

November 18, 2024

Weekly Investment Insights



Less than two weeks after the US Presidential election, Trump has made significant progress in nominations for top government posts, leading to some market volatility. The Republicans have defeated the Democrats in the race for a majority in the House of Representatives, making this election a red sweep and giving Trump more power to push his agenda through. In the US and beyond, companies and governments are now gearing up for the start of a second Trump presidency starting January 20th.

Market focus shifted last week as investors turned to inflation for clues on the pace of Fed rate cuts. October's slight inflation uptick, while in line with expectations, is perturbing markets given that it occurs even before Trump comes into office. A continuation of this trend could impede on the path to lower Fed interest rates in 2025. Global equities fell and US Treasury yields rose sharply in anticipation of Trump's inflationary policies, a reality that becomes more likely following his recent nominations.

While Trump was being confirmed as the winner of the US Presidential election, here on European soil, Germany's "traffic light" coalition was collapsing. With the German economy facing a storm of structural and cyclical headwinds, a period of political uncertainty could push things from bad to worse, with businesses postponing decision-making and investment further.

Both Germany and the wider Eurozone face a stuttering economic recovery and the time for a policy vacuum is hardly optimal. Despite this outlook, German stocks lit up on the announcement, with the DAX outperforming European peers on the prospect of a new government with enhanced decision-making power.

Gold had its worst week in three years and Brent crude fell to around \$71 a barrel. In Europe, natural gas prices hit a YTD high after Russia announced that it would halt supplies to Austria. Cold weather, which arrived earlier than usual in some parts of Europe, has further highlighted the resulting supply concerns.

This week, all eyes are on Nvidia's earnings results which could provide the market's net major catalyst – for better or for worse. Traders will be watching for guidance about demand for Blackwell AI chips.

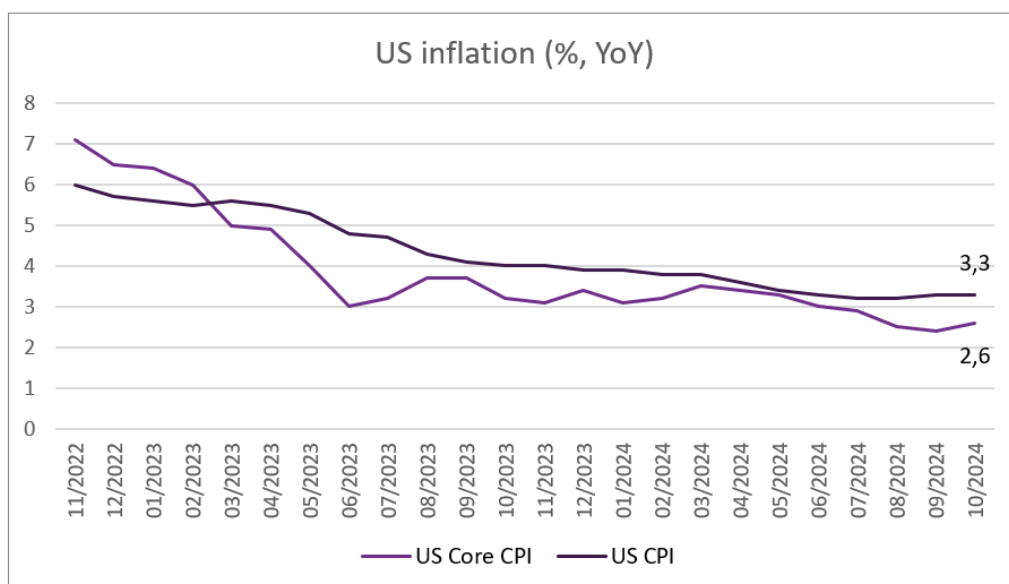
WEEKLY ROUNDUP

US inflation and retail sales rose in October

The inflation rate in the US **rose to 2.6% YoY** in October, from 2.4% in September. It marks the first increase in consumer prices in seven months.

The bulk of the rise was **largely due to the shelter component**. On a monthly basis, CPI rose by 0.2%, with the shelter index rising by 0.4%, **accounting for more than half** of the monthly increase.

Core inflation, which excludes items like food and energy, **remained steady at 3.3%**.



Source: Bloomberg, BIL

The decline in energy and fuel costs slowed, while gas prices rose. Price increases for food and transport slowed. Services inflation remained elevated at 4.7% YoY.

Also in October, **retail sales rose by 0.4%**, beating market expectations of a 0.3% rise. Households **spent more** at **car dealerships**, on **electronic goods** and on **eating and drinking out**. Sales of **building materials**, **garden equipment** and **online retailers also rose**, while **sales at clothing stores fell**. Fed Chair Jerome Powell said last week that **"the economy is not sending any signals that we need to be in a hurry to lower rates."** The relatively upbeat sales report reflects this sentiment, suggesting that the **US consumer will continue to drive economic growth** in the final quarter of the year.

