MARKET MATTERS

US JOBS DATA; INDIAN GROWTH; FRENCH POLITICS & BITCOIN

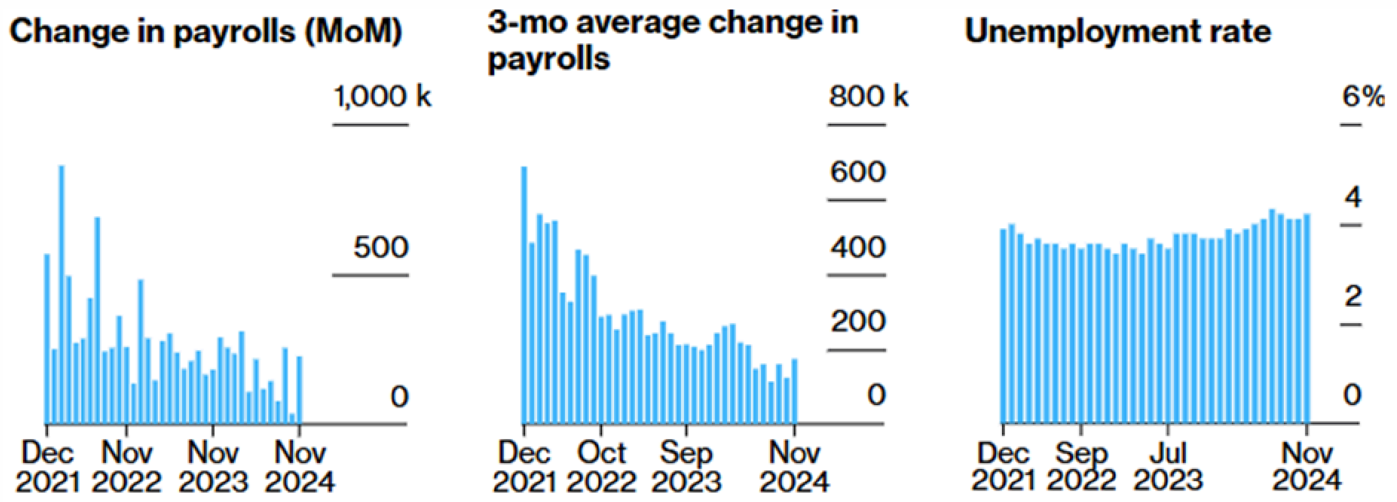
MARKET OVERVIEW:

Outside of Crypto Currency Land, it was a relatively quiet week for the financial markets. The most significant economic download was the US jobs data on Friday, which fell in line with expectations. Nothing in these numbers will sway the Fed from cutting another 0.25% later in the month, but this week's inflation reports might. US bonds and equities reacted well to the data, with the Nasdaq seeing the biggest pop higher. Outside of the US, despite political drama in France, Romania, Syria and South Korea, it was a broadly positive week for both equities and bonds. Bitcoin broke above $100,000, gold and oil remained steady, and the currency markets were remarkably stable.

US ECONOMIC DOWNLOAD:

US hiring showed resilience in November, with payrolls rising by 227,000, rebounding from October’s weaker performance caused by the hurricanes and strikes. However, the unemployment rate edged up to 4.2%, the highest level in nearly three years. This increase in unemployment, coupled with slowing labour participation, strengthened expectations that the Federal Reserve will cut rates again at its upcoming meeting.

Source - Bureau of Labor Statistics



While job growth remained solid in sectors like health care, social assistance, leisure and hospitality, retail trade saw the steepest job cuts in a year, and more Americans reported long-term unemployment. The rise in permanent job losses, coupled with more people entering the labour force but unable to find work, provides the scope for the Fed to argue that there is an underlying softness in the labour market and thereby justify their moving rates lower.

