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WEEKLY BULLETIN

The upbeat market mood stumbles

Key takeaways

Traditional risk assets weakened as investors reacted to the perceived controversy of some of Trump's cabinet nominees, while bond yields signalled worries about inflation and the rising budget deficit.

Concerns about the outlook for US inflation and interest rates

President-elect Donald Trump's mandate to lower taxes, reduce immigration, deregulate and introduce tariffs is expected to stimulate growth and boost US corporate profitability. Yet it could revive inflationary pressures, which have been on a downward trend since mid-2022. Likewise, unless the incoming administration's spending plans are offset by severe spending cuts elsewhere, the budget deficit will continue to deteriorate. What's more, some recent data shows that efforts to reduce inflation have stalled, and comments by the chair of the US central bank have been interpreted as a more cautious approach to further interest rate cuts. As a result, there is speculation investors will seek higher US government bond yields (and bond prices, which move in the opposite direction, will weaken) to compensate for a more uncertain economic backdrop.

Some of Trump's proposed administration picks unnerve investors

After reaching an all time high, the US benchmark S&P 500 index ended lower, as did the technology-heavy Nasdaq index. Energy and financial shares were the only two sectors to end the week in positive territory. All other major sectors closed lower, led by healthcare, where Trump's pick of COVID-19 vaccine sceptic Robert F. Kennedy Jr. as his Secretary of Health and Human Services could prove particularly controversial. Trump's proposed cabinet nominees will be subject to congressional confirmation, but the process may temporarily threaten the Republican majority in Congress. This could have implications for the passing of early legislation by the new administration, in particular for an extension of the Tax Cuts and Jobs Act (TCJA), expected in the first half of 2025.

UK economic growth slows

Measured by GDP, UK economic growth of 1.2% during the first half of 2024 made the UK the best performing economy among the G7 economies. That performance has stalled, with growth for July to September (the third quarter of the year) only 0.1% compared with 0.5% during the second quarter. In isolation, growth in September was -0.1%. This reflected a slump in the services sector (such as education, finance, healthcare, and entertainment), which accounts for most of the output in the economy. While this was a disappointing update, in part it reflected some easing after strong performance earlier this year. Investors' reaction was muted, with government bonds and the pound little moved by the update.

Market moves

The gold price suffered its largest weekly decline in three years as the value of the dollar continued to rise. Other precious metals (silver, platinum, and palladium) also weakened.

Caught between the threat of US tariffs and China's economic slowdown, European shares ended lower in euro terms for the fourth consecutive week.

The US 10-year Treasury (government bond) yield reached its highest level (4.51%) since June as US interest rate cut expectations eased.

What to look out for this week

On Wednesday, high-end microchip company Nvidia will report third-quarter earnings, expected to show strong sales and profit growth driven by demand for artificial intelligence (AI) infrastructure.

Also on Wednesday, UK consumer inflation for October will be released and is expected to show a rise on an annual basis from 1.7% to 2%.

On Friday, initial indicators of business confidence in November ('Purchasing Managers' Indices') will be revealed for the US, UK and Germany.

If you have questions about financial markets, or our investment services, please contact the Marketing team:

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