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Anticipation

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I've already said quite a lot on both subjects and so I don't intend to cover that ground in detail again today, but they are both sufficiently important to warrant an update. One phrase that I keep recycling regularly is, "If it was easy, somebody would already have done it". I think this is especially the case when it comes to sorting out our country's finances (and indeed those of many others). Politicians drone on about the burden of making difficult choices, but the (self-interested) dilemma which they face was captured

perfectly by the former President of the European Commission, Jean-Claude Juncker, when he commented "We all know what to do, but we don't know how to get re-elected once we have done it".

With the best part of a possible five-year term ahead of it, Labour appears to be determined to front-load the bad news, which is probably politically expedient, but it is also discovering that it is much harder to implement policy than to make vague promises from the opposition benches. It is now tying itself in knots trying to define what a tax increase actually constitutes, as well as in explaining what it means to be a "working person". It appears that the latter does not necessarily overlap with the conscientious saver who works hard to accumulate sufficient assets upon which to retire. This promises to be one of the most interesting budgets for years, but for all the wrong reasons when it comes to the interests of our industry and our clients.

We shall be releasing commentary on the day, and so let's hold back on final judgement until we see the contents of the red briefcase. On which subject, it's always fun to remind readers that the tradition of holding up the briefcase to the public outside 11 Downing Street before heading to Parliament was initiated in 1870 by Robert Lowe. His predecessor, George Ward Hunt, had reached his seat in 1869 only to open the briefcase and find he had left his speech at home. And on the basis that I am scheduled to be sitting on a lunchtime panel to discuss the outcome, let's hope that Chancellor Rachel Reeves does not try to emulate William Gladstone's record-breaking 1853 marathon of four hours and forty-five minutes or it will become a dinner event!

On the other side of the pond, the betting odds have moved further in favour of Donald Trump. This continues to weigh on the bond market, where the yield on the 10-year Treasury bond rose again last week. The closer we get to election day (November 5th), the more investors are taking account of the fact that the US fiscal deficit as a percentage of economic output is heading inexorably higher whoever wins – but more so under a potential Trump presidency, at least if he sticks to his plans (which we know is a big "if"). And funding that deficit gets harder as yields rise owing to the increasing interest payment burden.

Equity markets are not taking this too badly so far because all this extra spending also means more activity. Indeed, economic growth forecasts for the US have been extremely resilient recently and the IMF has just upgraded its US GDP growth forecast. Citigroup's closely followed Economic Surprise Index, which tracks actual economic data versus economists' expectations, has moved firmly into positive territory over the last month or so and the Atlanta Fed's GDPNow forecast for Q3 GDP sits at 3.1%.

In the longer run, the lifeblood of equity performance is profitable growth. I say "profitable growth" because it's actually quite easy to grow revenues (and even earnings per share) whilst destroying shareholder value. There is only so much oxygen in a bull market driven largely by rising valuations, which has been the case for much of this year's gains for US equities. Short term overvaluation can be resolved in two ways. The painless one is for shares to go sideways whilst the earnings catch up, although investors tend to get extremely impatient during such periods having extrapolated gains made hitherto into perpetuity. The more painful route is for markets to fall back in some sort of valuation mean reversion. That's the equivalent of ripping a plaster off. For investors such as us it's accepted as part of the cycle of markets and we should always live to fight another day, especially if we keep our stock selection quality thresholds high. However, such reversals can be much more destructive for investors (and, more probably, traders) who utilise leverage. Indeed, it is the forced selling from such entities that often provides a good entry point for the more conservative players.

All of which is a lead into the fact that we are now heading into the meaty section of the third quarter company earnings season. To be honest, at the aggregate index level it doesn't look like being a spectacular one. S&P 500 earnings are forecast to be 4% higher than a year ago, with Europe (including the UK) up just 3%. As ever, though, there are big divergences below the surface. Expectations are very low for Energy companies owing to lower oil and gas prices, whilst Financials will have benefitted from the interest rate cycle and lack of recession.

Unsurprisingly, the Technology sector leads the way in the US and is expected to post earnings per share growth of 17%. Although they are not all technically in the IT sector, Apple, Microsoft, Meta, Alphabet and Amazon all report this week. Investors will be keen to see that growth rates are not slipping and also to get some reassurance about the potential returns on the capital being spent on AI-related products.

Economic Commentary

FTSE 100 weekly winners

Company	Change
Burberry Group plc	13.7%
Fresnillo PLC	7.9%
DS Smith Plc	6.4%
WPP Plc	4.6%
Smurfit Westrock	3.4%
Anglo American plc	2.3%
Scottish Mortgage Investment Trust Plc	2.3%

FTSE 100 weekly losers

Company	Change
Abrdn plc	-18.0%
Lloyds Banking Group plc	-7.3%
Intertek Group plc	-6.5%
Admiral Group plc	-6.3%
Aviva plc	-5.2%
Persimmon Plc	-5.2%
Taylor Wimpey plc	-4.9%

FTSE 100 index, past 12 months

EuroStoxx 600 index, past 12 months

S&P 500 index, past 12 months

All data shown in GBP.

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