

November 4, 2024

Weekly Investment Insights



With the US Presidential election on the doorstep, all eyes are on the US this week. People, companies, and even countries are awaiting an end to the uncertainty so that they can begin to assess what the outcome might mean for them. The potential outcomes vary significantly given the polarised nature of the candidates' campaigns. Trump's focus is on low taxes, regulation and energy costs, and higher trade tariffs, while Harris emphasizes tax credits for lower middle-income families, a Federal ban on grocery price gouging and higher corporate taxes.

Markets and polls are still largely split on who will take the presidency. However the election turns out, the removal of uncertainty will likely bring around a thaw in business activity. To keep in mind, is the fact that the balance of power across the House and the Senate can also have a major impact on the ability of the President-elect to deliver on campaign promises.

It was a busy week for markets last week, with lots of data and earnings releases resulting with some major indexes in both Europe and the US finishing in the red. This week, markets will be laser focused on the US, with the next President finally being announced.

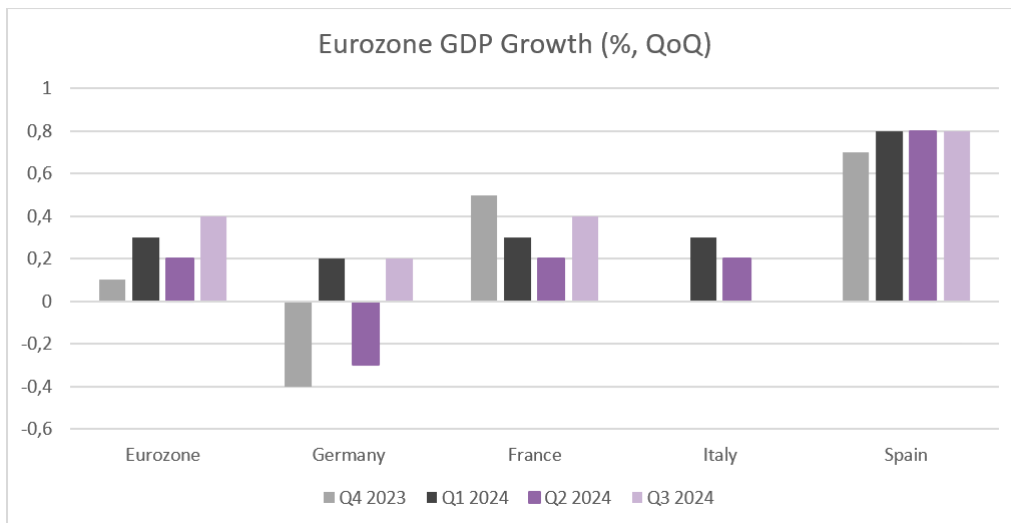
The Bank of Japan kept its key short-term interest rate at 0.25% last week, at the highest level since 2008. The central bank noted that it remains committed to further rate increases should

the economic situation align with its forecasts. Later this week we will find out what the next monetary policy steps are for both the US Fed, and the Bank of England, both of which are expected to cut interest rates by 25 basis points.

WEEKLY ROUNDUP

Spain's economy continues to shine, US remains strong

The Eurozone GDP had its strongest growth in two years in Q3, **expanding by 0.4% QoQ**. Even though this figure was a positive surprise, on the whole, growth for 2024 remains disappointing. Looking at the main economies, **Germany** surprised with a **small rise of 0.2%** of GDP growth, defying expectations that growth would decline, driven by private and public consumption. **France's** boost from the Olympics is clearly visible in its **0.4% growth** in Q3, which doubled compared to Q2. **Italy's growth stalled** in the last quarter, putting its 1% growth target in 2024 in question. **Spain outperformed its peers**, with GDP **growing by 0.8%**, largely attributed to tourism, foreign investment, and public spending. Immigration is also noted as factor, having boosted labour supply and household consumption. Out of the world's largest economies, the International Monetary Fund expects **Spain to be the fastest growing this year**, expanding 2.9% year on year.



