Market Review - November 2024

If most journalists and political pundits promised us the most indecisive US presidential election in history, it's clear that they were wrong, and that they may want to rethink their next predictions. The Republican candidate was elected the 47th President of the United States, leaving the Democrats nothing but crumbs. Not only will Mr. Trump return to the White House on January 20 2025, just four years after his disputed defeat by Joe Biden in 2020, but his party has also swept the Senate as well as the House of Representatives.

The “red wave” did not prevent the S&P500 from gaining 5.73% in November (+26.5% year-to-date), its best monthly performance since November 2023, and reaching new all-time highs. For the time being, equity investors seem rather satisfied with the choice of the future tenant of the White House.

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Market Trends to end November 2024

	Equities in Local Currencies							
End of November	MSCI World	S&P 500	EuroStoxx	CAC	Spain	Switzerland	MSCI EM	CSI 300
Perf 1 Month	4.47%	5.73%	-0.48%	-1.57%	-0.27%	-0.24%	-3.66%	0.66%
Perf 3 Month	4.07%	6.80%	-3.10%	-5.19%	2.10%	-5.41%	-1.94%	17.92%
Perf YTD	20.22%	26.47%	6.26%	-4.08%	15.24%	5.62%	5.36%	14.15%

	Commodities				Currencies vs EUR			
End of November	WTI Oil	Brent Oil	Gold	Copper	USD	JPY	GBP	CHF
Perf 1 Month	-1.82%	-0.30%	-3.67%	-5.21%	2.91%	4.46%	1.57%	0.89%
Perf 3 Month	-7.55%	-7.44%	5.58%	-2.43%	4.46%	1.94%	1.31%	0.75%
Perf YTD	-5.09%	-5.32%	28.12%	5.28%	4.37%	-1.70%	4.36%	-0.34%

	Bloomberg Indices Bonds Total returns							
End of November	Global Aggregate	US Aggregate	Euro Aggregate	US 10 Year Treasury	German 10 Year Bund	Global Credit	Global High Yield	Emerging Sovereign $
Perf 1 Month	0.34%	1.06%	1.96%	0.98%	4.82%	0.47%	0.82%	1.11%
Perf 3 Month	-1.37%	-0.13%	2.44%	-1.09%	4.02%	-0.54%	2.14%	1.48%
Perf YTD	0.47%	2.93%	3.72%	1.59%	1.72%	2.76%	9.80%	7.86%

Source: Bloomberg 30/11/24

As our most assiduous readers know, it's our habit not to dwell on, and above all to avoid taking positions on, politics/geopolitics. We won't deviate from our principles, but today we feel it's useful to review the potential economic consequences of Donald Trump's arrival in the White House, and to try to identify who the winners and losers will be. As you'll see, the conditional tense is the order of the day, as the hypotheses remain so uncertain...

The trade war could intensify

This was one of the future President's main campaign arguments. His slogan "Make America Great Again" is about to be put into practice. Even if it seems hard to imagine that Mr. Trump will manage to implement everything he promised during his campaign, we can nevertheless imagine with a high degree of conviction that tariffs will take off. The main victims will, of course, be China, Europe and any other countries that are labeled as "unfair competitors" to the United States, or that aren't doing enough to stamp out drug imports to Uncle Sam. We can imagine that Mexico, Canada and certain Southeast Asian countries could also be in the eye of the storm. It therefore comes as no surprise that the European automotive sector posted the worst performance in the zone in November (-4.1%). For almost fifteen years now (since 2009 and the end of the financial crisis), US indices have consistently outperformed European indices and the rest of the world. In the months leading up to the election, some strategists dared to bet that this American leadership was coming to an end. We can imagine that Mr. Trump's victory should postpone the potential reversal of this outperformance for a few years, and allow American companies (and mainly SMEs) to take advantage of the protectionist measures to come. These practices are likely to put more pressure on inflation.

