Investment letter

Monthly review of global financial markets

SWISS CAPITAL IB

December 2024

MACROECONOMICS

The return of Donald Trump to the White House could already be felt in late November PMIs which featured the strongest Composite since April 2022 (55.3 vs 54.3 exp.), on the heels of soaring Services (57 vs 55 exp.). Even Manufacturing (48.8) shows signs of recovery, as surveys report that corporates see trade barriers as a boon for a US manufacturing revival. ISM Services also sent signs of an excellent momentum (56 vs 53.8 exp.). And **the consumer is still resilient** with Retail Sales still rising (+0.4% vs +0.3% exp.). Unsurprisingly, Q3 GDP growth was confirmed at 2.8% annualized.

Against this solid economic backdrop, the Fed cut its rates by 25 pbs to 4.75%. It was an opportunity for Powell to reaffirm the Fed's independence and to confirm that **he would stay Chair until the end of its term in January 2026**, whatever the color of the future Trump administration's policies. Moreover, **the Fed said that it was gaining confidence on inflation**. True, CPI inflation rebounded slightly (+2.6% y/y as exp. after 2.4% in September) and Core CPI inflation (+3.3% as exp.) seems stuck in a 3.2%-3.4% range for 6 months. But **Powell made clear that housing prices are the main culprit and that they should normalize gradually.** Other prices in the goods basket move consistently with the 2% inflation target. In this respect, a slightly rebounding PCE inflation (headline +2.3% y/y, core: +2.8% y/y) is not an issue *per se* but **validates some of the upward repricing of market expectations for the Fed Funds path**.

As for the job market, the FOMC deems that it is now less tight than on the eve of the pandemic in 2019. **Thus, it is no longer a source of inflationary pressure**. Unfortunately, November figures do not offer a good snapshot of the health of the labour market as they were distorted by the combined effects of October hurricanes and manufacturing strikes (Boeing). The +12K NFP job creations is not relevant while the stable 4.1% unemployment rate could be revised too. It will make December's report (even more) crucial.

> THE RETURN OF DONALD TRUMP TO THE WHITE HOUSE COULD ALREADY BE FELT IN STRONG LEADING ECONOMIC INDICATORS

In Europe, the nice Q3 growth was confirmed (+0.4% q/q). **But PMIs demonstrated that the tide has definitely turned since then (Composite: 48.1 vs 50 exp.)** and that the performance will not be reiterated in Q4. PMIs have been below the 50 threshold twice over the past three months and **Services (49.2) now point to recession too**. November headline inflation came in line with expectations (+2.3%) as well as core inflation (+2.7%). These slightly above-target figures stem from base effects that partially alter the message from prices. **Tellingly, eurozone 5Y5Y inflation swap slid below 2%, for the first time since 2022**.

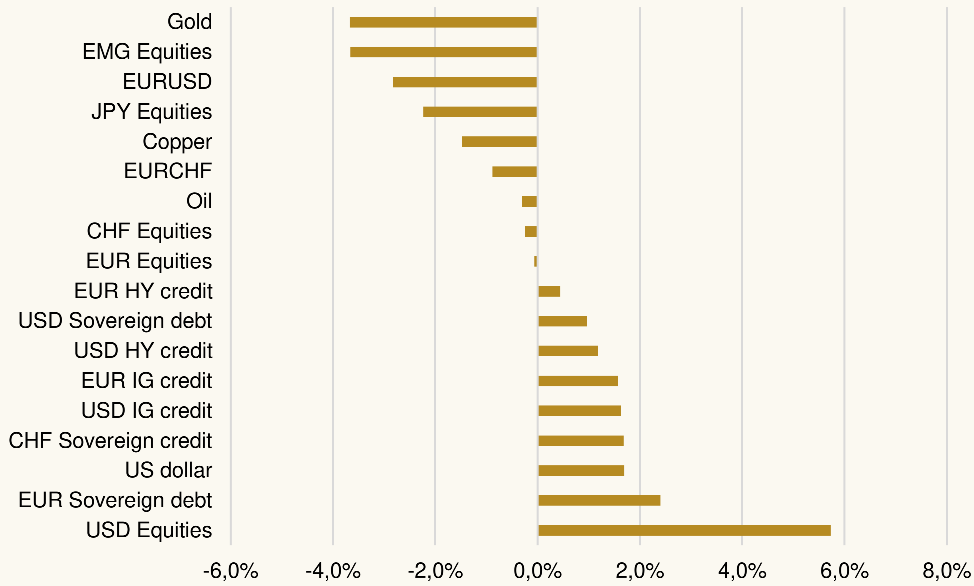
The consequence is that pressure builds on the ECB to look ahead and engage in a sustained loosening campaign. The ECB will need to look through the figure of negotiated wages (+5.4% in Q3) which were driven up by one-off hikes in Germany and **overcome internal hawk-vs-doves' rows**. Mixed messages from central bank officials hint that **the bar for a 50bp cut is too high for the ECB at the moment. Prolonging the series of back-to-back 25bp cuts is likely to be preferred for the December meeting.**

