

## MARKET MATTERS

### INVESTORS PAUSE FOR BREATH

#### MARKET OVERVIEW:

Even before Israel launched more attacks on Iran over the weekend, there was an increasing 'risk off' feel to financial markets last week. All the major regional equity markets we report on were down, with mid and small-cap underperforming. The recent steady sell-off in the bond markets, which continued last week, may have contributed to this trend. However, it's important to note that investors had probably just concluded that, with major political events looming in the US, UK, and Japan, it was probably time to bank some profits, sit on their hands and wait to see what transpires over the next couple of weeks. Unsurprisingly, with that backdrop, gold continued its merry dance higher, as there is nothing like a bit of global uncertainty to boost demand for the precious metal. Oil moved slightly higher last week before the Israel attack, and it will be interesting to see how it moves when trading resumes.

#### MIDDLE EAST UPDATE:

Israel launched a targeted airstrike on Iran early Saturday, focusing on missile and air defence sites in coordination with Washington. The operation was more restrained than many anticipated and could, by nature of the restraint shown, actually help diplomatic efforts to release hostages and contain conflict in Lebanon and Gaza. The US most definitely had a significant involvement. Joe Biden / Kamala Harris and their fellow Democrats, who also have genuine humanitarian motives, do not want to see a spike in gas prices going into the election.

Equity Indices	1 wk %	
S&P 500 in US	-0.96	
MSCI China TR	-1.08	
MSCI Europe ex UK TR	-1.09	
FTSE 100	-1.31	
MSCI Emerging Markets	-1.47	
FTSE 250	-1.56	
MSCI AC Asia ex Japan	-1.61	
Nikkei 225 in JP	-2.74	
Russell 2000 in US	-2.99	
MSCI India TR	-3.71	
Bonds/Currency/Comm od	18.10.2024	25.10.2024
Bond: UK 10 Year	4.051	4.238
Bond: US 10 Year	4.083	4.242
Currency : GBP/USD	1.3048	1.2959
Currency : USD/YEN	149.52	152.30
OIL: WTI \$	69.34	71.69
Gold \$	2736.40	2760.80

Source - United Nations, local media, Bloomberg reporting, Armed Conflict and Located Events Database

### Israeli Military Strike Targets in Three Iranian Provinces

Iranian state media reported attacks in Ilam and Khuzestan provinces and across Tehran early Saturday, Oct. 26

■ Previous strikes in Iran ■ Provinces where latest strikes were reported



The airstrike only came after U.S. Secretary of State Antony Blinken visited with Israeli and Arab leaders. Under cover of darkness, Israeli warplanes flew over hostile regions, including Syria and Iraq, to hit military sites in three Iranian provinces. It undoubtedly demonstrated to Iran what it can do in an unbridled attack. These strikes were in response to Iran's prior ballistic missile. Unusually, Israel did acknowledge responsibility and shared videos that showed Prime Minister Netanyahu and military chiefs coordinating from a defence bunker. Crucially, Israel avoided targeting oil, nuclear, and civilian infrastructure, underscoring a measured approach amid U.S.-led diplomatic efforts. President Biden expressed optimism for de-escalation, emphasizing U.S. support to defend Israel and urging restraint.

The ball is now firmly in the Iranian court, and early indications look as if they might just take this without getting into further 'tit for tat' retaliation. Iran hasn't vowed to respond and is dismissing the incident, downplaying its significance. Encouragingly, they highlighted the importance of achieving cease-fires in Gaza and Lebanon. Wishful thinking, but we could enter this conflict's final stages.

### A WEALTHY MAN GETS EVEN RICHER!

Having opened up on a depressing note, I thought you would all be delighted to know that a very rich man just got a whole lot richer. Elon Musk got an estimated \$35 billion in wealth, as Tesla's stock jumped about 25% at the end of the week thanks to stronger-than-expected third-quarter earnings. The company's profit margins were helped by \$739 million in revenue from selling environmental credits. CEO Elon Musk projected that Tesla's vehicle production could grow by 20% to 30% next year, outpacing analysts' 15% forecast.