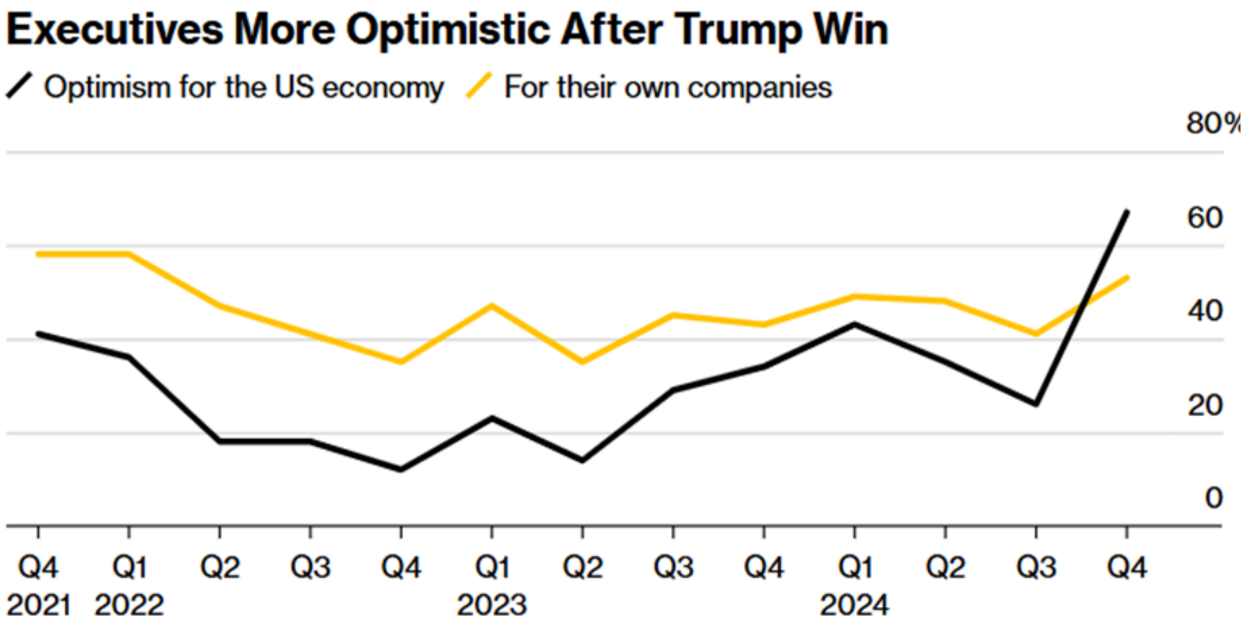
As you know, the Fed has already reduced interest rates in recent months to support hiring and economic activity amid moderating inflation. Chair Jerome Powell continues to stress the Fed’s commitment to sustaining growth, and the mixed labour market picture—steady hiring but rising unemployment—still makes it likely to see another Fed rate cut later this month. However, as officials prepare for their December meeting, upcoming inflation and consumer spending data could still play a critical role in shaping that decision. I think markets have settled around a 75% likelihood of getting a rate cut, but investors should be aware that equity and bond markets would be disappointed if we didn’t get one!

UK BUSINESSES FACE CHALLENGES AS US CONFIDENCE SURGES POST-ELECTION

Usually, there is a degree of synchronicity between UK and US businesses. If American corporate execs are upbeat, we are more likely to see that matched in the UK, but right now, it would seem that sentiment is moving in the opposite direction. UK execs are becoming more downbeat, just as US execs become more optimistic, and it probably does come down to the different Government approaches.

The UK economy is confronting significant challenges following Chancellor Rachel Reeves’ recent budget, which introduced £40 billion in annual tax hikes and increased borrowing by £30 billion. While the measures aim to repair public services and invest in infrastructure, the Confederation of British Industry (CBI) warns they will weigh heavily on household incomes and business investment. Higher payroll taxes are expected to translate into slower wage growth, reduced hiring, and higher prices, dampening consumer spending and economic momentum.

Source - Association of International Certified Professional Accountants



Executives in the US also plan to ramp up hiring and business expansion, buoyed by the anticipation of pro-business policies. While inflation remains a concern, resolving election uncertainty has strengthened confidence in both the broader economy and individual companies' prospects. This surge mirrors the optimism seen during Trump's first election in 2016 and reflects a belief that the administration's policies will broadly support corporate growth.
The contrasting fortunes of the UK and US highlight another reason why the US stock market has significantly outperformed the UK this year. While the UK struggles with budget constraints and a challenging economic outlook, the US benefits from renewed optimism and expectations of business-friendly reforms. With no election on the horizon for a few years, the UK people are stuck with the current newly elected Labour government; however, across the channel...

FRENCH GOVERNMENT FALLS, MARKETS REMAIN UNSHAKEN AMID POLITICAL DEADLOCK

France's government has collapsed, making it the shortest-lived administration in the Fifth Republic's history. With parliament deeply divided into three blocs, any major policy breakthroughs are unlikely, and the country faces months of political stagnation. Despite the drama, markets have reacted with calm. Yields on French OATs relative to German bunds declined this week, signalling that investors see little immediate risk. The absence of a new budget means the current one will roll over, avoiding the brinkmanship seen in US budget negotiations. While not ideal, this stability reassures markets that France is far from crisis territory.