In the UK, the BoE cut interest rates by 25 bps to 4.75%. Although the decision was quasi-unanimous (8 votes for a cut, 1 for a hold), **the central bank will stay cautious**. Inflation rebounded to 2.3% (vs 2.2% exp.) with the Core still at 3.3% (vs 3.1 exp.). Average earnings could drive up services prices and make inflation stickier. Moreover, **the Labour's "maxi-budget" is expected to lift inflation by 0.5pp in 2025**. Disappointing GDP growth (+0.1% q/q vs +0.2% exp) and drop in the Composite PMI (49.9 vs 51.8 exp.) were **not enough for the market to price a further BoE cut in December.**

In Japan, **Q3 GDP growth reached +0.9% q/q annualized**. Rising wages boosted private consumption (+0.9% annualized after 0.7% in Q2). Supporting wages is also the aim of the recently announced $250 bn fiscal expansion (mostly through tax cuts). New Prime Minister Shigeru Ishiba has been forced into this measure by the Democratic People Party on which his ruling LDP depends. **Overall, a wage-prices loop could come back in the Japanese economic landscape.** And the latest inflation figures are supportive of this possibility (+2.3% vs +2.2% exp.). A weak yen is another reason for the BoJ to hike. **As of writing, markets price a 60% likelihood for a hike in December** but it is clear that the central bank will lift its rates for the third time in this campaign before the end of Q1 2025.

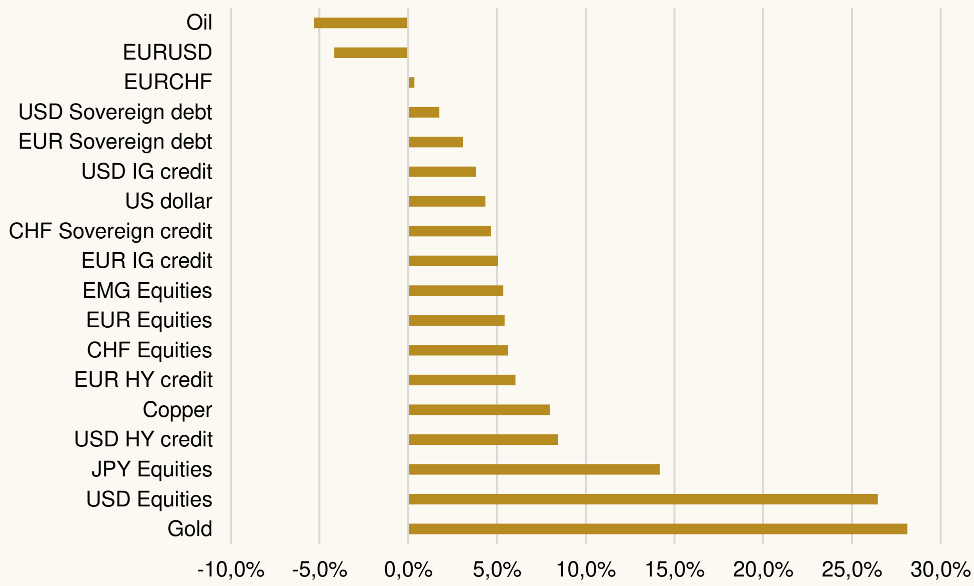
OVERVIEW

MAIN ASSET CLASSES
MONTHLY PERFORMANCE



Source: Bloomberg, 30/11/2024

MAIN ASSET CLASSES
PERFORMANCE YEAR-TO-DATE



Source: Bloomberg, 30/11/2024
Past performance is not indicative of future performance

MACROECONOMICS (CONTINUED)

Since they were announced in September, **the first measures aimed at reviving China's economy start to feed into leading indicators**, like improving Caixin PMIs (Composite: 51.9 vs 50.6 exp.) and Retail Sales (+4.8% y/y vs 3.8% exp.). **However, they are still far from enough and the country is still on the brink of deflation**. CPI undershot (+0.3% y/y vs +0.4% exp.) while production (PPI: -2.9% y/y vs -2.5% exp.) and house prices (-5.9% y/y) are still heading south. The central bank kept its key interest rates on hold while the government's $1.4trn support plan is more about restructuring local government debts than reinvigorating the economy. **The Chinese authorities may be waiting for more hints about Trump's future trade policies to decide how they will design their recovery package.** China's trade surplus is still impressive (+12% y/y in Nov.) as many companies tried to frontload exports ahead of likely trade tensions. It is a new reminder that China's growth excessively depends on the rest of the world, which will not help when facing D.Trump at the negotiating table.

