Market Insight

Autumn 2024

Economic context

The US economy continues to benefit from the strength of activity in services and the real-time estimate of GDP for the third quarter calculated by the FED was revised upwards again. The employment report also reassured investors but the data are often unreliable because of regular revisions and the leading indicators are not as favourable.

The main risk is obviously that of the US elections whose result is more than uncertain (Graph **#1**). If Donald Trump seems to be the candidate best equipped to respond to the problems of Americans according to a Wall Street Journal poll, his too "extreme" character penalizes him. The economic consequences of the programs of the two candidates are also uncertain and the least bad scenario would be that of a victory of one or the other candidate with a divided Congress. Finally, it seems to us that one risk is currently underestimated by investors: the impossibility of determining the winner of the elections before several weeks, as happened in 2001 and an interminable recount of votes in Florida that ultimately favoured George Bush Jr. This year, Pennsylvania will probably play the role of arbiter.

In Europe, activity is deteriorating again (**#2**). Germany is still not rebounding and it is fair to think that this is now more linked to a structural problem than a cyclical one, and French activity disappointed in September. Inflation is accelerating its decline to 1.8% and is below the ECB target.

In China, the government has finally taken significant monetary stimulus measures. There was an urgent need to act given the weakness of leading indicators or the contraction in the money supply. This set of measures seems convincing to us (**#3**) but it must be accompanied by a budgetary stimulus plan.

Central Banks

As we anticipated, the FED cut its rates by 50 bp, with the risks now balanced between inflation and rising unemployment. Since the improvement in the US macroeconomy, investors have slightly moderated their expectations for rate cuts. They are now in line with those of the FED.
Initially, the ECB wanted to take a break in October and not lower rates because inflation was supposed to start rising again by the end of the year, driven by the end of the positive base effect of energy prices. This was without taking into account the weakness of activity across Europe and the sharp fall in inflation in September, below its 2% target. It will therefore lower rates again at its October meeting and should do the same at the next four meetings.

Financial Markets

Most US equity indices are at or near their all-time high despite high volatility. The earnings season is off to a good start and should be favourable to the continuation of the rally. However, earnings estimates for next year are too optimistic. While share buybacks should be a powerful factor supporting the market (**#4**), investor positioning is currently very consensual. Beware of a possible period of uncertainty after the elections.

European stocks are underperforming this year, particularly due to negative EPS revisions. But if we look at the "half full" side of the glass, earnings expectations for next year are more realistic than in the United States, and valuations are much more reasonable.

Finally, emerging markets are dominated by the surge in Chinese stocks, a rebound as powerful as the one after the lifting of Covid restrictions. Investors have been in a frenzy and have been buying up the country's shares in droves, pushing valuations to their highest level since early 2023. For the rebound to be sustainable, economic growth, and therefore earnings growth, must follow. An ambitious fiscal stimulus plan is a necessary complement to the stimulus measures to sustain a return of investors to the country's assets.

Investment Policy

• The fundamentals are favourable to the continuation of the rally in risky assets for the end of the year. BUT the American election seems to be more uncertain than ever with results that could be announced very late. If the markets continue to progress between now and then, we could reduce our exposures tactically.

• The fundamentals are good and the "FED Put" provides a floor for the US market. But caution is needed as we approach the elections, the results of which have never been so uncertain.

• The European markets remain attractive in terms of valuation and do not factor in a potential surprise on ECB rates and the upcoming Chinese recovery.

• In China, monetary stimulus measures are encouraging, but they must be accompanied by a budgetary stimulus plan to be effective. Asian emerging countries are doing well, we are positive.

• In bonds, we took some profits on duration after the September rally. Given the recent and rapid rebound, we remain positive. Beware of the Trump risk, however.

• Southern countries (Spain, Portugal) are maintaining insolent economic health and even Italy seems to have found political and economic stability.

• We remain neutral on High Yield given the weakness of spreads.

• IG has benefited from the fall in spreads but still has potential linked to the fall in long-term rates.

