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November 2024
Market Pulse

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EQUITIES RALLY ON REPUBLICAN 'CLEAN SWEEP'

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The main event in November was the US election, which resulted in Donald Trump being re-elected and the Republicans winning a 'clean sweep'. Global stock markets moved higher, driven by US indices rallying to new all-time highs amid expectations that positives from tax cuts and deregulation would more than offset any drags on US growth from tariff policies. Bond yields fell, particularly in the Eurozone, as proposed US tariffs were expected to hamper European growth and, when combined with low inflation, would allow the European Central Bank (ECB) to cut rates more aggressively. US economic data showed strength while there were signs of softer activity in the Eurozone.

Politics

In November, politics took centre stage as the US election gave Donald Trump victory and the Republicans won a majority of seats in both the Senate and the House of Representatives. This 'clean sweep' for the Republicans was seen as allowing for the implementation of president-elect Trump's agenda, which includes tax cuts, deregulation, stricter immigration controls and tariffs.

In Europe, politics was also in focus. The governing coalition in Germany collapsed and elections are now expected in February 2025, while in France there were concerns over government stability as the ruling coalition struggled to pass its budget and faced a no-confidence vote in early December.

US

Economic data in the US continued to show strength. October retail sales rose by 0.4% month on month (MoM), above expectations for 0.3% increase. Business sentiment also improved in November. The manufacturing PMI was still in contractionary territory (below 50), but rose from October, while that for services remained in expansionary territory (above 50) and was at the highest level since August 2022.

October non-farm payrolls were weak, with 12k jobs added compared to an expected 100k. Much of the weakness was due to hurricanes and labour strikes during the month. The unemployment rate stayed low, however, at 4.1% in October, and initial jobless claims fell to 213k in November, the lowest level since April. Both figures suggest a still-healthy labour market.

Inflation remained above the Federal Reserve's (Fed's) 2% target, with headline consumer prices up by 2.6% year on year (YoY) in October while core prices rose by 3.3%. Core PCE, the Fed's preferred measure of inflation, was at 2.8% YoY in the same month, in line with market expectations. The Fed cut its policy rate by 25 basis points (bps) to a target range of 4.50-4.75% at its November meeting, bringing its easing in the current cycle to 75bps. This was justified by "progress" on getting inflation towards its target and also a softer labour market. Chair Powell stated later in the month, however, that the central bank did not "need to be in a hurry to lower rates" given the strong economic backdrop.

Europe

European PMIs were weak in November, with both manufacturing and services in contractionary territory and lower than market expectations. The declines were driven by numerous countries, with subcomponents like new orders falling while employment contracted. This suggested a soft activity backdrop in the region.

Inflation remained well-behaved, with headline consumer prices rising in line with expectations in November (2.3% YoY), while core prices were slightly below projections at 2.7%. ECB speakers suggested that further rate cuts would be needed to support the economy given that inflation was controlled, which raised market expectations around potential easing in the coming months.

MARKET ROUND-UP

Equities

Global stock markets rallied in November, largely driven by optimism in the US due to the re-election of Trump and a Republican clean sweep. This raised expectations around US growth-friendly policies.

The MSCI All Country World index rose by 4.1% (6.7% in euros) over the month, largely driven by US indices rallying to new all-time highs, with the MSCI USA rising by 6.3% (9.2% in euros).

Emerging market (EM) stocks were hampered by the potential for US tariffs to weigh on growth. The MSCI EM index fell by 2.7% (-0.9% in euros).