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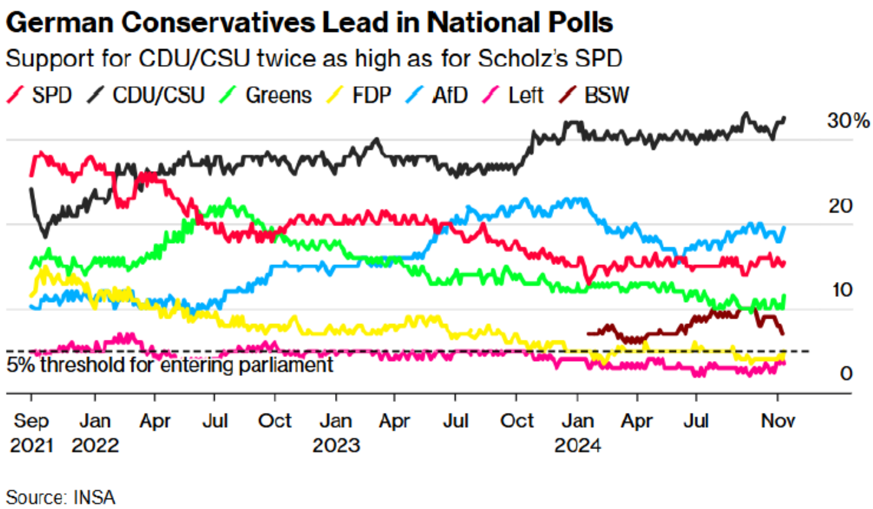
Geopolitical conflicts

During his campaign, Mr. Trump announced that he would be able to end the conflict between Ukraine and Russia in "24 hours"! He has already floated the idea of a demilitarized zone on the front line, secured by European soldiers. In return, Russia would keep its conquered territories, and Ukraine would undertake not to join NATO for the next twenty years. His rhetoric seems credible, since the Ukrainian President recently announced that the conflict was likely to end more quickly with this new administration.

Although military spending has already increased in Europe in recent years, this idea, whether implemented or not, demonstrates Trump's desire to force Europe to make a more concrete commitment to ending the conflict. This will undoubtedly have a significant impact on the budgets of most countries on the Old Continent, at a time when they are struggling to make ends meet.

Germany is already in the midst of a political crisis after Chancellor Olaf Scholz sacked the country's Finance Minister over a disagreement on...the financing of Ukraine's defense. This decision has shattered the fragile ruling coalition and prompted a vote of confidence, which will be followed by elections early next year.



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In France, the political morass continues. Following the dissolution of the National Assembly and the appointment of a new Prime Minister, the latter failed to pass the 2025 budget, prompting several politicians to call for President Macron's resignation. The yield spread on 10-year bonds between France and Germany is hovering above 80 basis points, the highest since 2012. Even though most of the multinationals that make up the CAC40 generate a large proportion of their sales abroad, French equities could continue to underperform their European counterparts if a political solution is not found soon. It's hard to imagine that the Russian-Ukrainian conflict can be resolved quickly, especially after the Biden administration (which, incidentally, is still the one ruling the country) authorized Ukraine to use American long-range missiles to strike Russia, despite Mr. Putin's warnings. The latter had previously announced that such a decision would be considered a declaration of war by NATO against Russia, and that the fighting would take on a new dimension. Is the conflict escalating or de-escalating? It seems more complicated than ever to answer this question.
Will either side agree to make the concessions necessary to achieve a lasting ceasefire? We all hope so...
If this conflict comes to an end in 2025, it should be to the advantage of companies that are likely to win major long-term contracts for the reconstruction of Ukraine. Will European companies manage to position themselves, or will American and Chinese companies once again take the lion's share of the market? The question of who will finance the reconstruction also remains open...To be continued.

Ammunition depot hit in Karachev, Bryansk Region, media say

Source: Institute for the Study of War and AEI's Critical Threats Project
Note: Control areas current as of Nov. 18

In the Middle East, the intensity of the fighting continues unabated, even though a (fragile) ceasefire was confirmed between Israel and Hezbollah at the end of November. While the humanitarian consequences never cease to shock, the economic impact of this conflict remains (also) limited for the time being. At least, as long as the Strait of Hormuz, through which over 20% of the world's oil consumption transits each year, remains accessible.

Let's not forget the latent hotbed of risk in the China Sea between Beijing and Taiwan, which could also flare up sooner or later.