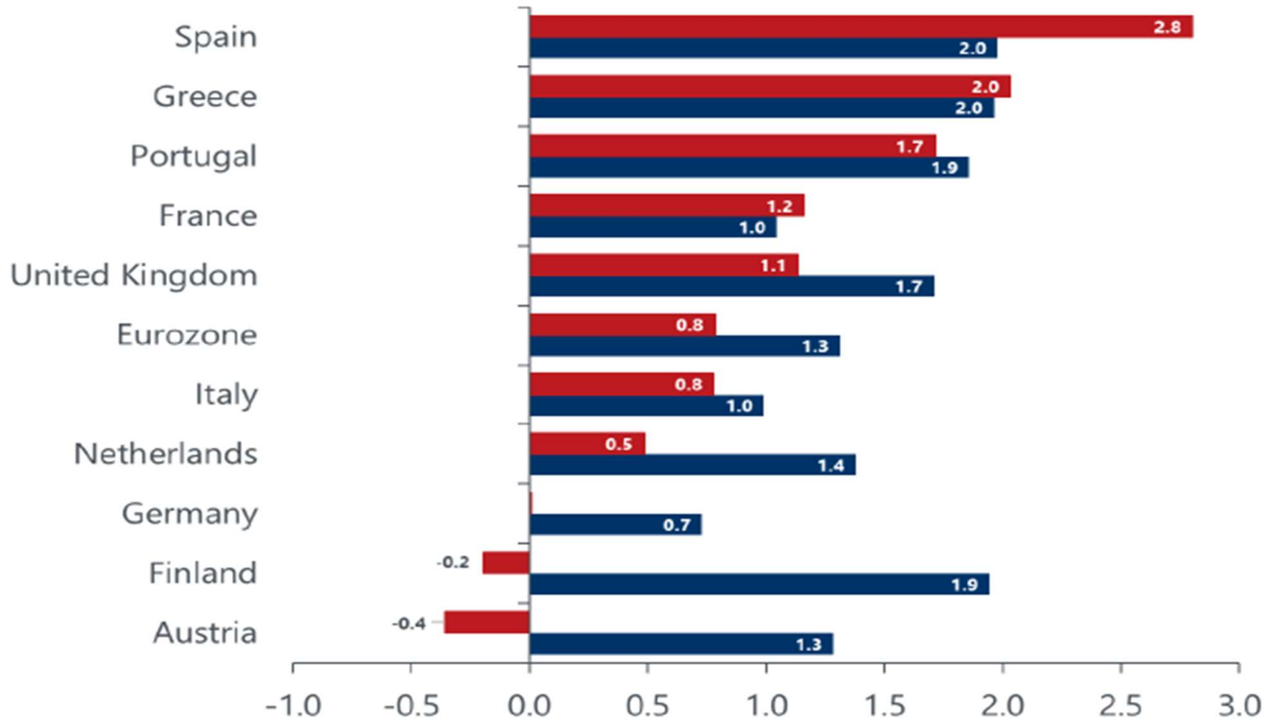
• Very effective in combating inflation, central banks of emerging countries are ahead of developed countries. The FED's rate cuts may allow them to perform again.