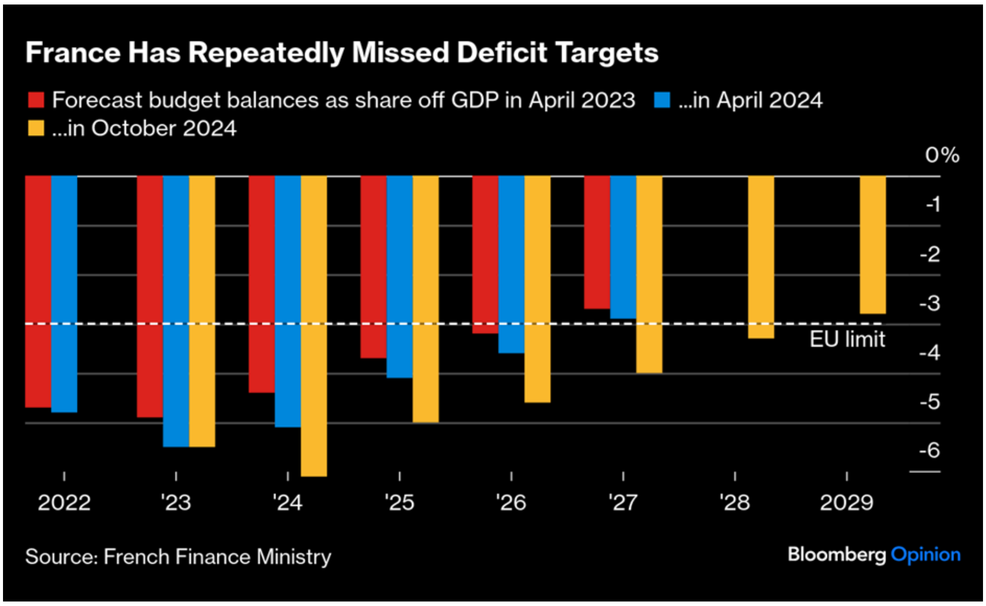
Marine Le Pen's growing influence adds a new dynamic to French politics. Her opposition to the ousted prime minister's budget underscored her pivotal role, but her measured comments have eased market concerns. She emphasised the need for fiscal responsibility while advocating policies to reindustrialise and support businesses. Notably, she refrained from calling for President Emmanuel Macron's resignation, even though statistically, she would likely win if an election were held today.

Macron weakened politically and vowed to complete his term, extending the stalemate well into next year. However, fears of a snap presidential election pitting Le Pen against the far-left Jean-Luc Mélenchon appear unfounded.

Investors seem to view the situation as challenging but not chaotic. After last year's snap election, bond markets had already adjusted for political risks, and there's growing acceptance of a shift toward fiscal expansion in Europe. France, which had been planning budget cuts, now aligns with broader European trends favouring increased public spending to boost growth.

Though French stocks remain under pressure, the idea that fiscal stimulus might revive Europe's sluggish economy is gaining traction. With corporate performance lagging behind the US for over a decade, some investors see this as an opportunity to jolt Europe out of stagnation. For now, France faces political gridlock, but markets appear to believe the current bond risk premium is adequate, reflecting a troubling situation but not a crisis. A crude top-down look at global economics over the last 20 years would suggest that the European approach to limiting deficits with fiscal constraint is not working, as well as the US approach of focussing on growth above all else. Still, they have the luxury of having the world's reserve currency.