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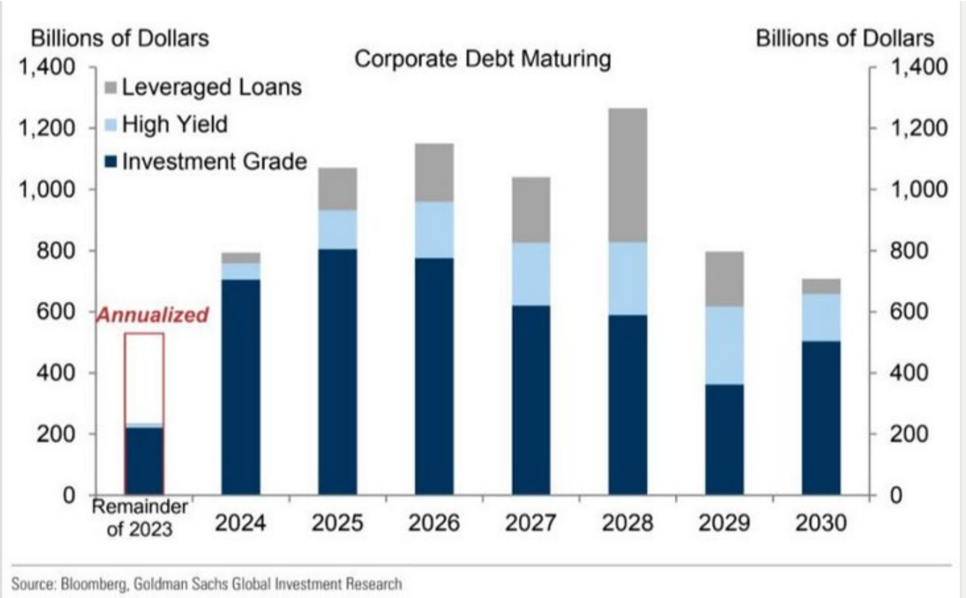
Tax cuts, immigration and the impact on inflation?

Thanks to a Republican majority in the Senate, the promise of lower taxes should not face any particular obstacles and should therefore be implemented soon. Corporate income tax is set to fall from 21% to 15%. SMEs are likely to be the big winners from this measure, and investors have already begun to position themselves on this theme. The Russell 2000 index of leading US small & mid caps gained almost 11% over the month, clearly outperforming most other equity indices. This would be an important (and necessary) breath of fresh air for companies still suffering from rising interest rates. We have repeatedly referred to the "debt wall" and potential refinancing difficulties for certain heavily indebted companies. These tax cuts would come at an opportune moment, when interest charges are likely to rise.



The "hunt for illegal immigrants" that the future President has promised to carry out, could also have a significant impact on inflation. The disappearance of this category of workers, who accept low-income jobs for tasks that Americans "don't want to do", is likely to provoke a labor shortage and further upward pressure on wages. This situation could create an environment of stronger economic growth and higher inflation, which would logically have an impact on interest rates. The latter, which have tended to rise since Mr. Trump's election, have already begun to value this potential paradigm, at least in the United States. In Europe, rates continue to fall, reflecting the zone's lack of growth prospects.

FED, USD and Gold

At the start of his campaign, Mr. Trump hinted that he would arrange for the current Chairman of the Central Bank not to complete his term of office. However, he recently changed his mind, probably in order to avoid creating an environment of uncertainty that could cause panic in risky assets. The future President of the United States has regularly criticized Mr. Powell's monetary policy, first for raising rates too quickly in 2022, then for not lowering them fast enough.

