Global Markets Overview

Asset Research Team

November 2024

Chart of the month

The impacts of the US election on financial markets

The ultra short-term impacts of the US election on financial markets

- Former-President Trump won a second, non-consecutive term, securing both the electoral college and the popular vote.
- Republicans have also taken control of the Senate. Control over the House of Representatives remains undecided (as of 11 November) but is very likely to result in a slim Republican majority.
- A Republican sweep, meaning control of both houses, would give the new administration greater scope to advance its legislative agenda.
- Market reaction on the day after the polls closed aligned with our view that markets would initially see Trump's policies – on tariffs, immigration, tax cuts, and deregulation – as likely to boost corporate profitability but also likely to add to inflation and a larger government deficit, potentially slowing future Fed rate cuts. For example:
  - The S&P 500 rose 2.5% to new highs;
  - The US 10-year government bond saw a sharp sell-off with the yield rising over 15 basis points;
  - The dollar strengthened, particularly against currencies like the Mexican Peso and Chinese Yuan, which face higher tariff risks.
- Subsequent price action over the following days was more varied – and again in-line with our views – with US equities and the dollar holding on to their gains, whereas US government bonds reversed their immediate post-election move.

The impacts of the US election on financial markets over the next six months and beyond will be driven by the actual policies that are announced and implemented

Trade policy and tariffs are likely to be a 'day 1' issue after Inauguration Day on 20 January 2025. What is likely and how material will they be for financial markets?

Possible trade policy details and their potential size	Macro impacts of trade policy changes in 2025	Financial market impacts of trade policy in the 6 months after the election
Our baseline ▪ Increased tariffs on US imports from China, mainly on capital and intermediate goods ▪ Narrow tariffs on other individual products and countries ▪ Like-for-like retaliation by foreign countries	▪ Minimal change in the US effective tariff rate and US GDP; a small negative impact on world GDP ▪ Minimal impact on US and world prices	Only a small impact is likely ▪ Small increase in the US dollar ▪ Bond yields in other advanced economies falling slightly relative to the US
▪ A new 10% tariff on US imports from all countries is not our most likely outcome but is plausible and a material risk, with like-for-like retaliation by foreign countries Tail risk of a trade war • A new 15% - 20% tariff on US imports from all countries • Higher US tariffs on China • Like-for-like retaliation by foreign countries	▪ These are a material change in US and world tariffs ▪ A material negative impact on US and world GDP in 2025/26 ▪ US and world inflation materially higher in 2025	▪ Higher US dollar strength vs. EUR, China, and Mexico ▪ US inflation-linked bonds are attractive as inflation rises ▪ More monetary policy divergence, with bond yields in other advanced economies falling more than the US ▪ US and world equity prices lower, with export-oriented cyclicals most impacted

Sources: FactSet, WTW

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Government bonds

At current yield levels we believe most bond markets are neutrally priced

What happened over the past month:

Global bond yields (prices) have jumped (fallen) over the past few weeks. Since September, US 10-year Treasury yields have jumped c. 65bps (as of 6 November) with similar rises witnessed in UK and Australian markets. Other major developed markets have also followed suit, albeit to a lesser degree.

Factors influencing market trends

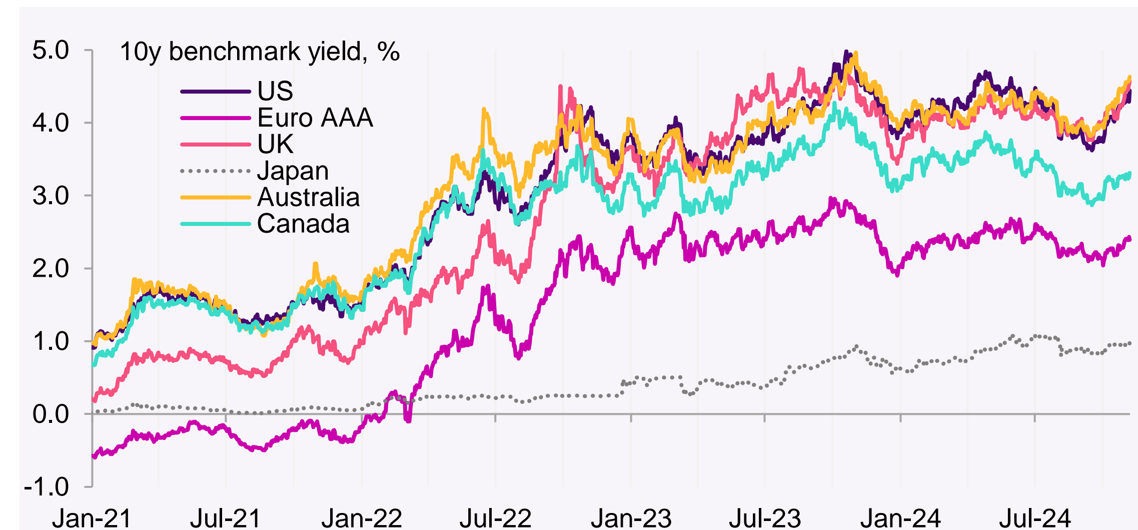
Bond markets remain highly sensitive to economic data and policy. The most recent fluctuations coincide with political and policy announcements. The UK government released its Autumn budget. Though announcements were largely as expected, additional borrowing and stimulus were towards the upper-end of estimates. In the US, moves were influenced by the election with markets responding firstly to an increased likelihood of a Trump win and then to his eventual victory. Policies from higher tariffs and an extension of tax cuts are deemed to be more inflationary than the status quo.