Source: Bloomberg, BIL

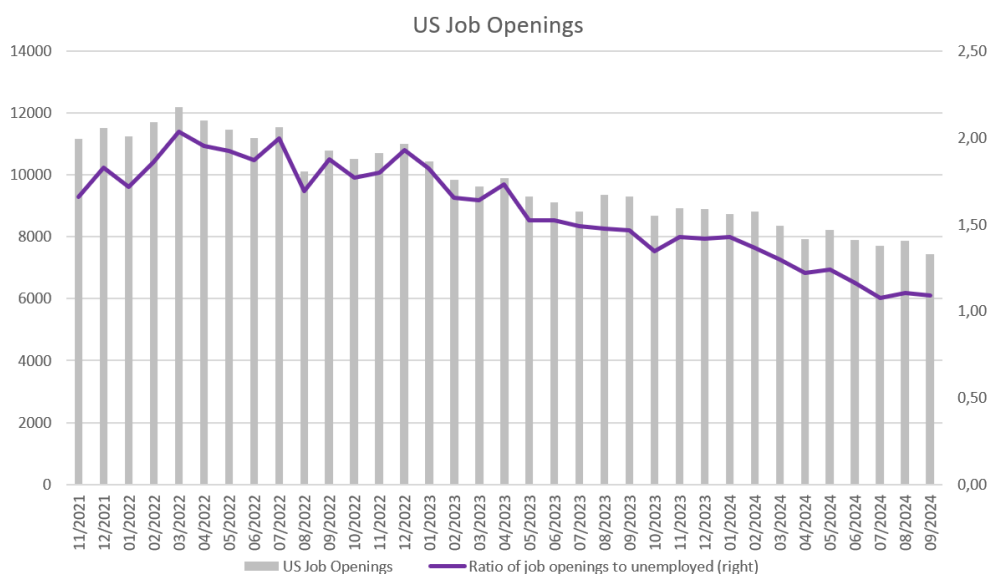
Looking to the **US**, the economy **grew by 2.8% year on year** in Q3, slightly below the 3% forecast. **Personal spending contributed a major boost**, increasing at the fastest pace since Q1 2023. This corroborates the idea that the **US economy's major growth engine remains intact**, despite headwinds from a cooling labour market, slowing wage growth and the depletion of excess savings.

In an encouraging sign for Q4, the **Conference Board (CB) Consumer Confidence Index** rose to a **nine-month high in October**. The proportion of **consumers anticipating a recession** in the next

12 months **fell to its lowest level** since the board first posed the question as part of its survey in July of 2022. Consumers' short-term expectations for income, business and the job market rose to 89.1. A reading below 80 can indicate that a recession could come shortly, according to the Conference Board.

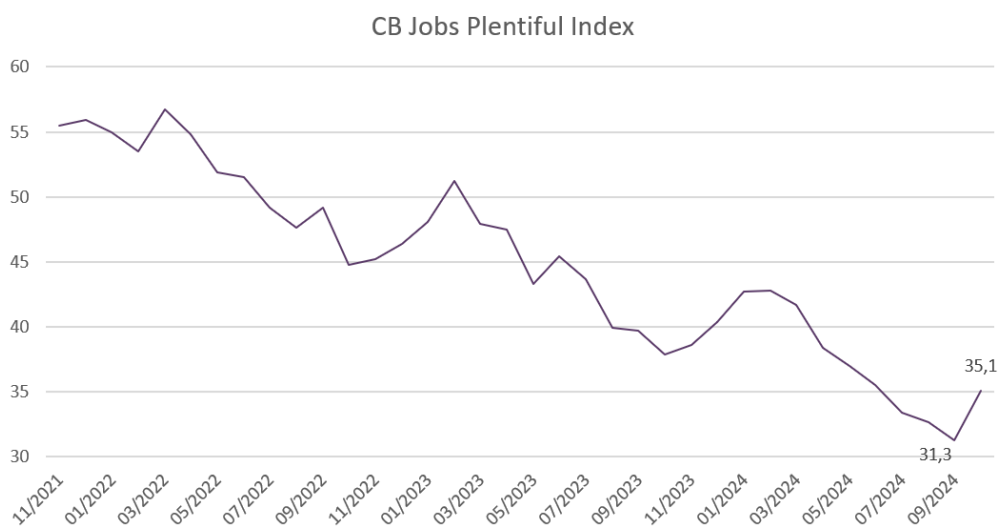
US Labour Market shows signs of cooling but confidence strengthens