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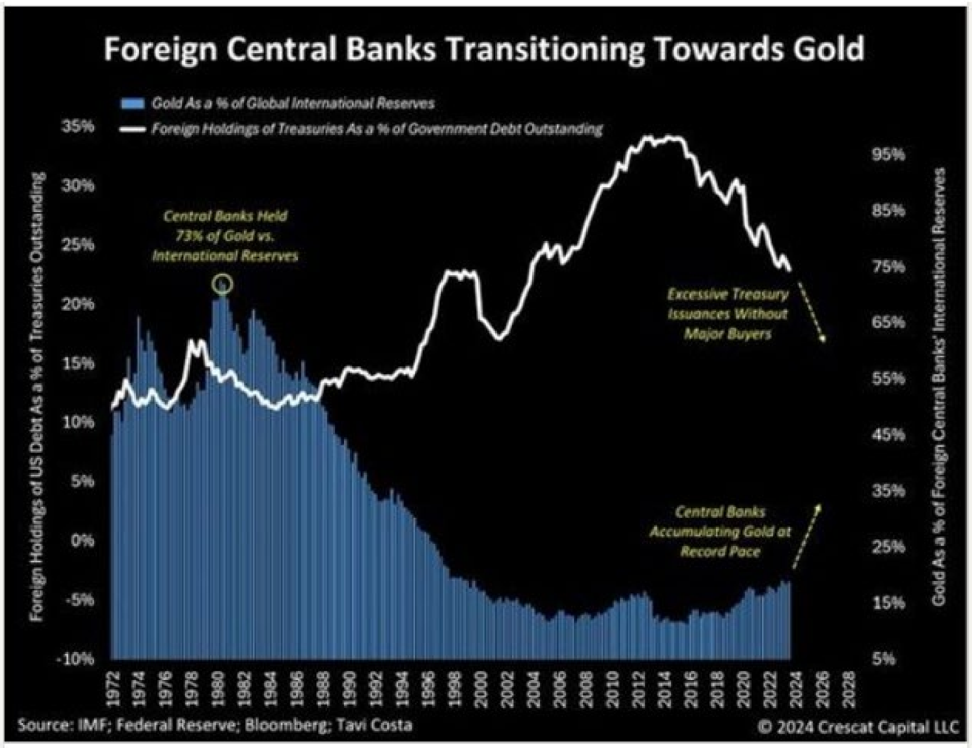
The economic model is based on investors' trust in institutions, especially central banks. If stock markets have weathered recent crises relatively well, it's mainly due to the fact that investors have put their trust in monetary policy adjustments in the face of unexpected events such as the widespread Covid-related shutdowns, or the risk of mass bankruptcies among US commercial banks in March 2023, which were brought under control by massive injections of liquidity. Potential uncertainties at the head of the world's most important central bank would have adverse consequences for the world's stock markets. We can therefore assume that Mr. Powell will preside over the FED until the end of his mandate in 2026, but the uncertainty of his successor remains. Whoever replaces him will certainly have his work cut out to cope with the pressure Mr. Trump will put on him.
The U.S. dollar tended to rise after the Republican candidate's victory was confirmed, with the Dollar Index (DXY) reaching its highest level since 2022 in recent days. The “America First” policy should undeniably benefit the greenback, and above all weigh on the euro. The dollar and Gold usually tend to move in opposite directions. After reaching an all-time high in October, the yellow metal suffered some clearing after Mr. Trump's victory, but rebounded in the second half of November. The name of the President of the United States should not have too much impact on the medium-term trend of this asset. The secular uptrend is set to continue as long as the major emerging central banks (China, India and Brazil, to name but a few...) continue to diversify their reserves by buying Gold. There is therefore no doubt that the yellow metal will exceed the $3,000-an-ounce mark in the future.



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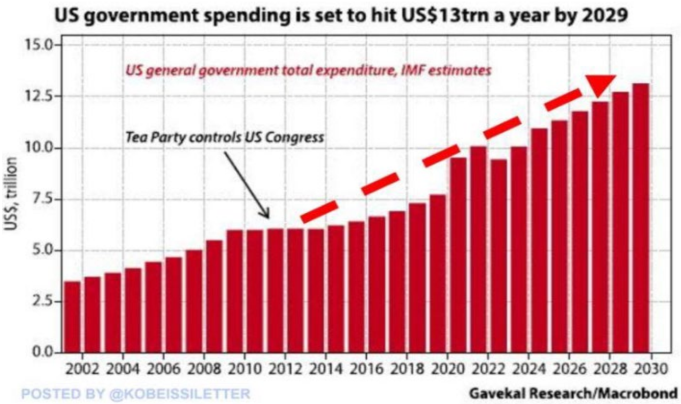
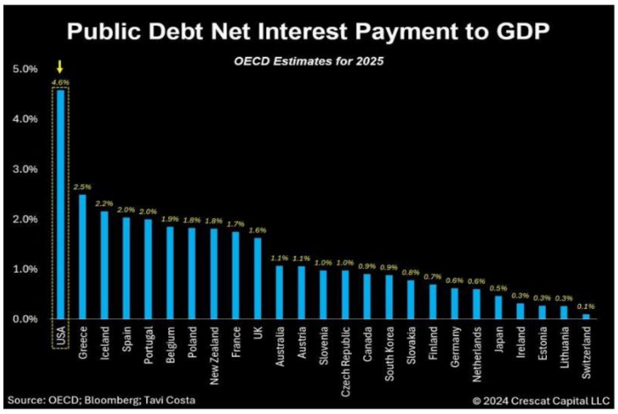
Budget Deficit