Bonds

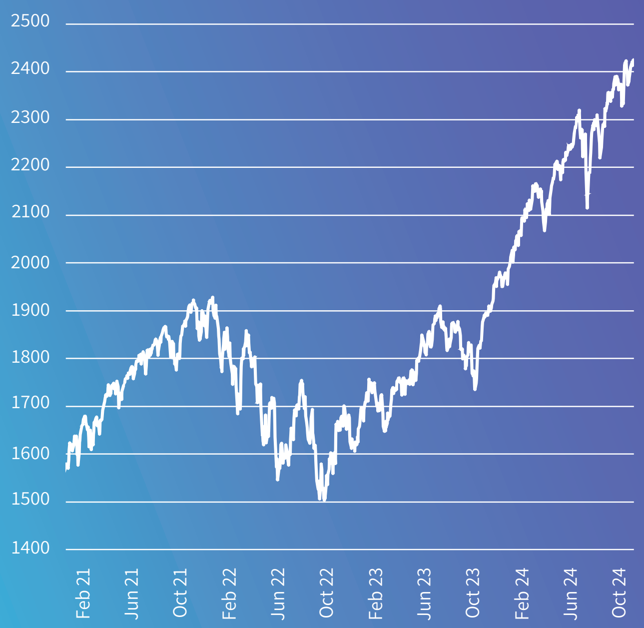
Eurozone government bond returns were positive as a result of a sharp fall in yields. The 10-year German bund yield was down by 31bps over the month to 2.11% as a lacklustre growth backdrop and headwinds from potential US policies were set to support the case for more aggressive easing from the ECB. The ICE BofA 5+ Year Euro Government bond index returned 3.2% in November.

Corporate bond returns were supported by falling yields. European investment grade (IG) corporate bonds returned 1.7% as yields declined by 30bps to 3.13%. Spreads widened marginally, by 1bp to 105bps. Global high yield bonds returned 0.9% as yields declined by 9bps to 6.39%, while spreads fell by 4bps to 227bps over the month.

EM bonds also benefited from the downward shift in global yields. EM local debt returned 2.1% in November, with yields falling by 9bps to 6.33%. EM hard debt returned 1.2% as yields were down by 9bps to 6.77%.

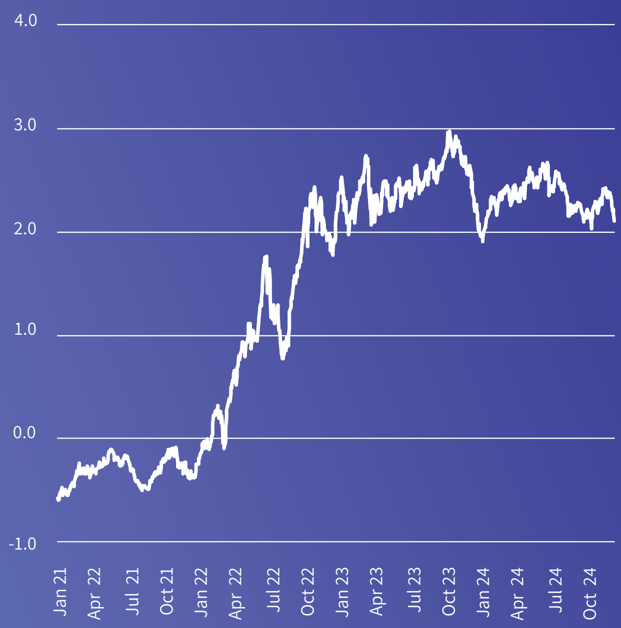
CHARTS OF THE MONTH

Global Equities



Source: ILIM, FactSet. Data is accurate as at 30 November 2024.

Bonds – German 10-year yield



Source: ILIM, FactSet. Data is accurate as at 30 November 2024.

MARKET SNAPSHOT

Market returns (EUR)

Equity Markets (EUR)	MTD Return (%)	YTD Return (%)	2023 Return (%)
MSCI Ireland	-2.7	19.9	20.6
MSCI United Kingdom	4.2	15.7	10.3
MSCI Europe ex UK	0.2	8.1	18.5
MSCI North America	9.2	33.8	22.3
MSCI Japan	3.5	14.0	16.7
MSCI EM (Emerging Markets)	-0.9	13.1	6.5
MSCI AC World	6.7	26.4	18.6

10-Year Yields	Yield last month (%)	2023 Yield (%)	2022 Yield (%)
US	4.17	3.88	3.87
Germany	2.09	2.02	2.57
UK	4.24	3.54	3.67
Japan	1.05	0.61	0.42
Ireland	2.40	2.38	3.13
Italy	3.28	3.69	4.70
Greece	2.91	3.06	4.62
Portugal	2.54	2.66	3.59
Spain	2.79	2.99	3.66