In Switzerland, GDP grew by +0.4% q/q in Q3 (+0.2% adjusted for sporting events). Services boosted growth (Retail trade: +1%) whereas manufacturing fell (-1.1%). The chemical and pharmaceutical industry (+0.2%) expanded only slightly after strong growth in Q2. **Sluggish growth is no surprise given that the nosedive in inflation (+0.6% y/y vs +0.8% exp.) is not far from bringing back fears of deflation.** Martin Schlegel commented that negative interest rates are a part of the SNB's toolkit even if "*nobody loves negative interest rates*".

EQUITY MARKETS

The Republican wave that saw Donald Trump and his party take over the White House and Congress triggered a rally in US equities (S&P500: +5.7%, NASDAQ 100: +5.2%). **A glance at the month's sector performances** leaves little doubt as to who stands to benefit most from the new administration's policies. **Tesla** (+38.1%), whose CEO Elon Musk will be a close advisor to the 47th President of the United States, saw its share price soar. The automaker should benefit from the economic **deregulation measures** promised by the Republicans. Therefore, **Consumer discretionary** soared (+13.2%). **Financials** (10.2%) and **Energy** (6.3%) should also see the regulatory framework lighten. And **industry** (+7.3%) could be sheltered from international competition by customs barriers. Conversely, **pharmaceutical companies** (+0.1%) suffered from the appointment of Robert F. Kennedy as Secretary of Health. Small and mid-caps (Russell 2000: +10.8%) saw their share prices soar: fewer regulations and lower taxes would be the ideal recipe for boosting their profitability.

THE REPUBLICAN WAVE THAT SAW DONALD TRUMP AND HIS PARTY TAKE OVER THE WHITE HOUSE AND CONGRESS TRIGGERED A RALLY IN US EQUITIES

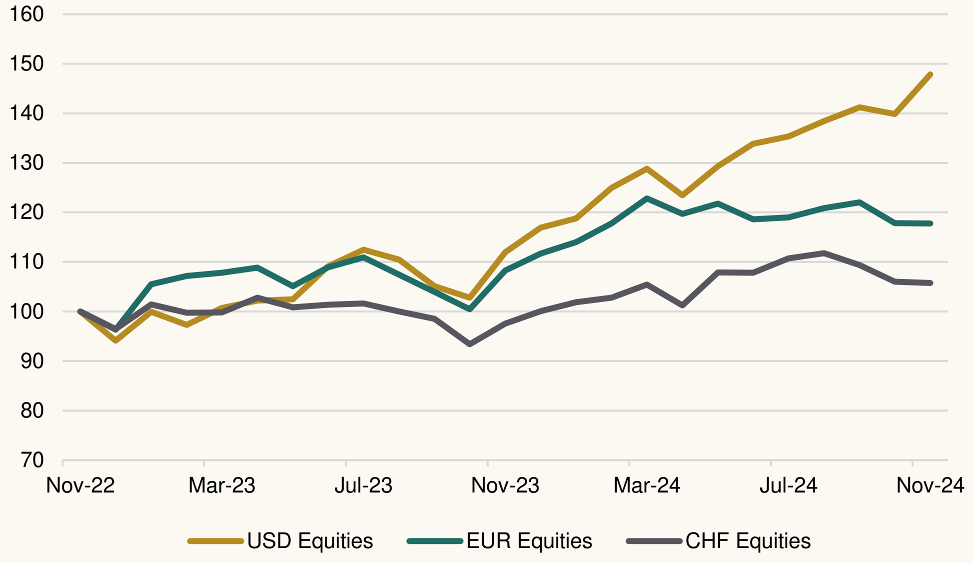
Overall, the market's progress was a little less dependent on the Magnificent 7 than in previous weeks. Indeed, **Nvidia** 's very good publication, which cheerfully exceeded consensus, was greeted with a certain indifference (+4.1%). The outlook for data centers remains excellent, but the *guidance* given by management proved perhaps a little less exceptional than what investors had become accustomed to. On the other hand, **economic activity is doing better than resisting** and **is even accelerating** according to the PMIs surveys (Composite 55.4 vs. 54.1 att.), thus benefiting the stocks most exposed to the US domestic market.