As we said in the introduction, the only thing we could be sure of before the election was that the budget deficit would continue its upward trend, no matter who won. The US debt has already reached $36,000 billion (i.e. a Debt/GDP ratio of 120%), the cost of interest on the debt has reached over $1,000 billion a year and represents the third largest expense in the US budget. The gap is set to continue widening over the next few years, and this is the main counter-argument that could keep the US dollar from rising in the long term. On the face of it, this situation seems worrying, but as long as confidence persists, it's tenable. Japan's debt-to-GDP ratio of over 250% is a good example. This has not prevented the Nikkei 225 from hitting an all-time high this year. The fact remains that, one day, someone will have to pay the piper...but it could be years yet. As we often say, it's not our job to try and speculate on the potential realization of a latent risk.





Energy Transition

While the pharmaceutical sector is likely to undergo a major overhaul of the healthcare system, which is likely to put pressure on companies' profit margins since the appointment of the "vaccinosceptic" Robert F. Kennedy to head the department, the horizon has clearly darkened for companies working to promote the energy transition. This segment of the market, which is made up of companies that are often loss-making or show fragile profitability, has been "surviving" for several years on subsidies, and needs strong growth if it hopes to become self-sufficient in the long term. Mr. Trump's election and shocking campaign speeches such as "drill baby, drill" leave little doubt as to his intentions. While it is clear that he intends to favor fossil fuel sources, he will still have to convince oil companies to drill in order to increase their production capacity, which is not a foregone conclusion.

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During his last term in office, the future President had already decided to withdraw from the Paris climate accords. It is therefore logical to worry about the future of companies that have been surviving on life support for many years, and which need the American market to achieve their growth objectives.

The solar (-7.5% over the month) and wind (-3.1%) sectors were the main victims of this election. Certain raw materials used in the manufacture of batteries, such as copper, were also under pressure.
This does not call into question the secular upward trend of these raw materials, nor the energy transition that is underway, but the latter's objectives are likely to be delayed, and the least well-capitalized companies are likely to bear the brunt... We remain relatively optimistic for the nuclear industry, which should benefit from its reclassification as clean energy

<u>And the winner is...Bitcoin!</u>

Before the start of his presidential campaign, Donald Trump didn't hesitate to speak out against digital assets, and in 2021 still considered Bitcoin to be a scam. He understood very well (or was very well advised...) the usefulness of putting this community “in his pocket” for the elections. The gamble paid off, as his opponent never really spoke out for or against the crypto-sphere, allowing the winner to capture the vast majority of the “cryptophile” vote. His speech in July 2024 at the Bitcoin Conference in Tennessee, where he hinted at plans to build up strategic Bitcoin reserves, was a major turning point for the sector. It's no surprise that this asset class literally soared after the Republican candidate's victory. Bitcoin gained more than 38% over the month to flirt with the $100,000 mark, a level never reached before. Other major digital assets, such as Ethereum and Solana, followed suit, even if they didn't necessarily reach all-time highs. 2024 was a pivotal year for this investment universe. The SEC has authorized the issue of ETFs on Bitcoin and Ethereum, and this sector will benefit from real political support for at least the next four years.