FX Rates	End last month	2023 Rates	2022 Rates
U.S. Dollar per Euro	1.06	1.10	1.07
British Pounds per Euro	0.83	0.87	0.89
U.S. Dollar per British Pounds	1.27	1.27	1.21

Commodities (USD)	MTD Return (%)	YTD Return (%)	2023 Return (%)
Oil (Brent)	-0.3	-5.3	-10.3
Gold (Oz)	-3.5	28.1	13.1
S&P Goldman Sachs Commodity Index	0.1	5.8	4.3

Source: ILIM, Bloomberg. Data is accurate as at 1 December 2024.

THE ILIM VIEW – LOOKING AHEAD

With inflation having fallen significantly and central banks suggesting policy is still above neutral levels, rates are likely to be cut further through 2025 enabling bond yields to decline over the next 12 months. On a 12-month view, our base case is that German and US 10-year government bond yields fall from current levels of 2.11% and 4.17% to 1.75% and 4.0% respectively. We believe fixed income offers a strong risk-reward profile at this stage in the cycle, with the potential to offer protection if the economy slows. The asset class is attractive from an income perspective while also providing potential for capital gains via falling yields. We believe that the risks of materially higher bond yields have reduced and, if the economy falters, major central banks will be able to cut rates to support growth. In that scenario we would expect bonds to outperform to a greater extent.

Despite uncertainties relating to the implications of US policy going forward, the fundamental backdrop for global equities, and particularly US equities, remains positive. Steady growth, strong consumer balance sheets, ongoing disinflation, rate cuts and corporate-friendly policies continue to provide a positive equity backdrop. Divergence within regional equity performance, however, is likely to remain a feature as US exceptionalism continues, with tax cuts and deregulation adding to its existing structural competitive advantages.

Global equities valuations are above long-term averages, trading on a 12-month forward price-to-earnings (P/E) multiple of 18.4x against a long-term average of 16.1x. Equities remain expensive against both bonds and cash given the high yields currently available on these assets. Despite equities appearing fully valued, the outlook on a 12-month view is positive. With growth expected to remain firm and US corporates set to benefit from growth-friendly policies from the incoming administration in 2025, earnings are forecast to rise strongly in the next one to two years. Additional rate cuts in a positive fundamental backdrop can also contribute to further gains. Over the medium term, the rollout of AI should boost efficiencies and earnings across the whole market and allow equities to trade at higher valuation levels. The ongoing green-related capex cycle could also boost earnings over the medium term. Any short-term volatility in markets is likely to be offset by the above factors, resulting in positive returns for global equities on a 12-month time frame.

THE MONTH AHEAD

DECEMBER

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
				06 US Non Farm Payrolls (Nov) US Unemployment Rate (Nov) US Michigan Consumer Sentiment Prel (Dec)
		11 US Core Inflation Rate YoY (Nov)	12 GB GDP MoM (Oct) EA ECB Interest Rate Decision US PPI MoM (Nov)	13 DE Balance of Trade (Oct)
16 DE HCOB Manufacturing PMI Flash (Dec)	17 GB Unemployment Rate (Oct) DE Ifo Business Climate (Dec) DE ZEW Economic Sentiment Index (Dec) US Retail Sales MoM	18 JP Balance of Trade (Nov) GB Inflation Rate YoY (Nov) US Fed Interest Rate Decision	19 JP BoJ Interest Rate Decision DE GfK Consumer Confidence GB BoE Interest Rate Decision US GDP Growth Rate QoQ Final (Q3)	20 US Core PCE Price Index MoM (Nov) US Personal Income & Spending MoM (Nov)
23 GB Retail Sales MoM (Nov)	24 US Durable Goods Orders MoM (Nov)			

Source: tradingeconomics.com

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Figures referenced herein have been sourced from ILIM and Bloomberg. Forecast figures have been prepared by ILIM based on reasonable assumptions, internal data and data sourced from Bloomberg.

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