HYMANS ROBERTSON

Market brief

November 2024

NOVEMBER HIGHLIGHTS

- The US Flash Composite Purchasing Managers' Index (PMI) rose in November, suggesting growth accelerated to a two-and-half-year-high as demand improved and survey measures of price pressures eased.
- Equivalent UK and eurozone PMI surveys slipped below the 50 mark, suggesting European activity contracted month on month. Chinese PMI rose, with a faster expansion in manufacturing offsetting a slight slowdown in the services sector.
- In October, year-on-year headline CPI rose to 2.6%, 2.3% and 2% in the US, UK and eurozone, respectively, largely owing to a smaller drag from energy prices.
- The Federal Reserve (Fed) and Bank of England (BoE) looked through what's expected to be a temporary rise in headline inflation, reducing rates by 0.25% pa to 4.5–4.75% pa and 4.75% pa, respectively.
- As a result, sovereign bond yields generally fell. Investment-grade credit spreads were down marginally, while their speculative-grade counterparts fell in the US and rose in Europe, perhaps related to divergent economic data.
- Global equities rose 4.0%, with the US strongly outperforming. Domestically focused US stocks were buoyed by President-elect Trump's expected policy agenda of tax cuts, deregulation and protectionist trade policy.
- The trade-weighted dollar rose a further 2.0%, amid expectations of interest rates remaining higher. Equivalent yen and sterling measures gained 1.5% and 0.4%, respectively, while the export-sensitive euro fell 1.5%.
- Oil prices were little changed, as the growth outlook outside the US remained relatively subdued. Gold prices fell 3.0% due to a stronger dollar and profit-taking by investors, given gold's rally this year.

Market performance to end November 2024

UK	Nov 24	Q4 24*	2024
EQUITIES	2.5	0.8	10.7
BONDS			
Conventional gilts	1.6	-0.9	-1.1
Index-linked gilts	0.3	-1.8	-4.2
Credit	1.4	0.1	2.3
PROPERTY**	n/a	0.8	4.9
STERLING			
v US dollar	-1.1	-5.2	-0.3
v euro	1.6	0.1	4.3
v Japanese yen	-2.5	-0.5	6.2

GLOBAL	Nov 24	Q4 24*	2024
EQUITIES	4.0	2.8	22.4
North America	6.3	5.5	28.3
Europe ex UK	0.0	-3.2	8.4
Japan	-0.8	1.2	15.8
Dev. Asia ex Japan	0.7	-1.7	5.6
Emerging Markets	-2.3	-5.2	15.8
GOVERNMENT BONDS	1.0	-0.8	1.3
High Yield	0.9	0.7	9.1
Gold	-3.0	1.0	28.8
Oil	0.0	1.7	-5.8

Percentage returns in local currency ($ for gold and oil). *All returns to 30/11/2024, **apart from property 31/10/2024
Source: DataStream and Bloomberg. FTSE Indices shown: All Share, All World, North America, AW Developed Europe ex-UK, Japan, Developed Asia Pacific ex-Japan, Emerging, Fixed Gilts All Stocks, Index-Linked Gilts All Maturities, iBoxx Non-Gilts, S&P GSCI Light Energy, Crude Oil BFO, ICE BofA Global High Yield, Gold Bullion LBM, MSCI UK Monthly Property and BBG Aggregate Government Total Return.

Fixed income markets

Sovereign bond yields fell

US and UK 10-year sovereign bond yields fell 0.1% pa and 0.2% pa, respectively, to 4.2% pa, as the Fed and BoE both cut rates 0.25%. German 10-year sovereign bonds outperformed, falling 0.3% pa to 2.1% pa against a backdrop of weaker growth and inflation.

In contrast to developed-market peers, Japanese 10-year government bond yields rose 0.1% pa to 1.1% pa, as investors expect the BoJ to continue to raise interest rates. French government bond spreads over German bunds rose as the government struggled to pass a budget that would rein in government spending.

UK 10-year implied inflation, as measured by the difference between conventional and inflation-linked bonds of the same maturity, fell by 0.1% pa to 3.5% pa. The equivalent US and eurozone measures also fell marginally, to 2.3% pa and 1.8% pa, respectively.

There was some regional divergence in credit-spread moves

Investment-grade credit spreads tightened marginally in the US and UK but moved modestly wider in the eurozone. Global investment-grade credit spreads remain historically low, with the market supported by strong yield-driven demand.

Regional divergence was also observed in speculative-grade markets, perhaps, in part, reflecting the contrast between strong business activity in the US and much weaker readings in Europe. US speculative-grade credit spreads fell 0.1% pa, to 2.7% pa, remaining close to pre-Global Financial Crisis lows. Meanwhile, equivalent European spreads rose 0.3% pa, to 3.4% pa, but they also remain low by historic comparison. European speculative-grade credit still produced positive returns, as a fall in underlying bond yields and coupon income more than offset a rise in spreads.

Lower yields supported hard-currency debt while a stronger dollar weighed on local-currency debt

Hard-currency debt, as measured by the J.P. Morgan EMBI Global Diversified Index, returned 1.2% in dollar terms, as US Treasury yields fell, and hard-currency spreads narrowed 0.1% pa. Local-currency emerging market debt, as measured by the J.P. Morgan GBI-EM Global Diversified Traded Index, returned -0.6% in dollar terms, as index currencies, in aggregate, weakened against the US dollar, more than offsetting a 0.1% pa fall in yields.

Global equities

North American equities outperformed on the back of Trump's expected policy agenda

The FTSE All World Total Return Index rose 4.0% in local-currency terms in November, with US equities strongly outperforming following Trump's presidential victory. US stock markets rose 6.3%, buoyed by expectations of tax cuts, reduced regulation and a more nationalist trade policy. Domestic small-cap stocks outperformed, as they're expected to benefit the most from stronger domestic demand and tax cuts – with smaller overseas revenues and local supply chains, they are less exposed to an escalation in tariffs and trade tensions.