Source - Bloomberg Billionaires Index



Ok, so Musk getting richer may or may not be a bright spot depending on your perspective (I am sure 'Big Donald' will be happier that his new best mate has a few more bucks to support Republican efforts). But Tesla's upbeat earnings did at least spark optimism in the broader tech market, lifting the Nasdaq Composite to a record high on Friday. If the 'runt' of the Mag 7 can pull something out of the bag, the other big boys should/could also do well when they report. Nvidia, Meta, Amazon, Microsoft and others all tracked higher on Friday, so much so that the Nasdaq hit an all-time high on Friday. Maybe yet again, Big Tech will lead the bull market and challenge the growing number of money managers who have been advocating a shift away from these 'over-priced' leviathans. So far, the US Earnings Season is running just about as expected, with roughly 3/4 of companies beating the lowly analyst expectations. Still, just to dampen that optimism, forward guidance has so far been underwhelming.

### UK BUDGET NEWS

Last week, at a speech to the IMF, Chancellor Rachel Reeves announced that she is initiating a fiscal overhaul that would permit the UK to borrow up to £50 billion more over the next five years. By changing how the national debt is calculated, Reeves aims to free up funds to invest in infrastructure, public services, and growth-boosting projects. This change, expected in the upcoming budget, allows the government to bypass some current debt limitations constraining investment.

However, I don't think anyone should get too excited at this move, which, in theory, could reduce the extent of the forecast tax hikes; we are still going to see big increases which will likely affect capital gains, inheritance tax and business asset disposal, as well as potential increases in national insurance contributions from companies, which could collectively raise to £40 billion. Reeves has emphasised that these changes will target those most capable of paying, but as I am sure you know from your client base, some investors are already considering packing up and finding more friendly tax domains!

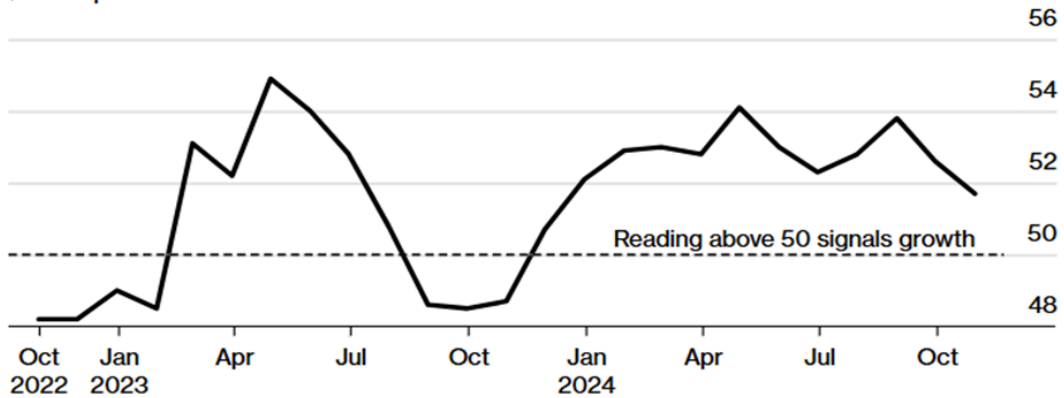
My beef with RR isn't so much the wealth rebalance; it has been the communication that threatens to take the wind out of the little bounce in economic activity that was underway prior to all the Labour talk of a tough budget. Consumer sentiment has continued to dip in recent surveys as the expectation of tax hikes and a tightening financial landscape make households more cautious. Meanwhile, our Gilt market has gotten a little bit scared, with yields heading higher, which will affect how much many households pay on long-term loans such as mortgages. Last week's UK PMI data from S&P Global came in below expectations; it is hardly surprising to see the business sector worried about the budget. While manufacturing and services remain in expansion mode—and are outpacing Germany and France—growth is now softer than previously forecasted.

Source - S&P Global

### Pre-Budget Jitters Push Down UK PMI

Business confidence and spending hit by chancellor's gloomy tone

Composite PMI



However, for what it is worth and doing my little bit to spread an upbeat tone, I think that despite the long wait for this feared budget, the underlying economy is doing okay, and our corporate earnings reports have some bright spots. For example, Lloyds Banking Group and Barclays have posted better-than-expected results, benefiting from lower-than-anticipated debt impacts. Additionally, a 36% increase in Foxtons sales revenue indicates renewed housing market activity. Banking and housing are on the rise, which is undoubtedly a good sign.

