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FORUM FINANCE
1994

MONTHLY NEWSLETTER

November 2024

KEY ECONOMIC DATA

- Conference Board Consumer Confidence Index rose to 108.7 in October from 99.2 in September.
- Core PCE rose 0.3% in September, and 2.7% year-on-year, according to Bureau of Economic Analysis data.
- Japan's Composite PMI fell to 49.4 in October from 52.0 in September.
- New home prices in China rose by 0.29%, up from 0.14% in the previous month.
- GDP in the 20 countries that share the euro rose by 0.4% in the third quarter compared with the previous three months, beating expectations of 0.2%.
- JOLTs job openings fell from 7.86 million to 7.44 million in September.
- US GDP grew at an inflation-adjusted 2.8% annual rate in the third quarter, according to the Commerce Department.
- The UK manufacturing PMI came in at 49.9 in October, down from 51.5 in September and the earlier flash estimate of 50.3. This is the first time since April that the PMI has fallen below 50.

Euro area headline inflation below ECB's target in September

-5.2%

PERFORMANCE OF THE US LONG TREASURY INDEX

INVESTMENT PERSPECTIVE

After a month in which all eyes were on central banks, October focused on the future of economic growth, particularly in the US, before early November gives way to the great circus that is the US election.

On the growth front, the IMF's latest publication raised its forecast for US economic growth to 2.7% in 2024, up 0.6 percentage points from its January forecast. The move underlines how the US is outperforming other developed economies. The strong performance of the US economy mainly reflects robust productivity gains and employment growth.

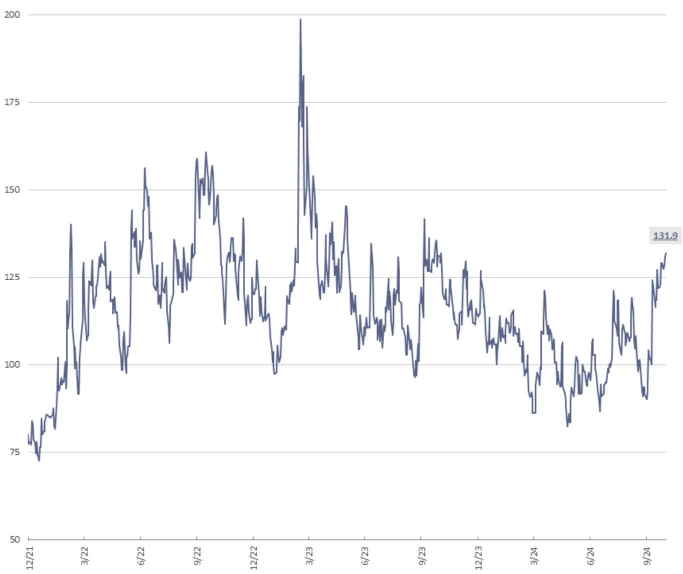
Labour productivity in Europe is lower than in the US. A lack of investment, especially in technology, has led to a growing divergence in income per capital on both sides of the Atlantic. Former European Central Bank (ECB) President Mario Draghi, in a report commissioned by the European Union (EU), proposed increased investment, financial market reforms and greater regional integration to boost productivity in response to accelerating competition from leading companies in the United States and China.

The removal, albeit partial, of uncertainty about the future and pace of monetary policy normalisation has temporarily pushed inflation into the background. This is a very temporary situation, as the return of a possible Republican victory in the upcoming US presidential election is causing renewed concern in the interest rate market, not least because of the fiscal slippage and tariff increases advocated in the Republican platform.

Treasuries have sold off sharply, with the yield on the 10-year Treasury rising 60 basis points, reflecting both stronger-than-expected economic growth and more inflationary policies in the event of a Republican victory. The proximity and closeness of the US election has pushed volatility higher. Implied volatility in the US Treasury market has risen by almost 40% since the end of September.