Growth stocks slightly outperformed value stocks, but sectoral performance was more influenced by expectations about Trump's presidency. Consumer discretionary led the outperformance, supported by strong US macroeconomic data and the expectation that personal tax cuts will be extended. US financials and energy stocks also outperformed, in that order, benefiting from expectations of a lighter regulatory approach, higher-for-longer interest rates for financials and more freedom to drill on federal land for energy stocks. Industrials was the only other sector to outperform, as these companies are seen as major beneficiaries of expected tax cuts and protectionist trade policy from the new administration.

Basic materials was the worst-performing sector, weighed down by weak economic data from the eurozone and subdued Chinese activity, as well as a decline in industrial metals prices. Healthcare stocks closely followed, declining after Trump's presential election win due to expectations the new administration may be more hostile towards the pharmaceutical industry. Consumer staples, utilities and telecoms also underperformed, in that order, but managed to produce small positive returns.

Technology stocks also mildly underperformed: less convincing earnings beats and lofty valuations weighed on the sector.

All the major regions outside the US underperformed
Trump's return to the White House did not augur well for equity returns outside the US. The prospect of increased trade tensions, a strengthening dollar and expectations of higher-for-longer interest rates in the US weighed on market sentiment. Emerging market and Asian equities declined the most. Japanese equities initially rose on yen weakness after the US presidential election, which benefited the export-heavy market. However, higher-than-expected inflation fuelled expectations of monetary tightening by the BoJ, strengthening the trade-weighted yen and eroding some of the quarter-to-date equity gains.

Europe ex UK equities also underperformed due to concerns over US trade policy and weakening consumer demand. The latest PMI data revealed the services sector contracted for the first time in 10 months, while demand from China remains weak amid concerns that previously announced stimulus measures by the Chinese authorities might not be enough to prop up ongoing property challenges and low consumer confidence. Despite underperforming, UK equities produced decent positive returns thanks to above-average exposure to the outperforming financials sector.

Currencies, commodities and property

The trade-weighted US dollar strengthened for the second consecutive month in November. It gained 2.0% thanks to robust economic data and expectations that near-term interest rates will stay higher for longer, and as the currencies of major importers to the US weakened to offset the expected impact of tariffs. Hotter-than-expected inflation fuelled investors' rate-hike expectations from the BoJ, pushing the trade-weighted yen 1.5% higher. The equivalent sterling measure rose a modest 0.4%. Meanwhile, the trade-weighted euro fell 1.5% on the back of the eurozone's weakening growth outlook, a widening of expected interest-rate differentials between the economic bloc and major developed peers, and the potential impact of US tariffs on the export-oriented economy.

Oil prices were little changed as the growth outlook outside the US remained relatively subdued. Gold prices fell 3.0% due to a stronger dollar and profit-taking by investors, given gold's rally this year.

The global economy

US GDP data confirmed robust annualised growth of 2.8% in Q3, matching earlier estimates. Coincident business surveys, which provide timelier data, suggest economic growth is accelerating, while inflationary pressures are easing at the same time. The US Flash Composite PMI saw its fastest rise since April 2022 in November, driven by strong demand and a surge in new orders. Business optimism, particularly in manufacturing, improved significantly, reflecting reduced uncertainty following the election and anticipated growth-friendly policies from the new administration. While services activity boomed, offsetting manufacturing's continued contraction, output inflation fell to its lowest since mid-2020, with especially modest price increases in services.

The UK economy grew just 0.1% in Q3, preliminary data showed. That's below the 0.2% consensus and slower than H1 2024's above-trend pace. Momentum continued to weaken as the November Flash Composite PMI slipped below the neutral 50 mark following 12 months of modest growth. The eurozone economy grew 0.4% in Q3, matching estimates and improving on H1 2024, but its PMI showed contraction in both services and manufacturing, with services declining for the first time in 10 months. Business surveys in both regions cited falling new orders, rising input costs and waning confidence for the year ahead.

In Asia, Chinese PMI data indicated that private sector business activity expanded for the 13th consecutive month, with a faster-than-expected rise in manufacturing offsetting a slight slowdown in the services sector. At a global level, manufacturing activity stabilised in November following four months of contraction, albeit with stark regional differences: improved business conditions in China and near-stabilising conditions in the US contrasted with a deepening downturn in the eurozone.

In October, US headline CPI inflation rose to 2.6%, in line with consensus forecasts. UK CPI reached 2.3%, the highest in six months, exceeding the BoE's target and market expectations. The eurozone's flash release also showed headline CPI rising for the second consecutive month to 2.3% in November, matching market expectations. These increases were largely driven by base effects as last year's sharp energy-price declines fall out of the annual calculations. Core inflation remains stickier: 3.3% in the US and UK, and 2.7% in the eurozone.

The Fed and BoE lowered base interest rates by an expected 0.25% pa – the second reduction this cutting cycle – on 7 November to 4.5–4.75% pa and 4.75% pa, respectively. The reductions follow the European Central Bank's (ECB) third 0.25% cut in October, which takes the deposit facility rate to 3.25% pa. Notably, the BoE has lifted its 2025 and 2026 inflation projections following October's UK budget, where spending and borrowing were increased more than expected. Markets expect three rate cuts from the BoE in the following 12 months at end November, unchanged from the previous month and a downward revision from five rate cuts before the budget. Investors in the US also expect three rate cuts from the Fed by December 2025. Given the weaker growth outlook, markets expect more rate cuts from the ECB in 2025.

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Additional Notes

Important Information