Charts

#1 Probability of victory by Predictit

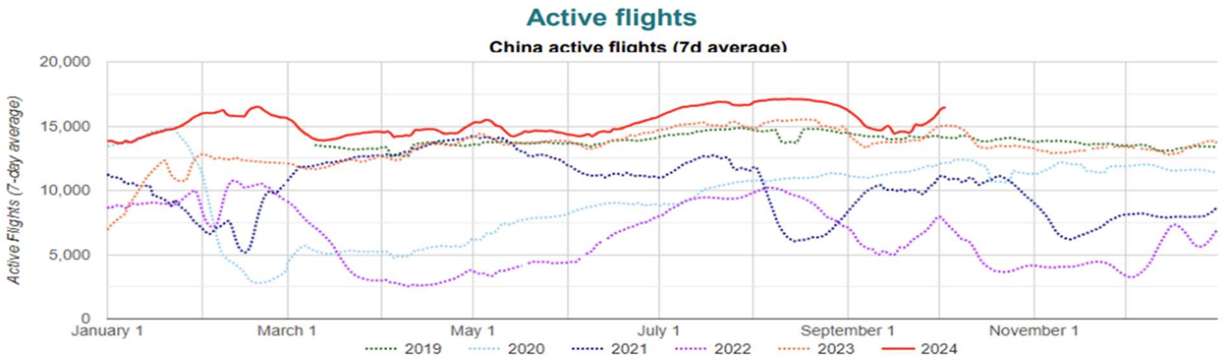
Source : Predictit

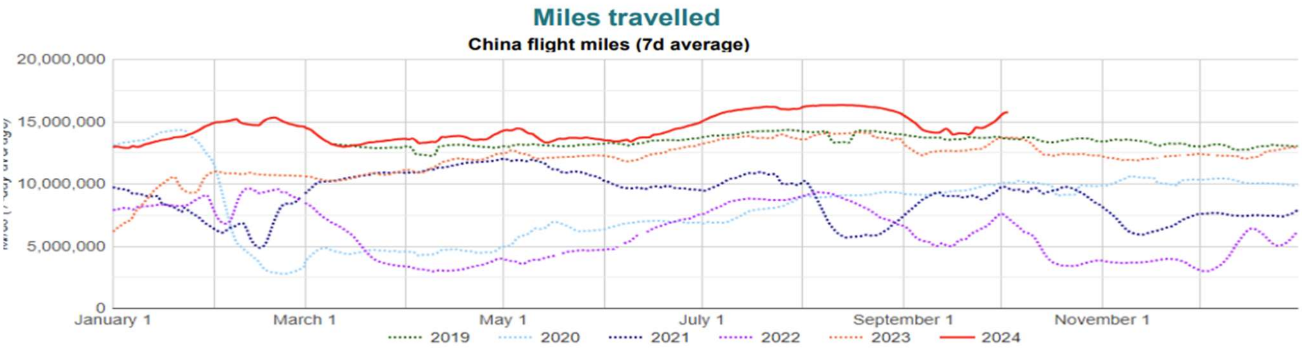
#2 Growth forecasts in Europe (2024 in red, 2025 in blue)



Source :Oxford Economics

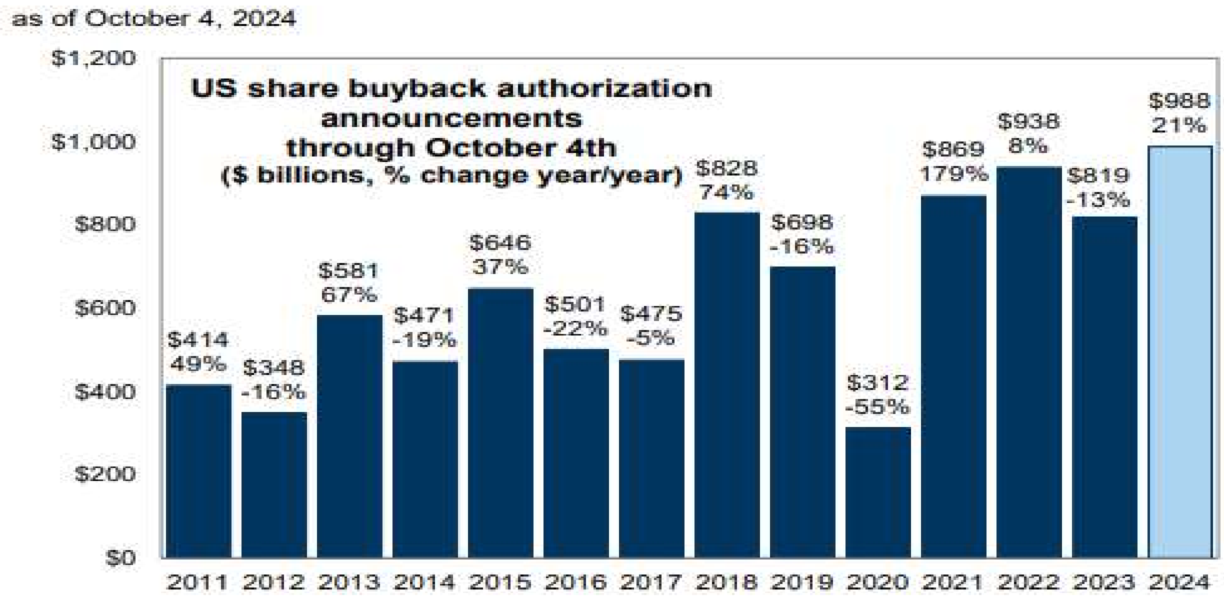
#3 In China, early signs of an improvement for certain advanced indicators





Source : Exane

#4 US stock buybacks are a powerful support for markets



Source : Goldman Sachs

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