This robustness of activity has also led markets to reduce **their expectations for Fed cuts**, as inflation remains above target (CPI: +2.6% y/y). Hence some concerns at the end of the month. But the central bank remains reassuring about the trajectory of prices.

In Europe, equity markets suffered before rebounding at the end of the month (Stoxx Europe 600: +1.0%). The return of Donald Trump is a danger for exporting companies. In addition, rising tensions in Ukraine weighed on share prices. On the economic front, **activity indicators are at sluggish** (Composite PMI: 48.1 vs. 50 att.), but the ECB is refusing to signal any rapid easing for the time being. The cyclical automotive (-4.1%) and chemicals (-4.6%) sectors thus continued their ordeal. Although heavily exposed to these sectors, Germany (DAX: +2.9%) fared much better than France (CAC40: -1.6%), where the government's instability is a cause for concern. As a result, BNP Paribas (-9.7%) and Crédit Agricole (-10.1%) stalled.

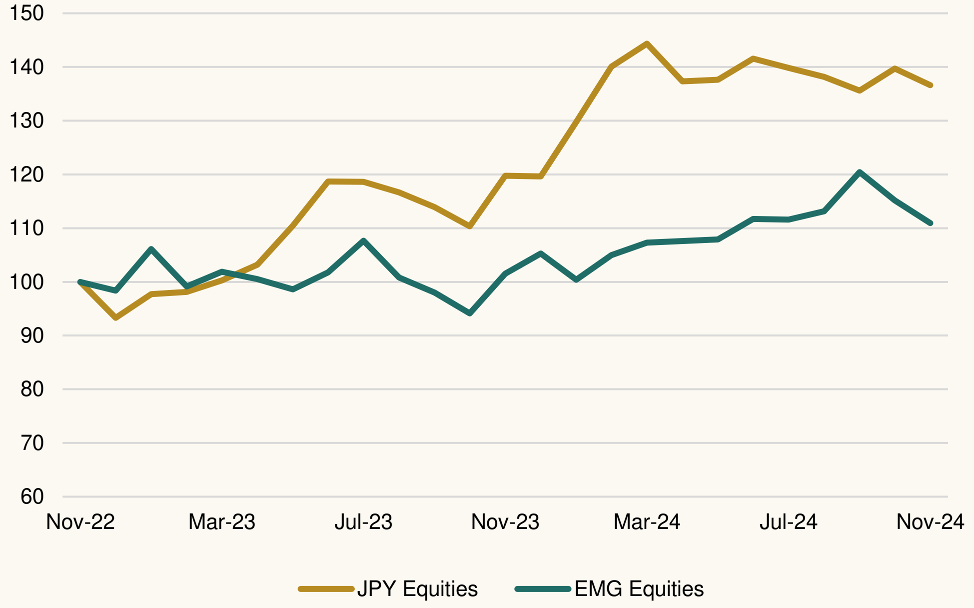
EQUITY MARKETS

EQUITY MARKETS EUR USD CHF
PERFORMANCE OVER 2 YEARS



Source: Bloomberg, 30/11/2024

EQUITY MARKETS JAPAN – EMERGING MARKETS
PERFORMANCE OVER 2 YEARS



Source: Bloomberg, 30/11/2024
Past performance is not indicative of future performance

BOND MARKETS

After a complicated October for interest rates (repricing of inflation expectations and public deficits following the election of Donald Trump), **the main government bonds saw their yields fall in November**, driven by an escalation in geopolitical fears (ICBM missile fired by Russia), the stagnation of the European economy (very poor PMI indicators, probable downward revision of ECB growth expectations at the December meeting), and the appointment of Scott Bessent as US Treasury Secretary, who had announced his intention to reduce budget deficits to 3% of GDP (compared with +6. 2% at present).