The inflation print, along with robust retail sales data, leaves **markets on the fence as to whether the Fed will cut rates again in December**. Another concern for the outlook of Fed's rate cuts is the inflationary aspects of Trump's proposed policies, which could change the direction of inflation in the longer term and lead the Fed to change the path of its monetary easing next year.

Uncertainty in Germany causes economic sentiment to dwindle

2024 has been a **challenging year for the German economy**. President-elect Donald Trump's tough trade stance and the collapse of Germany's coalition government have not improved the outlook for the eurozone's largest economy.

Since November 2023, the **German government has struggled to address a multi-billion gap** in its 2025 budget following a Constitutional Court ruling against using unspent pandemic funds for additional defense and climate spending. **Chancellor Olaf Scholz** and **Finance Minister Christian Lindner** have been **unable to reconcile their differences over debt-financed spending** to support Ukraine. Scholz wanted to raise the debt level, while Lindner argued it would violate his oath of office. **Tensions escalated** on the day of the US Presidential election when **Scholz fired Lindner**.

The President must now call an **early election**, but not before a no confidence vote has taken place. The **timeline of this is still uncertain**, raising concerns that Germany may not have a new government before June next year.

The German economy is facing somewhat of an **existential crisis**. It **no longer has a steady supply of cheap energy**, **competition from China** is intensifying and its **industrial sector is under immense pressure**. Productivity is low and an infrastructure update is long past overdue.

Decisive action needs to be taken, some economists purport this will also entail a **review of the "Schwarze Null" debt brake** - a requirement for balanced budgets enshrined in the German

Constitution since 2009. This rule has kept Germany's fiscal standing strong, with a debt-to-GDP ratio of 62%. However, economists argue that **to remain competitive**, Germany **must loosen up the purse strings** and start investing in its future.

Amid this uncertainty, **economic sentiment** in Germany has **weakened**, dropping from 13.1 in October to 7.4 in November, heavily influenced by Trump's victory and the coalition government's collapse.

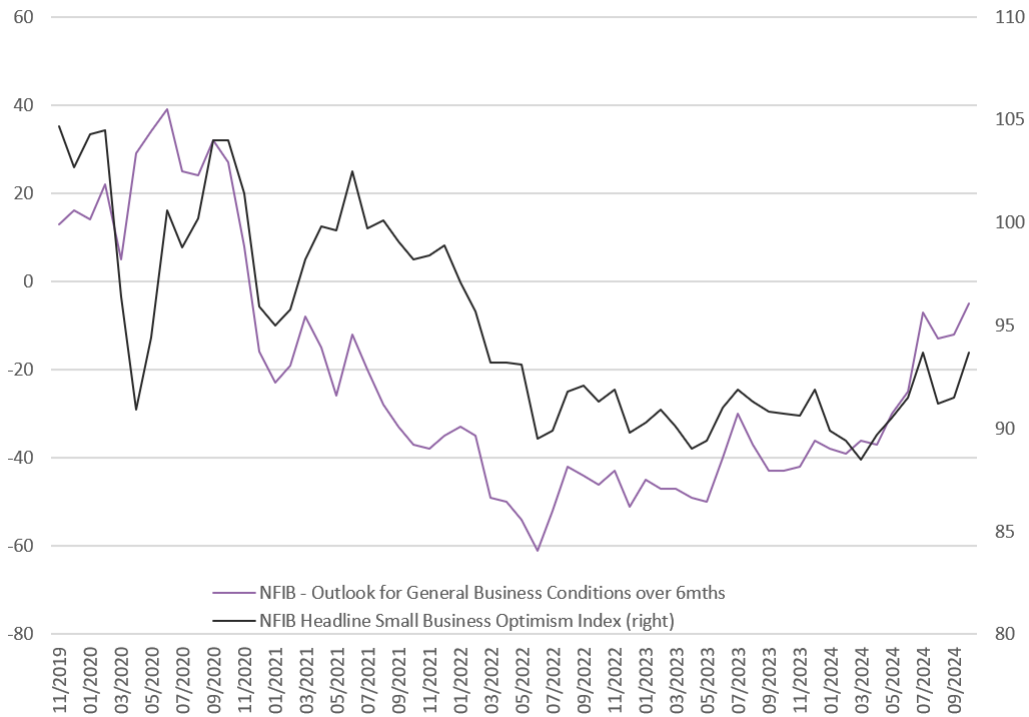
Small business optimism picks up – thank Trump

Last week, the **NFIB survey** showed **optimism among small businesses rising** to the joint-highest level since 2022. Main street American **tend to lean Republican** and they are also poised to be key beneficiaries of Trump's "America first" policies. While the election had not yet been conducted when the survey was snapped, polls were showing his chances were improving. Around 70% of **the rise** in the NFIB's optimism index was **due to four components: good time to expand, expectations for the economy, sales, and earnings**.

Owners also note the upcoming holiday season as a source of optimism.