Although we know the UK faces persistent long-term challenges, such as productivity and stagnant GDP per capita, it does seem to have the potential to enjoy a cyclical upturn. Growth remains intact, and potential interest rate cuts by the Bank of England could further support economic confidence. As long as the budget does not bring major adverse shocks, businesses and households may soon feel more secure in their spending and investment decisions.

#### US ELECTION

So FiveThirtyEight, my favourite election prediction website, has Trump extending his lead from 52 to 53 times out of 100 scenarios, but it's still too close to call.

UPDATED OCT. 25, 2024, AT 11:04 PM

## Who Is Favored To Win The 2024 Presidential Election?

538 uses polling, economic and demographic data to explore likely election outcomes.

**Trump wins 53 times out of 100**

in our simulations of the 2024 presidential election.

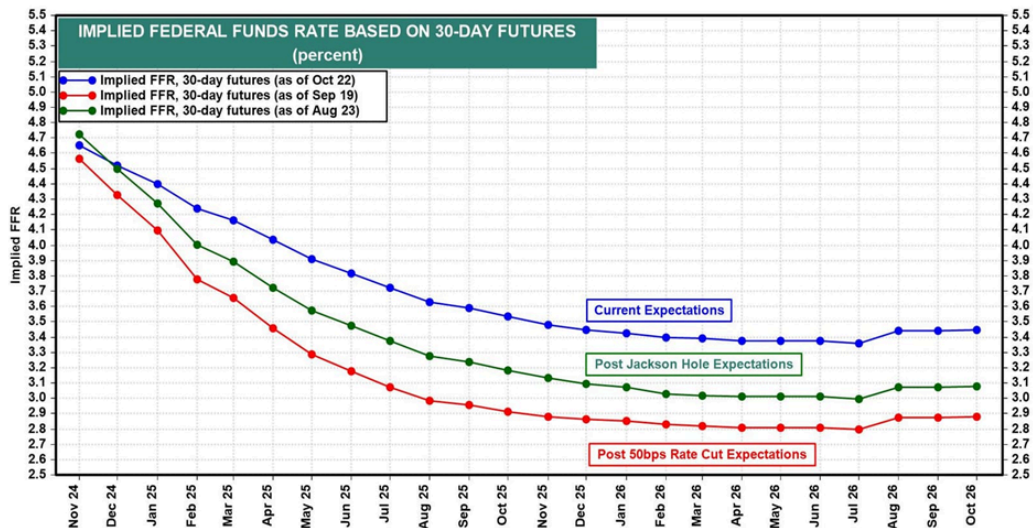
**Harris wins 47 times out of 100.**

There is a less than 1-in-100 chance of no Electoral College winner.



Trump	53
Harris	47
No winner	0
<hr/>	
	1,000 simulations

Source - LSEG Database and Yardeni Research



Rather than delve into different online forecasters, I thought I would look at what the bond markets are making of all this uncertainty. The 10-year Treasury yield has jumped by more than 60 basis points to 4.24% since the Federal Reserve's mid-September meeting, a move seen as a clear signal from investors (known as Bond Vigilantes) who feel that the policies of the new incumbent will challenge Fed Chair Jerome Powell's dovish monetary policy stance. That suggests that they, too, sense Trump is likely to win. Still, both parties face substantial fiscal pressures, with the next administration expected to contend with annual net interest payments exceeding \$1 trillion due to the expanding federal debt.

More fiscal push will mean that the Fed probably won't have the latitude to cut as many times as the market was hoping, and we are already seeing market expectations reflect this, as the implied Fed Funds Rate has shifted higher. I think equity and bond investors will take time to digest the reality of a higher trajectory for long-term rates. After a potential post-election euphoric rally, almost regardless of who takes office, the reality of higher rates may interrupt the traditional Santa Rally. I remain bullish. The macro backdrop is still perfect for equities midterm, but at some point early in 2025, the extension of the debt ceiling may come back into play, and the bond vigilantes could perhaps spook the US bond market, but that's likely to be next year's problem.

**NEXT WEEK**

It's a big week, with the UK Autumn Budget delivered by Rachel Reeves on Wednesday taking centre stage. In addition to the flurry of economic indicators, we also get a plethora of earnings results, including those of Apple, Amazon, Alphabet, BP, and Volkswagen Group.



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