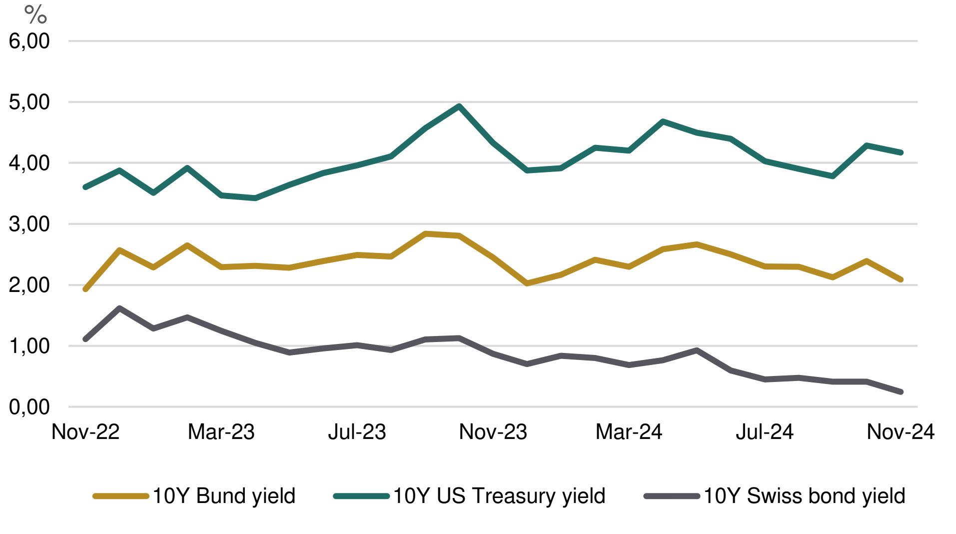
As a result, the US 10-year yield fell back below 4.2% (i.e. a tightening of around 20bp over the month), while the 10-year Bund ended the month at around 2.1%, i.e. almost 30bp lower than at the end of October. **Obviously, this movement contributed to the good performance of the credit world**. The Iboxx EUR IG returned +1.5% in November, compared with +0.5% for the Iboxx EUR HY. It should be noted that spreads remain tight overall on the corporate side, close to their annual lows, which will limit the *upside* prospects for the major indices in 2025. More than ever, selection will be a major driver of alpha in 2025.

The primary market was once again very buoyant, with a new salvo of HY bonds in particular, bringing the total amount of euro-denominated debt issued to over EUR90bn. The perpetual debt market also proved popular, with several AT1 refinancings and a number of new hybrid debts (Roquette Frères, Abertis, Heimstaden, oil companies, etc.).

MAIN GOVERNMENT BONDS SAW THEIR YIELDS FALL IN NOVEMBER

10Y SOVEREIGN BOND YIELDS

EVOLUTION OVER 2 YEARS



Source: Bloomberg, 30/11/2024
Past performance is not indicative of future performance

CURRENCIES

For most of the month, the DXY strengthened (+1.7%)**.** A clear winner of the trump trade, the dollar jumped when it became official that Donald Trump would be back to the White House. Indeed, **Trump's signature tariffs are likely to fan inflationary pressures and will force the Fed to keep rates elevated.** Growth is also undeniably more resilient in the US than in the rest of the world. However, in the last days of the month, the nomination of Scott Bessent as Secretary of the Treasury put a lid on the dollar, as he is seen as moderate on tariffs.

After the election, the EUR took a battering (-2.8%). The EURUSD hit its weakest since 2022 (below 1.04), as Europe - especially Germany - could be hit hard by tariffs. Furthermore, the widening gaps in growth dynamics and interest rates are increasingly in favor of the dollar, as the ECB will continue its cutting campaign in December - and further. The single currency rebounded slightly in the last week of the month.

The GBP lost ground (-1.3%), even if sticky services inflation will force the BoE to keep rates elevated longer than expected. Economic activity sent signs of waning, which weighed on the cable.

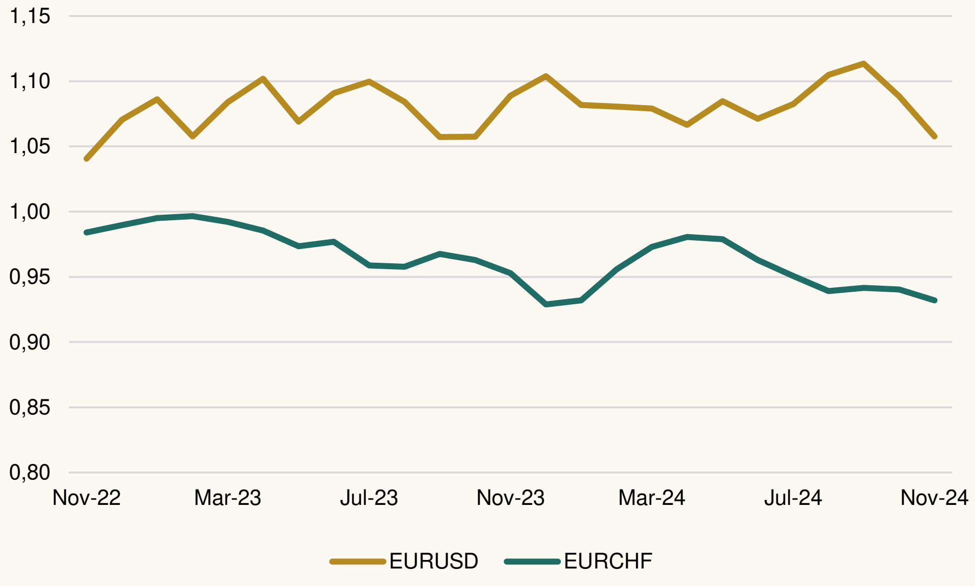
The CHF also paled in comparison with the greenback (-1.9%). Q3 GDP growth did not reiterate the remarkable Q2 upswing. Moreover, inflation is trapped in the lower end of the 0-2% target range, forcing Martin Schlegel to admit that **the SNB could reinstate negative interest rates if necessary.** But renewed tensions in Ukraine were a reminder of the safe haven status of the Swiss currency, putting a floor under the CHF.