The number of **job openings** in the US fell by more than 400,000 in September, to the **lowest level since January 2021**. There were less job openings in health care, social assistance and government, but more in finance and insurance. In terms of location, the decline in vacancies was **concentrated in the south**, suggesting that the increased demand for labour following hurricanes Helene and Milton has now started to fade. At the same time, **job quits were at the lowest level since August 2020**, indicating that people are not confident that they will find a new job if they quit their current one.



Source: Bloomberg, BIL

On a brighter note, the **Conference Board (CB) consumer confidence** survey showed that **perceptions of the labour market improved** significantly in October, with those considering **jobs** as being **"plentiful" rising quite sharply** in September. However, it is yet to be seen if consumers actually begin to act on this newfound optimism. If so, the quits rate might begin to bottom out.



Source: Bloomberg, BIL

As of now, we take the job openings data with a pinch of salt, knowing that **observations might be temporary**, linked to the recent hurricanes and factory worker strikes in the aerospace industry. According to the **Non-Farm Payrolls**, the **US economy added 12 000 jobs in October**, compared to the **223 000 in September**, with the factory worker **strikes in the aerospace industry** listed as a main cause. The report card on whether the Fed has managed to prevent further cooling in the labour market is yet to be finalized...

The UK Autumn Budget increases taxes by £40bn

British Chancellor Rachel Reeves released the much-anticipated Autumn Budget last week, which includes plans to **raise taxes by £40bn** and **increase investment** in the NHS, housing, and education. Market reactions were limited, mainly because a lot of the announced measures were in line with expectations. However, the **increased government borrowing** needed to fund the **extra £100bn of capital spending** was highlighted as a key concern.

Measures outlined in the Budget include:

- An increase of employers' national insurance contributions
- The income tax threshold to be increased in line with inflation from 2028 – 2029
- Increased capital gains tax
- The abolishment of the non-dom tax regime
- A freeze on fuel duty next year
- Rise in stamp duty for second homes
- The extension of the freeze on an inheritance tax threshold allowing £325,000 to be inherited tax free
- An increase in the minimum wage for people over the age of 21

- Increased tax on tobacco and vapes while tax on draught drinks will be cut
- Raise in air passenger duty for private jets
- The introduction of VAT on private school fees
- Investments on schools and education, the NHS, housing, defense, transport and making buildings more energy efficient

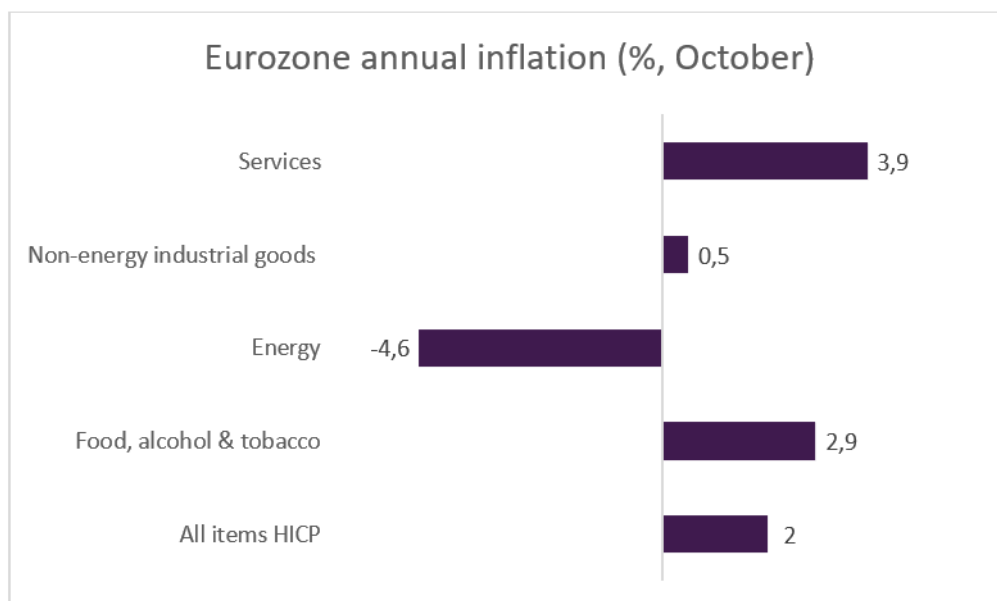
It is estimated that the **National Insurance measures alone will raise £25bn a year** by the end of the forecast period, but business groups have also warned that this could have an **impact on the labour market**, with fewer job openings and more layoffs.

