4%	3.6%	11.7%	25.3%
Bonds						
US Treasuries	JP Morgan United States Government Bond TR	USD	-2.3%	0.1%	1.5%	8.4%
US Treasuries (inflation protected)	BBgBarc US Government Inflation Linked TR	USD	-1.8%	0.5%	3.0%	8.7%
US Corporate (investment grade)	BBgBarc US Corporate Investment Grade TR	USD	-2.4%	0.9%	2.8%	13.6%
US High Yield	BBgBarc US High Yield 2% Issuer Cap TR	USD	-0.5%	2.7%	7.4%	16.5%
UK Gilts	JP Morgan UK Government Bond TR	GBP	-2.6%	-2.1%	-2.9%	5.6%
UK Corporate (investment grade)	ICE BofAML Sterling Non-Gilt TR	GBP	-1.4%	-0.8%	0.8%	8.3%
Euro Government Bonds	ICE BofAML Euro Government TR	EUR	-1.0%	0.7%	1.0%	7.8%
Euro Corporate (investment grade)	BBgBarc Euro Aggregate Corporate TR	EUR	-0.3%	1.2%	3.5%	8.8%
Euro High Yield	BBgBarc European HY 3% Constrained TR	EUR	0.6%	2.7%	6.9%	13.1%
Japanese Government	JP Morgan Japan Government Bond TR	JPY	-0.5%	1.0%	-2.4%	0.2%
Australian Government	JP Morgan Australia GBI TR	AUD	-2.3%	-0.9%	0.6%	6.7%
Global Government Bonds	JP Morgan Global GBI	USD	-3.8%	0.1%	-1.5%	7.6%
Global Bonds	ICE BofAML Global Broad Market	USD	-3.4%	0.4%	-0.1%	9.5%
Global Convertible Bonds	ICE BofAML Global Convertibles	USD	-0.3%	4.4%	8.2%	19.6%
Emerging Market Bonds	JP Morgan EMBI+ (Hard currency)	USD	-1.8%	2.6%	7.2%	20.4%

Asset Class / Region	Index	Ccy	1 month	3 months	YTD	12 months
Property						
US Property Securities	MSCI US REIT NR	USD	-2.9%	5.8%	11.5%	34.8%
Australian Property Securities	S&P/ASX 200 A-REIT Index TR	AUD	-2.5%	3.9%	19.9%	46.5%
Asia Property Securities	S&P Asia Property 40 Index NR	USD	-7.1%	3.8%	-2.8%	8.0%
Global Property Securities	S&P Global Property USD TR	USD	-5.0%	4.4%	8.0%	29.9%
Currencies						
Euro		USD	-2.3%	0.5%	-1.4%	2.9%
UK Pound Sterling		USD	-3.6%	0.3%	1.3%	6.1%
Japanese Yen		USD	-5.5%	-1.3%	-7.2%	-0.2%
Australian Dollar		USD	-4.8%	0.6%	-3.4%	3.9%
South African Rand		USD	-1.9%	3.4%	4.3%	5.9%
Commodities & Alternatives						
Commodities	RICI TR	USD	-1.2%	1.3%	4.4%	0.1%
Agricultural Commodities	RICI Agriculture TR	USD	-2.6%	5.4%	2.7%	2.3%
Oil	Brent Crude Oil	USD	1.9%	-9.4%	-5.0%	-16.3%
Gold	Gold Spot	USD	4.2%	12.1%	33.0%	38.3%

Interest Rates	Current Rate
United States	5.00%
United Kingdom	5.00%
Eurozone	3.40%
Japan	-0.10%
Australia	4.35%
South Africa	8.00%

Source: Bloomberg Finance L.P., Momentum Global Investment Management. Past performance is not indicative of future returns.