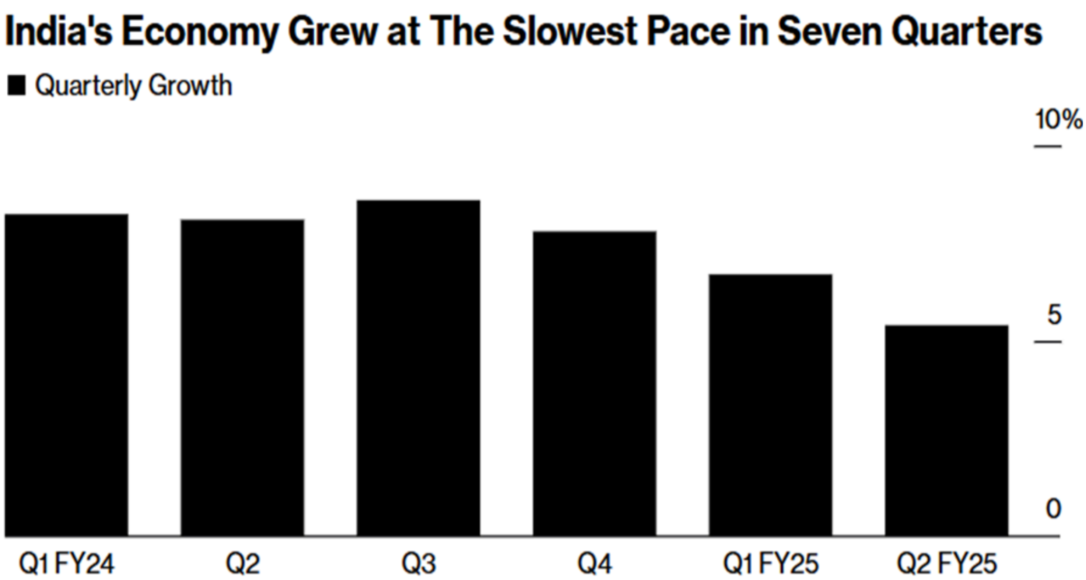
Source - Bloomberg



INDIA:

Not a market that we have given much 'air time' to in our regular market matters, so I wanted to update our readers on recent developments. Figures released last week show that India's economy expanded at its slowest pace in nearly two years, casting doubt on growth prospects and challenging Prime Minister Narendra Modi's development goals. GDP grew 5.4% in the July-September quarter, the weakest since late 2022 and well below the central bank's 7% estimate. The surprising downturn has economists revising annual growth forecasts downward, with some predicting as low as 6.4%.

Source - Bloomberg

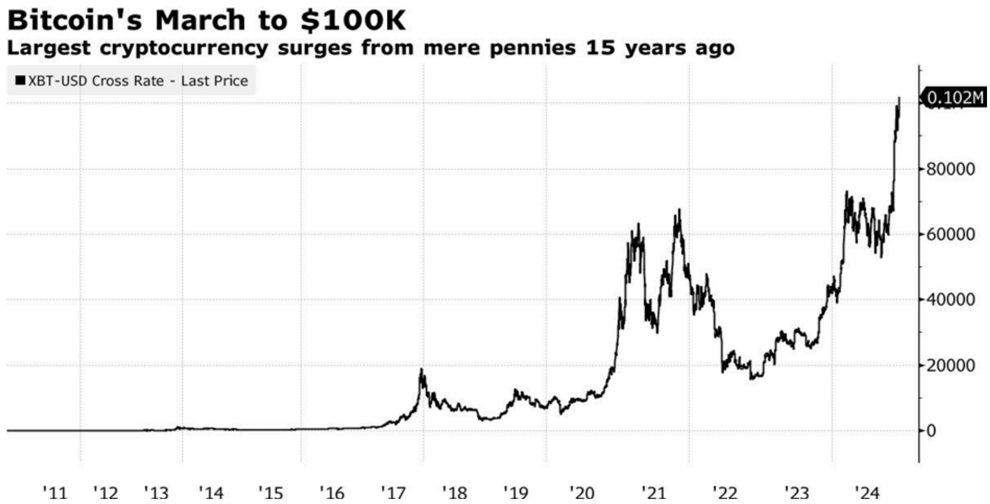


The slowdown is pressuring the Reserve Bank of India (RBI) to consider interest rate cuts, though Governor Das has warned against premature easing due to inflation risks. The next policy meeting is set for Dec. 6, and while some expect a cut, others anticipate action early next year. Despite the slowdown, analysts expect growth to increase in the year's second half, fuelled by government spending and a revival of rural demand. The Chief Economic Adviser noted "bright spots" in agriculture and construction but acknowledged the need to address joblessness, a key concern for voters after Modi's recent electoral setbacks. The Indian market has enjoyed another great year. While we don't have direct exposure to specific India funds, we do have indirect exposure through our Asian and Emerging Market picks.

The Unstoppable Rise of Bitcoin: From Pennies to $100,000

Another asset class we rarely touch on but which deserves a mention this week is Bitcoin. Fifteen years ago, Bitcoin was a quirky digital experiment valued at mere pennies, an oddity among tech enthusiasts and libertarians. Today, it has smashed through the $100,000 barrier, cementing its place as one of the most remarkable financial stories of modern times. Its journey has been as volatile and colourful as the cryptocurrency itself, filled with dramatic crashes, criminal intrigue, and the unrelenting optimism of its believers.

Source - Bloomberg



Bitcoin's recent ascent to this milestone has been fuelled by innovation, speculation, and, most recently, political developments. Donald Trump's return to the White House has reinvigorated the crypto market, with his nomination of pro-crypto Paul Atkins as SEC chair signalling a potential end to regulatory crackdowns. This political shift has electrified traders, pushing Bitcoin beyond the elusive six-figure mark, with analysts dubbing it the beginning of a new bull market phase.