The move to abolish the non-dom tax regime is accompanied by an **end to the use of offshore trusts to shelter assets from UK inheritance tax**. However, the tax regime is to be replaced by a new residence programme, according to Reeves.

Eurozone Inflation rose to 2% in October and unemployment remains low

According to flash estimates, **inflation in the Eurozone rose to 2% YoY in October**, from the more than three-year low of 1.7% in September. **Energy prices continued to fall** in October, however at a **slower pace** as base effects began to wash out of the figures. As this was pre-empted, the **uptick** in headline inflation was **anticipated**.

Prices for food, alcohol and tobacco increased at a faster pace than the month before. The **annual core inflation rate**, which excludes volatile categories such as energy, food, alcohol and tobacco, remained **unchanged at 2.7%**, the lowest since February 2022.



Source: Eurostat, BIL

The **Eurozone unemployment rate** remained at the record low **6.3%** in September, beating market forecasts. Among the main Eurozone economies, Spain still had the highest unemployment rate at 11.2%. Germany had the lowest rate at 3.5%.

With rising inflation and a tight European labour market, hopes for a potential a 50bp cut by the ECB in December have faded but a **25bp rate cut remains likely**.

Ukraine and Russia consider sparing each other's energy infrastructure

Ukraine and Russia have entered **preliminary talks** about **halting attacks** on each other's **energy infrastructure**. Although discussions are at a very early stage, reaching such a deal would be a significant milestone in the de-escalation of the war. Securing energy supply has been crucial for all of Europe as we head into the winter months, and **Russia's strikes on Ukrainian energy infrastructure** has put a strain on supply that is **felt far beyond Ukraine**.

Although **electricity prices** have been on a **downward trend** in 2024, southern Europe, in particular, is **still experiencing volatility**. **Ukraine** used to be a **net exporter of electricity** but is now heavily dependent on energy imports from European neighbours, which is having an impact on supply in other countries. A Greek government official stated that it feels **"like there is a mini energy crisis that no one is talking about"**, as a result.

Last week, European power grid network **ENTSO-E** said that it plans to **increase export capacity** to Ukraine and Moldova from December to **battle Ukraine's power supply shortfall**.

Economic calendar for the week ahead

Monday – Eurozone, Italy, France, Germany HCOB Manufacturing PMI (Final, October). US Factory Orders (September).

Tuesday – Switzerland Unemployment Rate (October). US Balance of Trade (September), ISM Services PMI (October). **US Presidential Election**.

Wednesday – **Germany Factory Orders** (September). Eurozone, Italy, France, Germany Composite & Services PMI (Final, October). US S&P Global Composite & Services PMI (Final, October).

Thursday – **Germany Industrial Production** (September). Eurozone HCOB Construction PMI (October), Retail Sales (September). **Bank of England Interest Rate Decision**. US Jobless Claims,

Fed Interest rate decision.

Friday – Switzerland Consumer Confidence (October). **US Michigan Consumer Sentiment** (Prel, November).

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