JPY ticked higher, contrasting with its peers (JPYUSD: +1.5%). Arguably, the JPY's starting valuation was weak after a two-month depreciation streak. But the combination of a slightly above-expectations inflation report and hopes for a wide tax cuts plan to support growth revived bets **that the BoJ may hike rates as early as December.** USDJPY slid below 150, a noticeable landmark.

THE DOLLAR JUMPED WHEN IT BECAME OFFICIAL THAT DONALD TRUMP WOULD BE BACK TO THE WHITE HOUSE

USD & CHF

EVOLUTION OVER 2 YEARS AGAINST THE EUR



Source: Bloomberg, 30/11/2024
Past performance is not indicative of future performance

COMMODITIES

OIL

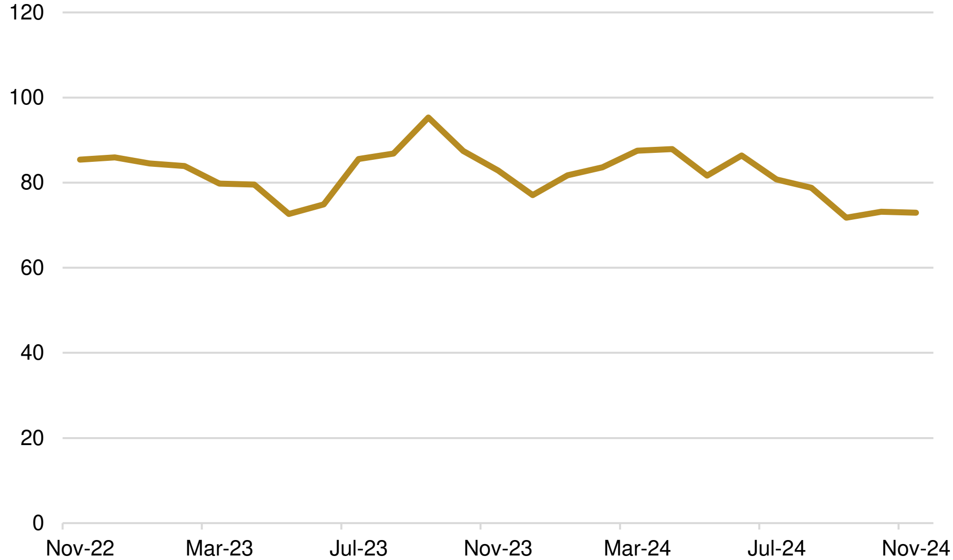
Instead of Middle East tensions, another escalation in Ukraine and the election of Donald Trump (leading to fears of fresh restrictions on Iranian oil exports) revived oil's geopolitical premium temporarily, pushing the Brent towards $75.

But the global market remains oversupplied overall (Brent -0.3%, WTI: -1.8%). Sluggish growth outside of the US is a drag on demand: the marginal consumer, China, sees domestic oil needs contracting**.** **Oil supply keeps strong**, and the narrative remains that of an OPEC+ trying to manage prices (it expanded its 180 000 b/d cut until the end of 2024) but to no avail given the vast quantities poured on international markets by American producers (the US, Canada and Latin America). **Against this backdrop, Scott Bessent's proposal to raise US production by 3 million b/d could frighten OPEC.**

The narrative remains that of an OPEC+ trying to manage prices, but to no avail

OIL

EVOLUTION OF BRENT PRICES OVER 2 YEARS

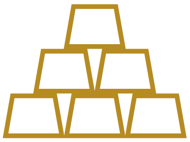


Source: Bloomberg, 30/11/2024
Past performance is not indicative of future performance