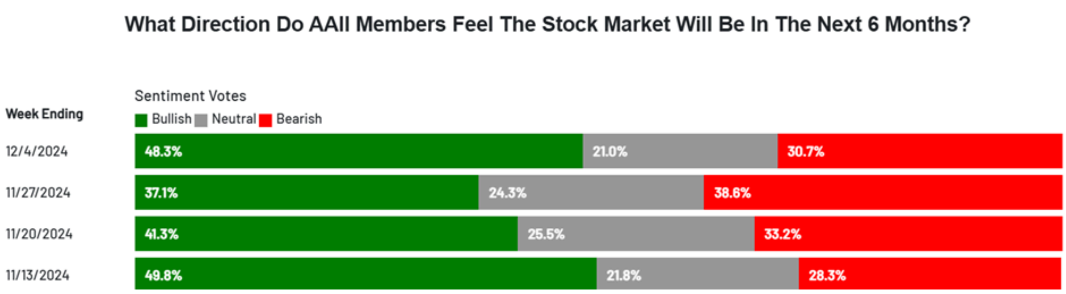
The cryptocurrency's $2 trillion market value now dwarfs the GDPs of many countries and even rivals the total capitalisation of the UK's FTSE 100. It's hard to believe that in 2010, Bitcoin could be bought for just 30 cents. Since then, it has endured staggering highs—such as a 5,428% gain in 2013—and devastating lows, like the infamous 80% crash in 2022 following the collapse of major crypto players like FTX and Celsius.

Yet Bitcoin has proved resilient, bouncing back stronger each time. It's drawn in Wall Street heavyweights like BlackRock, Fidelity, and Grayscale Investments, whose Bitcoin-focused ETFs now hold a collective $100 billion, or 5% of all Bitcoin in circulation.

This year's Trump Bump surge has also arguably been spurred by a so-called 'supply squeeze.' With Bitcoin's fixed supply of 21 million coins, demand from ETFs and private buyers has created scarcity, driving prices higher. Analysts predict this dynamic could continue, potentially pushing Bitcoin into uncharted territory in 2025. In a surreal twist, Trump allies have even floated the idea of backing the US dollar with Bitcoin, which could transform the global financial system. Whether you see it as digital gold, a speculative bubble, or the backbone of tomorrow's economy, one thing is sure: Bitcoin's story is far from over. We don't have any direct exposure within our model portfolio ranges, but I must confess to having some ETF exposure in my kid's Junior ISAs, as you never know where this thing could run over the longer term...

A NOTE OF CAUTION – BULLS IN THE HOUSE

And finally, just a note of caution as the year draws to a close. My money is still on a Santa Rally, but several indicators suggest we should now be wary. The Investors Intelligence Bull/Bear Ratio has surged to 48.3% Bullish, historically a level often followed by market pullbacks. Additionally, the S&P 500 is trading more than 11% above its 200-day moving average, signalling potential overbought conditions.



Consumer expectations have also hit record highs, with 56.4% of individuals surveyed by the Conference Board anticipating higher stock prices over the next year, even exceeding optimism seen before the tech bubble in 2000. At the same time, foreign purchases of U.S. equities have reached unprecedented levels, which historically has aligned with market peaks.

I am not suggesting a crash is looming—far from it—and I remain firmly in the Bull camp, but we are nearing a point where some ‘froth might need to be blown off the top’ of these markets, or we are heading into the ‘melt-up’ realm that would get me nervous. While sentiment and positioning suggest the market may be overextended, my hunch is that any near-term correction will likely be seen as a buying opportunity.

The continuation of this bull market depends on several factors:

- The persistence of AI-driven optimism.
- The absence of a Fed tightening cycle.
- The avoidance of a significant earnings recession or economic slowdown.

I think we are safe on all counts now, but I would sleep a lot easier if the inflation numbers next week (CPI & PPI) don’t rock the boat.

THIS WEEK;

Key global economic events include US inflation data (CPI) on Dec. 13, which is crucial for Fed rate decisions at their meeting the following week. The ECB will announce its interest rate decision in Europe on Dec. 14, with markets expecting a potential rate cut. The UK will release GDP figures on Dec. 12, offering insights into its economic momentum. In Asia, China’s trade data on Dec. 11 will highlight its export and import trends, while Japan revisits Q3 GDP estimates on Dec. 12. These events will shape monetary policy and market sentiment in their respective regions.

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