The rise in bond yields, and in particular the expected yield differential between the US and other countries, has led to a strengthening of the dollar against almost all developed and emerging market currencies.

Implied Volatility of the US Treasury Bond Market



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INVESTMENT STRATEGY

Following the interest rate cuts by the major central banks in the developed world, except for Japan, the path towards a "soft landing" scenario has become the most likely.

In terms of seasonality, we're entering the most productive part of the year for the US equity market. Since 1945, the months of October, November, and December have averaged gains of 1.04%, 1.56%, and 1.58%, respectively.

However, it is interesting to note that the month of October, in a presidential election year, saw a decline of 0.46% without affecting the behaviour of November and December. At the end of October, the US index was down 0.9%, broadly in line with historical performance.

At the time of writing, the forecast remains a perfect toss-up. Christophe Barraud, ranked by Bloomberg as the best economic forecaster of the US economy over the past 11 years, predicts a Trump victory in the upcoming election.

If Trump wins and Congress is divided, much of the domestic agenda would be stalled, which could lead Trump to retreat into tariff wars that could slow the US economy and hinder global growth.

We continue to believe that economic data, particularly in the US, remains supportive, e.g. labour market, consumer confidence, monetary support and earnings growth will continue to underpin US equities, but we recognise that inflationary policies will put pressure on long-term interest rates.

Regardless of Who Takes over the White House, Economy will Likely Continue to Move Along

PORTFOLIO ACTIVITY

The swing in the polls towards a Trump victory on 5 November has dictated a more cautious approach to US interest rates. Indeed, rising government deficits and tariffs are likely to push up long-term interest rates. As we have seen in recent weeks, we could therefore see a bear-steepening (lower short-term rates and higher long-term rates).

We have reduced long-dated US Treasury positions in favour of medium-dated US bonds with maturities of 3 to 5 years. We maintained our long euro zone bonds as the fundamentals continue to point to a general downturn. In Switzerland, we had already fully exited our government bond exposure in favour of real estate investments.

The macro context remains supportive for equities, even if we could see volatility increase in this earnings season and just a few days before the US elections. We would take advantage of any excess weakness to buy the dip.

It looks increasingly likely that Europe could be the victim of a second Republican term. We first downgraded our European equity rating to neutral in September on the back of political uncertainty. To reflect recent dynamics, we are now downgrading European equities to negative despite attractive valuations. In mid-October we also reduced our positions in European small and mid-caps.

On the currency front, we have taken advantage of the dollar's weakness to add to our positions across all our currency bases. Since the end of September, the US dollar has gained 2.8% against the euro. We remain positive on the US dollar in the short term.

Against a backdrop of high divergence and volatility, we remain convinced of the benefits of liquid alternative strategies such as global macro, alternative trend and even long/short strategies, whether in equities or credit.

	31/12/2023	30/9/2024	31/10/2024	Month-to-Date	Year-to-Date
Yields (%)				Δ In basis points	Δ In basis points
US 3-Month	5.33	4.62	4.54	-8	-79
German 3-Month	3.55	3.01	2.75	-26	-80
US 2-Year	4.25	3.64	4.17	+53	-8
German 2-Year	2.39	2.06	2.28	+21	-12
US 10-Year	3.88	3.78	4.28	+50	+41
German 10- Year	2.02	2.12	2.39	+27	+37
Currencies				Δ In %	Δ In %
EUR/USD	1.1039	1.1135	1.0884	2.3	(1.4)
USD/CHF	0.8414	0.8456	0.8641	2.2	2.7
EUR/CHF	0.9289	0.9416	0.9403	(0.1)	1.2
GBP/USD	1.2731	1.3375	1.2899	(3.6)	1.3
Commodities				Δ In %	Δ In %
Oil (WTI)	$71.7	$68.2	$69.3	1.6	(3.3)
Copper	$389.1	$455.3	$434.0	(4.7)	11.6
Gold	$2’063	$2’635	$2’744	4.2	33.0

Source: Bloomberg Finance L.P.