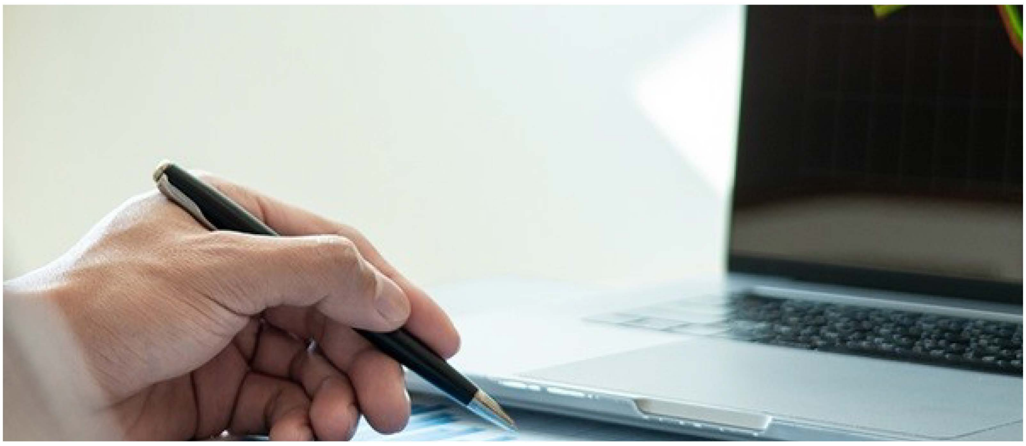

Article MARKET COMMENTARY

Market round-up: 04 November - 08 November

Thomas Watts recaps the week and looks ahead to next week.

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This week just ended

Remember, remember the 5th of November, a date that has been drummed into the British psyche for over 400 years through Bonfire Night, commemorating the foiling of the Gunpowder Plot of Guy Fawkes and his accomplices. With this in mind, what better date for Americans to experience some political fireworks of their own, with the US electorate headed to the polls on the same day.

And fireworks there certainly were, as Donald Trump defied the polls and romped to victory in at least five of the seven (at the time of writing) so-called swing states to become the 47th President of the USA. Lighting a fuse under equity markets, his victory saw mainstream US indices soar to record highs on Wednesday, led by financial and energy companies. US small-caps also joined the party, jumping 5.17% to a near three-year high, as domestic-focused stocks expected to benefit from a lower regulatory and tax regime, as well as be less exposed to any likely import tariffs.

However, whilst the US dollar also gained against a basket of developed currencies, investors also bet on heightened inflation on its way after Trump's policies are enacted. The 10-year Treasury yield jumped more than 14 basis points to 4.43%, hitting its highest level since July, with many predicting that a Trump presidency would increase economic growth and spending, which in turn could dampen expectations that the Federal Reserve will look to cut rates as quick or as deeply.

With hopes for more rate cuts starting to fizzle out like the proverbial firework, it was lucky for investors that the Fed were scheduled to speak to the press on Thursday, cutting rates by 0.25% as largely anticipated. During his testimony, Chair of the central bank, Jay Powell, made the argument for further cuts depending on incoming data concerning inflation and the strength of the labour market. What was also interesting, is that Powell largely brushed any questions of how a Trump administration may affect the bank's thinking, arguing that the Fed was not in the business of speculating. However, he did provide a strong rebuttal to suggestions that the president could force him to resign or fire him.

The Fed wasn't the only central bank to cut rates this week, as our own Bank of England (BoE) also lent a spark to proceedings, cutting rates on domestic shores by another 0.25% to 4.75%. The bank's Monetary Policy Committee concluded that although last week's Budget was likely to boost growth and inflation, a gradual approach to loosening policy remained appropriate, voting 8-1 in favour of a move on Thursday.

The bank also forecast that inflation will fall back to its 2% target in the medium-term, expecting to cut rates by a further 1% to 3.75% by the end of 2025. Although there was a note of caution sounded surrounding inflation as the bank's new projection is higher from mid-2025 onwards, largely due to the measures announced in last week's Budget.

Whilst most of the economic data released couldn't hold a (Roman) candle to the main political events of the week, news from the British Retail Consortium made for interesting reading on Monday. Detailing the state of the High Street, the report showed that after a good start to Autumn, October's sales growth was disappointing, partly driven by half term falling a week later this year as well as uncertainty during the run-up to the Budget. Fashion sales took the biggest hit as the mild weather delayed winter purchases, whilst health and beauty sales remained buoyant, with beauty themed advent calendars seemingly flying off the shelves already,

The promotional weeks around Black Friday will be the first real test of post-Budget consumer sentiment it seems, with retailers looking to electronics promotions and new AI-linked products to end the year, much like those attending Bonfire displays this week…*with a bang…*

This coming week

With all the events of the past week keeping economists nice and busy, it is high time some get a rest heading into the coming week, with US and French markets closed for Veteran's Day and Armistice Day respectively.

With UK economists getting the thin end of the wedge when it comes to public holidays compared to the US and on the continent, we will be greeted by a release from the UK Conference Board on Monday, detailing its Leading Index data, comprised of various economic indicators. The figures can prove very useful as they combine the readings of seven economic indicators related to production, new orders, consumer confidence, stock prices, and interest rate spreads. As the useful as the data is in predicting the direction of the economy, but it tends to have a muted impact because most of the indicators used in the calculation have been released previously and are known entities.

The domestic theme continues for most of the early part of the week as the Office for National Statistics releases its Claimant Count figures, detailing the change in the number of people claiming unemployment-related benefits during the previous month. Although it's generally viewed as a lagging indicator, the number of unemployed people is an important signal of overall economic health with consumer spending is highly correlated with unemployment levels.

A more comprehensive picture should be painted for the broader domestic economy on Thursday as the nation's Gross Domestic Product (GDP) figures are released. GDP is often considered the broadest measurement of the health of an economy, gauging the change in the total value of all goods and services produced by a country. With the UK having just exited a shallow recession with economic growth have re-entered positive territory, many will be hoping that the trend can continue.

There is also plenty of news across the pond to get excited about as well, as the US releases its latest inflation numbers. With financial markets predicting that a US rate cut in December is still probable after, Fed Chair, Jay Powell's speech last week, incoming CPI data could prove crucial in shaping the thoughts of its rate setters. Helping us to digest the data further, Powell is due to participate in a panel discussion titled "Global Perspectives" at an event hosted by the Federal Reserve Bank of Dallas, which should give investors much more of a feel for how the central bank is interpreting the data.

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