Market View
Looking beyond election volatility – key market drivers

Date 25 October 2024

Author Sanjay Rijhsinghani

At a glance

- Election volatility: with the US presidential race too close to call, both equity and bond markets are expected to remain volatile in the fourth quarter.

- Key economic indicators: US GDP growth trends, inflation, labour market data and Central Bank interest rate decisions are significant factors influencing market performance.
- Geopolitical and earnings focus: geopolitical tensions and third-quarter earnings reports, particularly from tech giants, are crucial in shaping market sentiment and investor confidence.

As we enter the final weeks of the upcoming US presidential election, we expect there to be further volatility in both equity and bond markets in the fourth quarter of this year. The fact that the race is too close to call results in market participants rotating swiftly from one sector/asset class to another, depending on who is ahead in the polls. However, the election, whilst the major event of the final quarter, is not the only area of focus for investors. There are four major areas to keep an eye on.

Economic Growth

US GDP annualised growth is projected to soften to 2.3% in the fourth quarter from Q2 highs this year of 3%. This move, if followed by stabilising growth in Q1 and Q2 of 2025, would indicate the Fed, much to their credit, has pulled off a 'soft landing'. However, any disappointments in GDP numbers could make the backdrop less favourable than the anticipated soft landing. If there were a more meaningful slowdown it would, in our view, likely benefit bonds (as the Fed may be more aggressive in their rate cutting cycle). However, should economic growth pick up, then we could expect equities to outperform bonds.

Inflation & Interest rates

While concerns surrounding inflation seem to be in the past, the Fed will no doubt keep a focus on its mandate of achieving "stable prices" and tackling inflation. With a year-on-year core inflation rate of 3.2% in July and August and a headline level of 2.5%, inflation remains above the central bank's target level – albeit, it seems to us, that the FED appears to be viewing their 2% target as a 'floor' rather than a 'ceiling'. Any signs that inflation is rising could prove a hurdle to the Fed's plan to reduce rates. Market consensus seems to be that US rates end this year at the 4.5% level, which implies a 0.50% cut between now and the new year. Any deviation from this plan could result in both equity and bond volatility.

Geopolitics

The most recent conflict in Ukraine has sadly entered its 20th month, with escalation a constant concern. Recently, geopolitical focus has shifted towards the Middle East where continued conflict between Israel and Iran risks dragging other states into action. Further escalation risks causing a shock to oil prices (potentially going up) and equity markets (potentially down), however from a market perspective this would in our view likely benefit the US dollar and Gold. For the time being, markets have been relatively unreactive to these events, and markets have

chosen to focus more on economic data and Central Bank policy. If Trump was to emerge as the next US President, his Foreign policy rhetoric seems to suggest that he would seek, and believes he could, help achieve an end to the Ukraine/Russia war (with Ukraine potentially forced to give up some territory to Putin), whereas events in the Middle East may take a turn for the worse, especially as his policies suggest the Republicans would favour a regime change in Iran. Should Kamala be the next President, we do not foresee much change to their current approach.

Earnings Reports

The third quarter earnings season is under way, with many of the tech giants reporting in the next two weeks. So far we have seen impressive positive results from the major banks in the US, however, as we have seen in earlier quarters, it is the 'Magnificant 7' that have been driving markets. Once again their earnings will be in focus, especially as their valuations suggest that they would need to keep producing market beating growth and earnings in order to maintain their elevated valuations. Outside of Tech, we will be keeping a close eye on industry-specific trends and whether the broadening out of earnings from tech to other sectors continues. Likewise, a keen focus will be on profit margins, costs and capital expenditure. Earnings could give an indication about the overall state of the economy. Any signs that overall earnings growth is slowing and/or margins are being adversely impacted, could result in the market giving back some of the strong moves we have seen in equities this year.

Another area of interest for investors outside of these four key focuses is China. The third quarter saw China (finally) address their weakening economy by announcing various stimulatory policies. Over the next quarter the market will be looking for further clarity on implementation of these policy, and whether Xi is willing to do 'whatever it takes' to ensure their 5% GDP growth target is met, along with restoring confidence in the region. Recent policy announcements (monetary, property, equity market intervention) in China have been met with optimism and the market has responded favourably. The question is whether this marks the beginning of a meaningful change in direction from policy makers. If so, then this strong upturn in Chinese equities could continue. Though a Trump victory, and his well flagged intentions of imposing tougher tariffs on China, may dampen some of the recent investor optimism towards the region.

Overall, there remains much to focus on as we enter the final two months of the year, with Central Bank policy and the US elections expected to take centre stage. However, our continued focus on quality businesses should continue to hold us in good stead in what could be a volatile few months.

This communication is provided for information purposes only. The information presented herein provides a general update on market conditions and is not intended and should not be construed as an offer, invitation, solicitation or recommendation to buy or sell any specific investment or participate in any investment (or other) strategy.

The subject of the communication is not a regulated investment. Past performance is not an indication of future performance and the value of investments and the income derived from them may fluctuate and you may not receive back the amount you originally invest. Although this document has been prepared on the basis of information we believe to be reliable, LGT Wealth Management UK LLP gives no representation or warranty in relation to the accuracy or completeness of the information presented herein. The information presented herein does not provide sufficient information on which to make an informed investment decision. No liability is accepted whatsoever by LGT Wealth Management UK LLP, employees and associated companies for any direct or consequential loss arising from this document.

LGT Wealth Management UK LLP is authorised and regulated by the Financial Conduct Authority in the United Kingdom.

Investors should be aware that past performance is not an indication of future performance, the value of investments and the income derived from them may fluctuate and you may not receive back the amount you originally invested.

LGT Wealth Management UK LLP is authorised and regulated by the Financial Conduct Authority (FCA). Registered in England and Wales: OC329392. Registered office: Fourteen Cornhill, London, EC3V 3NR.