As we have mentioned several times in this newsletter, portfolio managers should no longer ignore this asset class, even if it will remain volatile. However, care must be taken with “small cryptos”, whose protocols may be fragile and poorly financed. Investors who want to include this asset class in their allocation should concentrate on the major ones.

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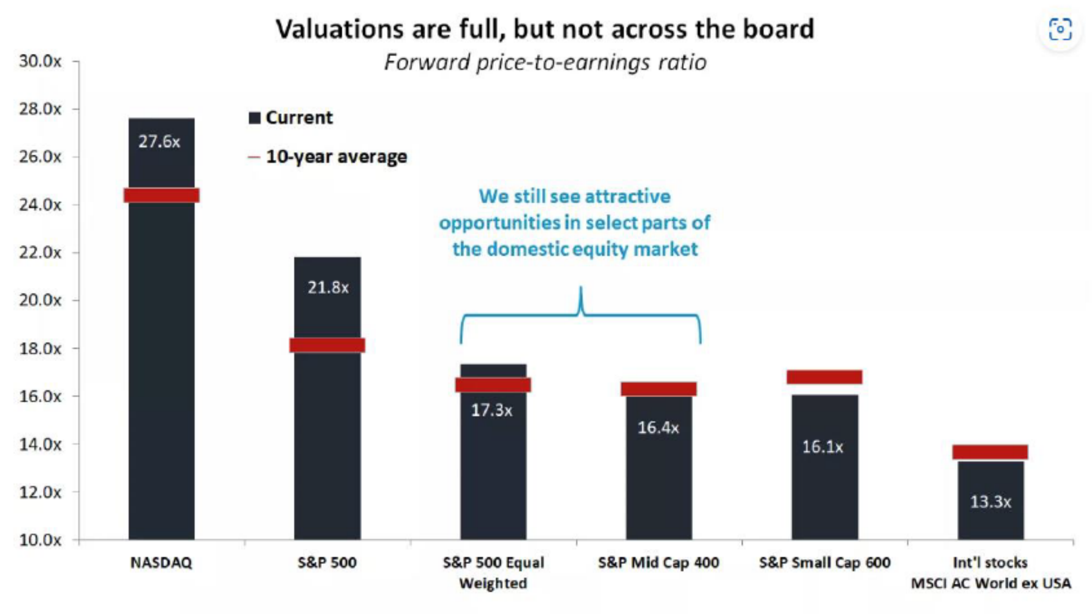
Conclusion

Western central banks should continue to normalize their monetary policies in 2025, although the rate-cutting cycle may be slower than expected.
Investors have all but given up on the risk of recession next year, at least in the USA. As we mentioned earlier, the European economic situation looks fragile, and political cacophonies in France and Germany are likely to darken the horizon. China, which is trying as best it can to revive its economy, will also be expected to take a closer look.
The political, geopolitical and economic risks mentioned above will need to be closely monitored.
As you can see, Mr. Trump's return to the White House will not only have an impact on US international policy, putting the purchasing power of Americans back in the spotlight, but will also have major economic consequences for certain sectors.
The latter gives the impression of wanting to govern the country as if he were running a company, which prompts him to surround himself with the likes of Elon Musk and Brian Armstrong (co-founder of Coinbase) in his future administration. To boost his credibility and popularity rating, he will certainly do everything in his power to ensure that the US stock market performs well throughout his term of office, which could be beneficial for the S&P 500, even if it is already dearly valued. Any disappointments or unpleasant surprises could trigger a sell-off.
For the reasons outlined above, European equities are currently trading at valuations below their historical averages.
Some see this as an attractive opportunity to catch up, but it won't materialize unless a certain economic momentum returns to the region quickly. However, if Mr. Trump imposes new tariffs on European companies, this will weigh on those exporting to the USA.
We wish you a Merry Christmas and a Happy New Year, and look forward to seeing you in 2025 for some exciting new adventures.



Source: FactSet, Edward Jones.

