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**2.3%**
UK CPI

UK inflation rose in October from 1.7%, reflecting the rise in energy price caps.

**11%**
Russell 2000 November gain

US small caps outperformed on the back of Trump's victory and the prospect of deregulation and tax cuts.

**23**
February 2025

Germany will go back to the polls after the fall of the government. Currently the CDU/CSU are leading polling estimates.

November 2024

# Market Spotlight

## Around the world

- French government borrowing costs have surged amid recent political turmoil, with the yield spread between French and German bonds reaching levels not seen since the Eurozone debt crisis. Prime Minister Michel Bernier's proposed budget, which includes 60bn EUR in spending cuts and tax increases has sparked controversy with French lawmakers passing a no-confidence vote against the government.
- Tokyo core CPI rose to 2.2% YoY, surpassing the BoJ's 2% inflation target. The Japanese yen strengthened as a result, as persistent above target inflation readings have fuelled expectations for a more aggressive rate hiking cycle from the BoJ.
- Eurozone retail sales unexpectedly grew in September by 0.5% MoM and the revised figures for retail trade indicate an upward trend since June. Despite earlier concerns about consumer behaviour, the rebound in real incomes is now leading households to spend more. Overall, this change in consumption patterns is a promising development for economic growth in the region.
- The UK economy grew by 0.1% in the third quarter, a significant slowdown from the 0.5% expansion recorded in previous quarter. The services sector, which accounts for 80% of the economy expanded by 0.1% overshadowing a 0.8% expansion in the construction sector.

## Market snapshot

In November, US risk assets rallied sharply following the election, with Trump's victory boosting investor sentiment and leading to a broadening of the US rally outside the 'Magnificent 7' companies. Domestically focused small caps surged by 11%. International markets underperformed due to concerns over potential US trade tariffs and their impact on growth outside the US.

Despite the ongoing global interest rate cutting cycle, the bond market has suffered from stronger growth and sticky inflation concerns. As such, markets expect the Fed cutting cycle to be less aggressive on back of better growth.

### Performance of global asset classes

| | 1 Month | YTD |
|---|---|---|
| US Equities | 5.9% | 9.8% |
| US Tech | 5.4% | 9.8% |
| World Equities | 3.7% | 9.8% |
| UK Equities | 2.6% | 9.8% |
| Global High Yield Bonds | 0.8% | -0.5% |
| Chinese Equities | 0.7% | 14.1% |
| Global Corporate Bonds | 0.6% | -0.5% |
| Global Government Bonds | 0.3% | -0.5% |
| Commodities | 0.0% | -0.5% |
| European Equities | 0.0% | -0.5% |
| Japanese Equities | -2.2% | -0.5% |
| Emerging Market Equities | -3.6% | -0.5% |
| Precious Metals | -4.1% | 22.2% |

Source: Bloomberg, Returns are in local currency, as at 30 November 2024.

# What is the data telling us?

November saw manufacturing PMI's stabilise to end a four-month period of contraction. This came as China posted improving business conditions along with other regions in Asia. In contrast, Europe saw further contraction as manufacturing growth remained sluggish. The US posted improving figures as new orders rebounded.

The services sector remained in expansion, a continued bright spot of the global economy, though most regions decelerated their rate of growth in the most recent month. Along with manufacturing, the services sector in the EU has entered contraction. Japan saw improvement as employment strengthened from October.

### Purchasing Managers Index

**Manufacturing**

| | 2023 | 2024 | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 12 | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 |
| Global | 49 | 50 | 50.3 | 50.6 | 50.3 | 51 | 50.9 | 49.7 | 49.5 | 48.8 | 49.4 | 50 |
| US | 47.4 | 49.1 | 47.8 | 50.3 | 49.2 | 48.7 | 48.5 | 46.8 | 47.2 | 47.2 | 46.5 | 48.4 |
| EU | 44.4 | 46.6 | 46.5 | 46.1 | 45.7 | 47.3 | 45.8 | 45.8 | 45.8 | 45 | 46 | 45.2 |
| UK | 46.2 | 47 | 47.5 | 50.3 | 49.1 | 51.2 | 50.9 | 52.1 | 52.5 | 51.5 | 49.9 | 48 |
| China | 50.8 | 50.8 | 50.9 | 51.1 | 51.4 | 51.7 | 51.8 | 49.8 | 50.4 | 49.3 | 50.3 | 51.5 |
| Japan | 47.7 | 48 | 47.2 | 48.2 | 49.6 | 50.4 | 50 | 49.1 | 49.8 | 49.7 | 49.2 | 49 |