COMMODITIES

GOLD

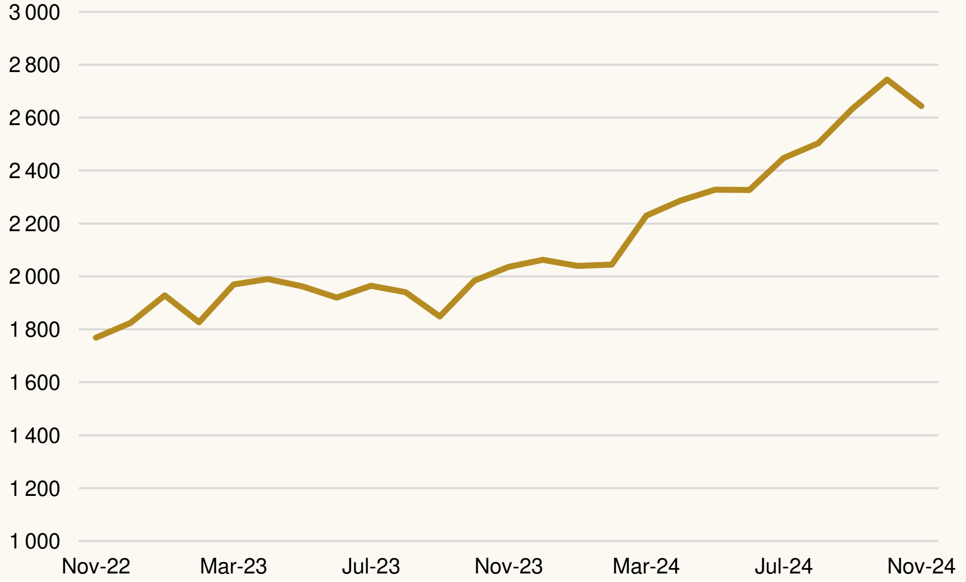
Gold dropped in November (-3.7%), as it found back its inverse correlation with a rising dollar and US long term yields. The YTD performance is still impressive. **Silver followed the same trajectory until the new round of tensions in Ukraine**: the safe haven status of Gold put a floor under the yellow metal, whereas silver dipped (-6.2%). We prefer Gold over the long term, since it benefits from the attention of most central banks.



Gold dropped in November, as it found back its inverse correlation with rising dollar and US long term yields

GOLD

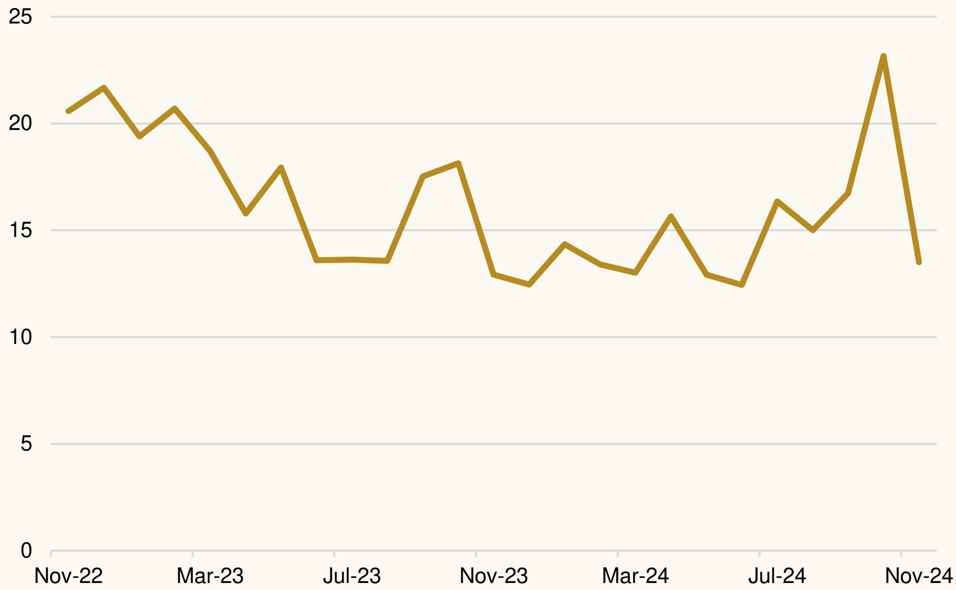
EVOLUTION OVER 2 YEARS



Source: Bloomberg, 30/11/2024
Past performance is not indicative of future performance