There is, however, one aspect of the survey that takes the gilt off of the gingerbread: **credit conditions faced by small businesses are restrictive**, despite a slight improvement. With markets anticipating that Trump policies could be inflationary, **"higher for longer"** is back in the airwaves. This could **prolong the pain for small businesses** that were quite eagerly awaiting a loosening in financial conditions.

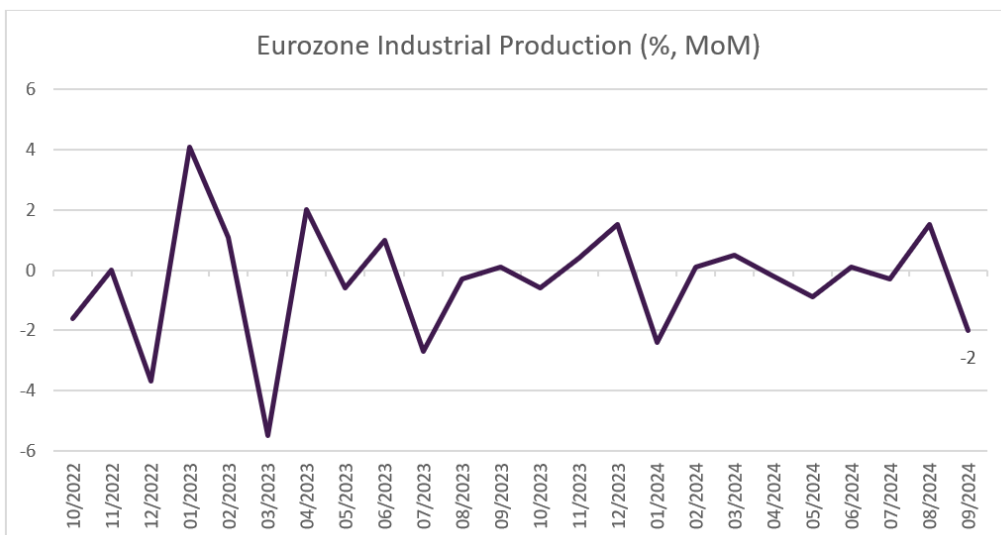
NFIB - small business optimism



Source: Bloomberg, BIL

Eurozone Industrial Production down by 2%

Industrial production in the Eurozone fell by 2% in September, compared to August. Production fell for energy and capital goods, was unchanged for intermediate goods, slowed for durable consumer goods and rose for non-durable consumer goods. Germany reported a significant fall in production of 2.7%. France and Italy also recorded falls, while Spain recorded a rise of 0.9%. Compared with a year earlier, industrial production in the Eurozone fell by 2.8%.



Source: Bloomberg, BIL

In November, the **ZEW indicator of economic sentiment** in the Eurozone **fell by 7.6 points** to 12.5, well-below expectations. This is yet another in a **series of disappointing data releases that do little to inspire confidence in the outlook for the bloc's economy.**

China's Singles' day nudges Chinese consumers to start spending

Every year on **11 November**, China celebrates **Singles' Day**. This unofficial Chinese holiday, **dedicated to people who are not in a relationship**, started as a way for single people to treat themselves to gifts and organise social gatherings, but has **grown into one of the world's biggest shopping days**. The event is no longer limited to 11 November and can now extend over several weeks. **Sales growth during the holiday** is seen as a **strong indicator of consumer confidence**, something that has been in short supply in China recently.

China has struggled with weak consumer demand in a challenging economic environment. The **direction of the Chinese economy** has been seen as **too uncertain** to **convince consumers** that they can comfortably **spend their money**. **Major stimulus** announcements from Beijing **have boosted equity markets but have failed to inspire consumer confidence**. The election of Donald Trump has brought these doubts into sharper focus, with **fears that Trump's trade tariffs will further damage** an already struggling economy.

However, the **Singles' Day sales** offered by some of China's biggest e-commerce companies appear to have **sparked some spending**, with record numbers of shoppers. Data provider Syntun estimates that **sales on major e-commerce platforms increased** by more than 26% during this year's event. While this boost in spending is likely to be temporary, it shows some motivation of Chinese consumers, perhaps strengthening the case for Beijing to announce further fiscal stimulus.

Economic calendar for the week ahead

Monday – Eurozone Balance of Trade (September). Switzerland Industrial Production (Q3).

Tuesday – Switzerland Balance of Trade (October). Eurozone Inflation Rate (Final, October). US Housing Starts (October).

Wednesday – Japan Balance of Trade (October). UK Inflation Rate (October).

Thursday – EU New Car Registrations (October). US Jobless Claims, Existing Home Sales (October). **Eurozone Consumer Confidence** (Flash, November).

Friday – Japan Inflation Rate (October). UK GfK Consumer Confidence (November), Retail Sales (October). Eurozone, Germany, UK, US Composite, Manufacturing, Services PMI (Final, November). US Michigan Consumer Sentiment (Final, November).

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