MONTHLY UPDATE

Latest views from the investment team

Rising Yields Haunt October Markets

Despite the interest rate cuts from central banks globally, bond yields rose sharply in October. Resilient US economic data seems to have reduced the likelihood of a recession. Moreover, markets have started pricing in a higher likelihood of a Trump Presidency, and the associated expectations for higher government borrowing and spending along with more tax cuts. This has helped to push up the USD as well as bond yields and support US stocks relative to other markets. In the UK the picture has been different with some tax rises announced at the budget; this is likely to be a headwind to sentiment and UK stocks declined over the month. Increased government borrowing was also announced, which saw UK yields climb on the news.

Over the summer, some investors became concerned about the possibility of a US slowdown but encouraging data in recent weeks has provided reassurance. Robust US employment data, retail sales and business indicators have all reminded investors that, with inflation now lower and closer to target, the Federal Reserve is cutting interest rates to return to a more sensible level, rather than by necessity to support a flagging economy. US stocks increased 3% in October in GBP terms, outperforming other regions, and bond yields rose to reflect greater optimism. The US election has also been influencing asset prices because Trump's polling has marginally improved and, as he is viewed as corporate friendly due to promises of tax cuts. The focus on politics has also contributed to higher US Government bond yields as economic policies promoted from both sides, for example high tariffs, are likely inflationary. However, the polls are volatile and extremely tight, (as well as being somewhat unreliable), and so the election remains a key event for November with the potential to catalyse swings in asset prices over the short-term. A key underpin to economic growth since the pandemic has been ongoing elevated levels of government spending and this is not expected to change any time soon, regardless of whether Harris or Trump wins the election.

In the UK, the first budget from Chancellor Reeves on 30 October was much anticipated and has been closely scrutinised. Steep increases in public spending were announced, particularly for health and education, which is likely to boost economic activity in the short-term. As a result, the Office for Budget Responsibility (OBR) forecasts higher growth in 2025 relative to 2024. While this spending is being partly funded by tax increases, there will also be more government borrowing than expected and, therefore, Gilt yields jumped in the hours following the budget. These higher borrowing costs also weighed on stocks. For businesses, increases in employer's national insurance and the minimum wage will push up costs. How much of these cost increases can be passed onto end customers is unknown, but it will put some upward pressure on the price of goods and services. As such, the OBR's forecast for UK inflation has increased to 2.6% for 2025, from previous expectations of 1.5%. This calls into question how many rate cuts that the Bank of England will be able to deliver; this has also contributed to higher bond yields.

Elsewhere, stocks also fell in Europe and in emerging markets. The potential for tariffs in the event of a Trump presidency is a factor that may hang over European and emerging markets near-term. However, the European Central Bank cut rates last month for the third time this cycle, to 3.25%, and unemployment is still at the lowest level for many years, so consumer confidence has been rising. Lastly, there has been more sharp moves in Japan. The Yen fell in October as their election result surprised when the ruling Liberal Democratic Party failed to retain its majority, and no party won enough seats to form a government.

Bottom Line

Near-term volatility may result from the US election in November while rising bond yields are a challenge for businesses and consumers that need to borrow. However, thus far, economies, particularly the US, have proved resilient to higher rates and, alongside heavy government spending, this bodes well for supporting corporate earnings into 2025.

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Month in Numbers

Change in various markets over the month:

ASSET NAME		CHANGE / VALUE
EQUITIES (Local Currency)		
United Kingdom	▼	-1.54%
Europe (ex UK)	▼	-3.46%
United States	▼	-0.99%
Emerging Markets	▼	-2.81%
Japan	▲	3.06%
BONDS/RATES (Absolute change (%))		
Bank of England Base Rate	-	0.00% / 5.00%
Federal Reserve Funds Rate	-	0.00% / 5.00%
UK 10-Year Gilt Yield	▲	0.44% / 4.49%
US 10-Year Treasury Yield	▲	0.49% / 4.28%
CURRENCIES		
GBP/USD	▼	-3.56% / $1.29
GBP/EUR	▼	-1.33% / €1.19
DXY (USD Index)	▲	3.17% / 103.98
COMMODITIES		
Gold (USD/ Troy Oz)	▲	4.05% / $2,740.75
Brent Crude Oil (USD/Barrel)	▲	1.72% / $73.19
NOTEWORTHY		
United Airlines Inc	▲	37.15%

November 2024

As of 31 October 2024

Q&A

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Why Did Oil Prices Whipsaw in October

Oil markets endured notable volatility in October, with Brent starting the month around $70 per barrel, before rallying hard to $80, then cratering back towards $70. These swings were largely driven by oscillating tensions in the Middle East. An Iranian missile strike on Israel on October 1 marked a further escalation of conflict that had already spread into Lebanon in September, contributing to a prior rise in oil prices. This attack sparked fears that Israel's response might target Iranian oil assets, disrupting the supply of crude and further increasing instability. Escalating conflict in oil-producing regions often raises concerns about supply shortages, while investors view oil as a hedge in times of geopolitical instability, further driving demand and prices upward. However, Israel's delayed, and ultimately restrained response allowed both concerns the time to dissipate and accordingly prices eased back to earlier levels.

Additionally, volatility was influenced by several concurrent factors. In our last update we discussed the announcement of major economic stimulus in China in response to weak economic activity. As well as propelling Chinese stocks, this also had a positive spillover to the oil price. As the world's second-largest oil consumer, China's economic performance directly impacts global oil demand and so the stimulus brought optimism for increased oil consumption. After the initial excitement, the perceived impact of the stimulus faded slightly and, likely also contributed to the retreating oil price. Moreover, a particularly active U.S. hurricane season and high supply from OPEC nations added to intramonth volatility. Hurricanes can disrupt oil production and refining operations, leading to supply concerns, while increased output from OPEC, an alliance of oil-producing nations, can influence global supply dynamics.

Q3 Corporate Earnings Update

At the midpoint of the third-quarter corporate earnings season, results continue to show impressive strength. The season kicked off in early October with reports from several of the largest banks. JPMorgan and Citigroup were among a group of major banks which reported better than expected numbers, adding to hopes among investors that the US is heading for an economic "soft landing". Other areas of strength came from Alphabet, Google's parent company, which delivered robust earnings largely driven by higher revenues from increased adoption of their new artificial intelligence features. Airlines also contributed to the momentum, with United Airlines—the fourth-largest U.S. carrier—seeing its stock price climb on strong results due to sustained demand for air travel. So far, nearly half of the US market has reported, with aggregate earnings per share growth predicted to be between 7-8%, a strong figure that, if achieved, would underscore the ongoing strength of the corporate sector.

How do Election Results Impact Markets?

In this year of elections, we have seen several examples of varying market responses to different election results. Indeed, this was discussed in our spotlight, Election Fever which we published in July. Reactions have ranged from the muted response we saw to Labour's largely expected landslide in the UK, to Indian stock prices tumbling following the surprising loss of the long-serving government's majority. This begs the question; what factors contribute to the varying impacts of different election results on stock markets? Elections primarily impact stock markets because they create uncertainty around future economic policies, which can affect corporate profitability, taxes, regulation, and government spending. It is this uncertainty that markets do not like. In the above example, the UK markets largely shrugged off the prospect of a Labour government because it was already priced in. In contrast, the situation in India took the markets by surprise, prompting a rapid reassessment of the implications surrounding the first significant change in government in over a decade. After the initial knee-jerk reaction, however, there is little evidence to suggest that the political party in power has a material impact on stock prices in the long run, as governments from both sides of the political spectrum have presided over periods of both market strength and weakness.

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