VOLATILITY

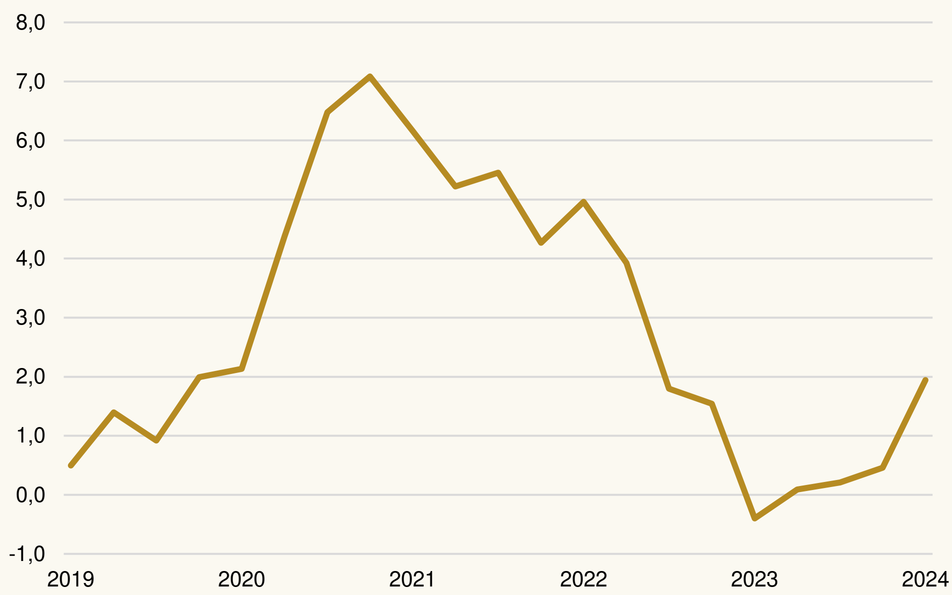
VOLATILITY – VIX INDEX
EVOLUTION OVER 2 YEARS



Source: Bloomberg, 30/11/2024
Past performance is not indicative of future performance

REAL ESTATE

SWISS RESIDENTIAL REAL ESTATE
ANNUAL PRICE CHANGE



Source: Bloomberg, 30/11/2024
Past performance is not indicative of future performance

CALENDAR

Date	Country	Economic Data	Period	Previous
02 December	US	Manufacturing PMI	Nov-24	46,5
	China	Caixin Manufacturing PMI	Dec-24	51,5
	Eurozone	Markit Manufacturing PMI	Dec-24	45,2
	Eurozone	Unemployment Rate (%)	Oct-24	6,3
	UK	Markit Manufacturing PMI	Dec-24	48,6
	Italy	Real GDP (QoQ)	Dec-24	0,0
	Japan	Nikkei Manufacturing PMI	Dec-24	49,0
	Switzerland	Manufacturing PMI	Nov-24	49,9
03 December	Switzerland	Inflation (YoY)	Nov-24	0,6
04 December	US	ISM Non-Manufacturing Index	Nov-24	56,0
	Eurozone	Markit Services PMI	Dec-24	49,2
	UK	Markit Services PMI	Dec-24	50,0
05 December	Switzerland	Unemployment Rate (%)	Nov-24	2,6
06 December	US	Consumer Confidence	Dec-24	71,8
	US	Employment (000s)	Nov-24	12,0
	US	Unemployment Rate (%)	Nov-24	4,1
	Eurozone	Employment (QoQ)	Dec-24	0,2
	Eurozone	Real GDP (QoQ)	Dec-24	0,4
	Germany	Industrial Production (MoM)	Oct-24	-2,5
09 December	China	Inflation (YoY)	Nov-24	0,3
	Japan	Real GDP (QoQ)	Dec-24	0,9
10 December	China	Exports (YoY)	Nov-24	12,7
11 December	US	Inflation (YoY)	Nov-24	2,6
	Eurozone	ECB Interest Rate (%)	Nov-24	3,3
12 December	Switzerland	Swiss National Bank Interest Rate (%)	Nov-24	0,5
13 December	Eurozone	Industrial Production (MoM)	Oct-24	-2,0
	Japan	Industrial Production (MoM)	Nov-24	3,0
16 December	China	Retail Sales (YoY)	Nov-24	4,8
	China	Industrial production (YoY)	Nov-24	5,8
17 December	US	Industrial Production (MoM)	Nov-24	-0,3
	UK	Unemployment Rate (%)	Oct-24	4,3
	Germany	Ifo Business Climate	Dec-24	85,7
18 December	US	Federal Reserve Interest Rate (%)	Dec-24	4,8
	UK	Inflation (YoY)	Nov-24	2,3
19 December	US	Philadelphia Fed Business Survey	Dec-24	-5,5
	US	Real GDP (QoQ)	Dec-24	2,8
	UK	Bank of England Interest Rate (%)	Jan-25	4,8
23 December	UK	Real GDP (QoQ)		0,1
30 December	Switzerland	KOF Leading Indicator	Dec-24	101,8

LET'S TALK ABOUT IT.

T +41 (0)22 512 10 24
Place de l'Université 6
CH – 1205 Genève
swisscapital-ib.com

This article was finalised on 30th November 2024.

DISCLAIMER