Market performance - UK (all returns GBP) as at 31 October 2024

Asset Class / Region	Index	Local Ccy	1 month	3 months	YTD	12 months
Equities						
UK - All Cap	MSCI UK NR	GBP	-1.5%	-2.3%	8.2%	14.9%
UK - Large Cap	MSCI UK Large Cap NR	GBP	-0.8%	-1.7%	10.0%	14.7%
UK - Mid Cap	MSCI UK Mid Cap NR	GBP	-4.7%	-6.1%	-3.9%	10.6%
UK - Small Cap	MSCI Small Cap NR	GBP	-3.5%	-4.5%	6.4%	23.8%
United States	S&P 500 NR	USD	3.2%	3.4%	19.7%	29.8%
Continental Europe	MSCI Europe ex UK NR	EUR	-1.9%	-1.7%	4.4%	15.9%
Japan	Topix TR	JPY	-0.1%	-3.8%	6.9%	15.1%
Asia Pacific (ex Japan)	MSCI AC Asia Pacific ex Japan NR	USD	-1.0%	4.7%	13.1%	21.1%
Global developed markets	MSCI World NR	USD	2.1%	2.3%	15.6%	26.3%
Global emerging markets	MSCI Emerging Markets NR	USD	-0.4%	3.4%	10.8%	18.4%
Bonds						
Gilts - All	ICE BofAML UK Gilt TR	GBP	-2.8%	-2.2%	-3.3%	5.5%
Gilts - Under 5 years	ICE BofAML UK Gilt TR 0-5 years	GBP	-0.5%	0.3%	1.8%	4.4%
Gilts - 5 to 15 years	ICE BofAML UK Gilt TR 5-15 years	GBP	-2.9%	-2.2%	-2.8%	5.2%
Gilts - Over 15 years	ICE BofAML UK Gilt TR 15+ years	GBP	-4.5%	-4.3%	-8.0%	6.4%
Index Linked Gilts - All	ICE BofAML UK Gilt Inflation-Linked TR	GBP	-2.1%	-2.6%	-5.0%	5.6%
Index Linked Gilts - 5 to 15 years	ICE BofAML UK Gilt Inflation-Linked TR 5-15 years	GBP	-1.8%	-1.9%	-2.3%	4.5%
Index Linked Gilts - Over 15 years	ICE BofAML UK Gilt Inflation-Linked TR 15+ years	GBP	-2.9%	-3.9%	-8.8%	6.2%
UK Corporate (investment grade)	ICE BofAML Sterling Non-Gilt TR	GBP	-1.4%	-0.8%	0.8%	8.3%
US Treasuries	JP Morgan US Government Bond TR	USD	1.9%	0.0%	0.6%	2.4%
US Corporate (investment grade)	BBgBarc US Corporate Investment Grade TR	USD	1.8%	0.8%	1.9%	7.2%
US High Yield	BBgBarc US High Yield 2% Issuer Cap TR	USD	-0.5%	2.7%	7.4%	16.5%
Euro Government Bonds	ICE BofAML Euro Government TR	EUR	-1.0%	0.7%	1.0%	7.8%
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Euro High Yield	BBgBarc European High Yield 3% Constrained TR	EUR	0.6%	2.7%	6.9%	13.1%
Global Government Bonds	JP Morgan Global GBI	GBP	0.3%	-0.1%	-2.2%	1.6%
Global Bonds	ICE BofAML Global Broad Market	GBP	-3.4%	0.4%	-0.1%	9.5%
Global Convertible Bonds	ICE BofAML Global Convertibles	GBP	-0.3%	4.4%	8.2%	19.6%
Emerging Market Bonds	JP Morgan EMBI+ (Hard currency)	GBP	2.3%	2.4%	6.4%	13.7%

Asset Class / Region	Index	Local Ccy	1 month	3 months	YTD	12 months
Property						
Global Property Securities	S&P Global Property TR	GBP	-1.0%	4.2%	7.2%	22.7%
Currencies						
Euro		GBP	1.3%	0.2%	-2.7%	-3.1%
US Dollar		GBP	3.7%	-0.3%	-1.3%	-5.8%
Japanese Yen		GBP	-2.1%	-1.7%	-8.4%	-6.0%
Commodities & Alternatives						
Commodities	Rogers International Commodity (RICI) TR	GBP	3.0%	1.1%	3.7%	-5.5%
Agricultural Commodities	Rogers International Commodity (RICI) Agriculture TR	GBP	1.5%	5.2%	1.9%	-3.4%
Oil	Brent Crude Oil	GBP	6.2%	-9.5%	-5.8%	-20.9%
Gold	Gold Spot	GBP	8.5%	11.9%	32.0%	30.7%
Interest Rates				**Current Rate**		
United Kingdom				5.00%		

Source: Bloomberg Finance L.P., Momentum Global Investment Management. Past performance is not indicative of future returns.

