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Market reflection

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Overview

Global equity market progress stalled in October in the face of rising bond yields and continuing political and geopolitical uncertainty. US equities outperformed other regions. The main influences were the persistent resilience of the US economy and the shift in opinion polls ahead of the US Presidential election.

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The initial print for US GDP in the third quarter showed growth of 2.8%, which although slightly below expectations at the headline level, consisted of very strong personal consumption growth of 3.7% (with inventory destocking being the biggest drag). We continue to monitor the health of the US labour market for any signs of increasing weakness, but they are not currently evident. Betting odds for the Presidency have flipped firmly in favour of Donald Trump, although his leads in the seven key swing states remain within the margin of error. This election is going to the wire and we remain unwilling to place our own (portfolio) bets on either outcome. Even so, market movements have reflected the increasing probability of a Republican victory. This has been especially visible in the bond market, where investors see the combined risks of (even) higher deficit spending leading to greater issuance of Treasury bonds and higher inflation should Trump impose tariffs on imports to the extent he has threatened. The 10-year Treasury yield has risen from a low of 3.61% in mid-September to around 4.3%. Over the same period, the expected level of the Fed Funds rate at the end of 2025 has risen from 2.8% to 3.6%. UK Bond yields have followed a similar trajectory, with the 10-year Gilt yield rising from a September low of 3.75% to 4.43%. In addition to global headwinds facing the bond market, there was the local issue of the Budget (see across for details), which revealed higher government borrowing and greater supply of Gilts.

- The Bloomberg consensus for World GDP growth in 2024 remains at 3.1%, up from 2.6% in January. The forecast for 2025 is also 3.1%. The Bloomberg poll of economists' probability of a US recession has fallen to 25%. Third quarter GDP data for the eurozone came in ahead of expectations with growth of 0.4%.

- Global government bonds lost ground in October, with the Bloomberg Global Aggregate index falling 3.3%. It has now lost all its gains for the year. However, within the context of a balanced portfolio, equities have more than held up their end of the bargain, with the MSCI All-Countries World Index up 16% this year in sterling terms.

- Another strong feature this year has been a traditional portfolio risk diversifier, namely Gold. This has risen 32% in sterling (+35% in dollars), primarily driven by purchases from several emerging market central banks looking to reduce their exposure to dollar (paper) assets such as Treasury bonds. Geopolitical tension is another source of demand. Investors also remain concerned about the longer-term risk to the currencies of countries with high debt-to-GDP ratios – which accounts for the majority of major developed economies.

- The UK budget's headline features were a £41.5bn annual rise in taxes and increased borrowing to fund £100bn of capital expenditure, the latter being facilitated (in terms of the debt-to-GDP ratio) by the Chancellor's new concept of Public Sector Net Financial Liabilities. While we applaud the ambition of investment, much will depend on its efficacy.

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