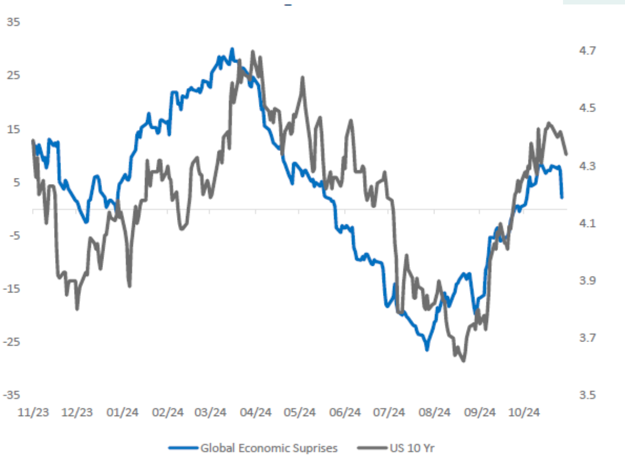
**Service**

| | 2023 | 2024 | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 12 | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 |
| Global | 51.6 | 52.3 | 52.4 | 52.4 | 52.7 | 54 | 53.1 | 53.3 | 53.8 | 52.9 | 53.1 | 53.1 |
| US | 50.6 | 53.4 | 52.6 | 51.4 | 49.4 | 53.8 | 48.8 | 51.4 | 51.5 | 54.9 | 56 | 52.1 |
| EU | 48.8 | 48.4 | 50.2 | 51.5 | 53.3 | 53.2 | 52.8 | 51.9 | 52.9 | 51.4 | 51.6 | 49.5 |
| UK | 53.4 | 54.3 | 53.8 | 53.1 | 55 | 52.9 | 52.1 | 52.5 | 53.7 | 52.4 | 52 | 50.8 |
| China | 52.9 | 52.7 | 52.5 | 52.7 | 52.5 | 54 | 51.2 | 52.1 | 51.6 | 50.3 | 52 | 51.5 |
| Japan | 51.5 | 53.1 | 52.9 | 54.1 | 54.3 | 53.8 | 49.4 | 53.7 | 53.7 | 53.1 | 49.7 | 50.5 |

Source: JP Morgan, ISM Institute, HCOB, S&P Global/CIPS, Caixin, au Jibun Bank, from 1 December 2023 to 30 November 2024.

*Service PMI for July not available at the time of publication.

### Follow the macro not politics




Source: Bloomberg. Data rebased.
As at 31 October 2024.

## Chart of the month

Much of the reason for the increase in bond yields since the summer has been perceived as the "Trump Trade". Donald Trump's anticipated fiscal expansion and tariffs programme is expected to keep inflation elevated.

However, we see the reasons for the increase in yields differently. We think it's crucial to focus on macroeconomic developments rather than solely on political developments.

From the chart we can see that since the summer global economic data surprises have consistently exceeded expectations, indicating the August recession fears have eased as near-term  data looks more positive. Given the stronger growth outlook, we have seen bond yields increase as the market now expects the Fed to cut rates less given the economy appears to still be robust.

# Looking ahead

US assets rallied on the back of Donald Trump's election victory; the rally extended beyond the mega-cap tech stocks that dominated market gains for most of the year. Investors have eagerly bid up a range of assets, including cryptocurrencies and US banks, reflecting renewed optimism. Furthermore, incoming data supports US economic growth continuing to surpass other major economies.  As a result, US yields should remain higher relative to other countries. On the back of this, the outlook for US assets and the dollar remains positive.

While the outlook for the US improves, tariff threats from Donald Trump have come at a bad time for Europe. European growth weakened since the summer as the manufacturing sector continues to contract. Germany has been particularly weak, where industrial production is back to 2010 levels. While European equities are cheap, a poor growth outlook has seen the investment committee reallocate capital away from Europe.

Overall, a solid global economic growth and a co-ordinated global central bank rate cutting cycle continues to provide a positive backdrop for global equities.

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