Asset allocation views

Score	---	--	-	/	+	++	+++

Score	Change	---	--	-	/	+	++	+++
MAIN ASSET CLASSES	▲/▼/–							
Equities	–			■				
Fixed Income	–				■			
Alternatives	–					■		
Cash	–				■			

Overall View

We remain somewhat cautious on equity risk overall, mindful of the dominance of the US in the global equity context, and of the concentration within the US market. Our fixed income view remains largely constructive, more so in sovereign bonds which still offer attractive nominal and real yields, but we recognize risk premia on corporate credit are thin today. Alternative assets including gold remain a good diversifier of returns, proving useful as market volatility has increased. Cash provides optionality on any pullback as well as a decent yield, but increasingly we prefer to lock in medium term rates by extending duration.

Score	Change	---	--	-	/	+	++	+++
EQUITIES	▲/▼/–							
Developed Equities	–			■				
UK Equities	–					■		
European Equities	–				■			
US Equities	▼		■					
Japanese Equities	–					■		
Emerging Market Equities	–					■		

UK equities remain the highest conviction valuation call with the UK remaining the cheapest developed market. The attractive earnings yields continue to draw in private and overseas buyers, and with the recent election behind us, sentiment finally appears more constructive. Japan remains attractive both on improving fundamentals and in valuation terms - more so after recent volatility saw prices correct sharply. The lack of breadth in US equities has started to play out through a sector and size rotation which should increasingly favour an active approach to stock selection. European equities have optically quite attractive valuations but mask some fundamental regional challenges. Emerging market equities remain cheap as China, the dominant index constituent, battles domestic growth concerns.

Score	Change	---	--	-	/	+	++	+++
FIXED INCOME	▲/▼/–							
Government	▼				■			
Index-Linked	–				■			
Investment Grade Corporate	–				■			
High Yield Corporate	–			■				
Emerging Market Debt	–				■			

Global treasury yields still look attractive today, despite recent tightening, and we maintain our overweight government view. Inflation linked bonds offer reasonable real yields but are not particularly cheap today. Despite offering alluring all in yields, we think the spreads offered today on investment grade and riskier high yield corporate bonds do not compensate investors adequately for the underlying fundamental credit risk. Although defaults remain low, the growth outlook has moderated, and financial conditions remain somewhat tight today. We prefer shorter duration bonds in both developed and emerging markets, particularly higher quality credit.

Score	Change	---	--	-	/	+	++	+++
SPECIALIST ASSETS/ALTERNATIVES	▲/▼/–							
Global Listed Property	–			■				
Global Infrastructure	▼			■				
Specialist Financial	–						■	
Liquid Alternatives	–		■					
Gold	–				■			

Alternatives continue to offer diversification benefits but compete today with higher yielding cash and quality sovereign bonds. Increasing discounts in NAVs in listed private equity appear overly pessimistic, and we upgrade our view to take advantage. Infrastructure and specialist financials remain attractive. Our liquid alternatives continue to offer attractive diversification benefits during periods of market uncertainty, but the bar has been raised for the performance from this sector after the resetting higher of global rates in recent years. Gold's status as a haven asset means it remains a useful diversifier, but its recent run higher makes it look somewhat expensive as a non interest bearing asset today.

Score	Change	---	--	-	/	+	++	+++
CURRENCIES vs. USD	▲/▼/–							
GBP	–					■		
EUR	–				■			
JPY	–					■		

Against long term valuation metrics, the Yen remains cheap relative to the Dollar. The Bank of Japan's policy of yield curve control crushed the Yen in recent years, but their recent shift to a hiking bias has seen a rapid reappraisal as carry trades unwind. This should have further to run. The higher for longer narrative in the US has buoyed the dollar, but as rates look set to fall later this year its dominance may wane. Its safe haven status at a time of heightened geopolitical risk does however assure it a diversification premium.

The asset allocation views are updated at the end of each quarter unless otherwise stated.

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