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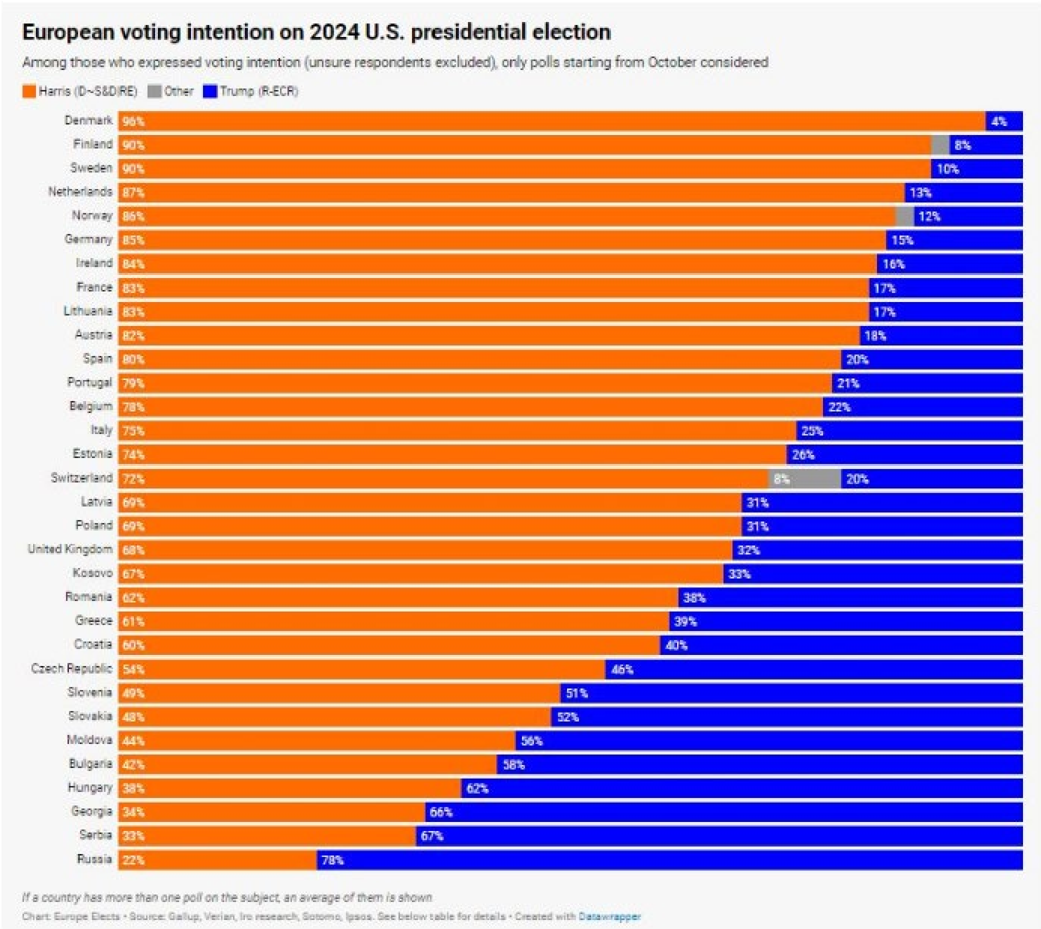
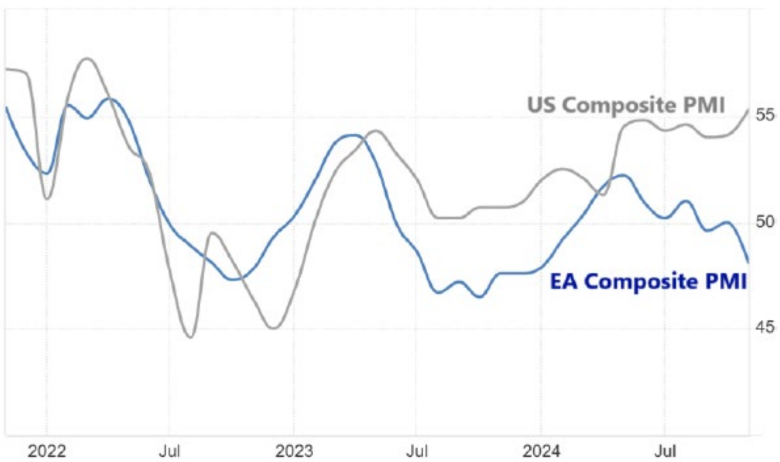
Bonus Chart :





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