Looking ahead:

We expect yields to remain volatile in the near term. While policy rates have begun to fall, consumers and businesses continue to face high borrowing costs. On top of this US bond markets (which impact global bond markets) will remain focused on updated policy proposals from President-elect Trump. The impact on growth, inflation, and financial markets will, ultimately, be contingent on the actual policies that are implemented.

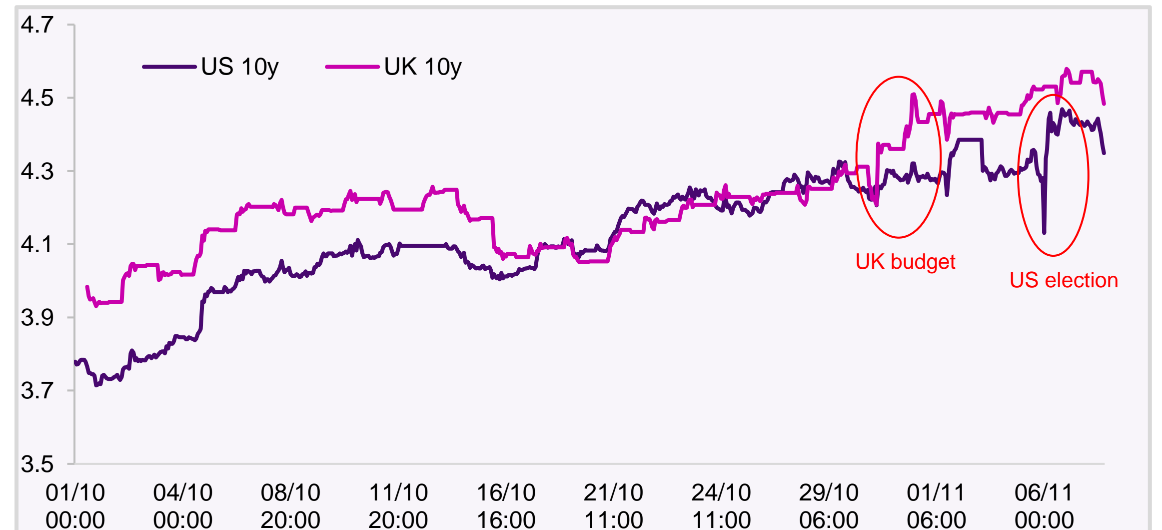
Over time, we expect inflation and growth to moderate, allowing central banks to ease policy. However, the speed and depth of that easing cycle will vary by country. **We think that most bond markets are neutrally priced over a one to three-year horizon**. Although, they continue to have a valuable role in protecting return-seeking portfolios. **For under-hedged liability-driven-investment portfolios, current pricing remains reasonable to return towards target levels**.

Global 10-year benchmark nominal bond yields



Sources: LSEG Datastream, WTW

Policy and political announcements have helped to shape bond market outcomes



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Credit

Over five years we expect investment grade credit to outperform government bonds moderately

What happened over the past month:

October was a good month for corporate credit markets in almost all countries and across the credit rating spectrum. Global investment grade credit spreads fell by 8 bps to 92bps. With spreads in the US, Europe, Canada, and Australia all falling over the month. It was the same picture in global high yield markets, with spreads falling significantly in the US and especially Europe, with global spreads down by 18 bps to 305 bps.

What has influenced recent market dynamics?

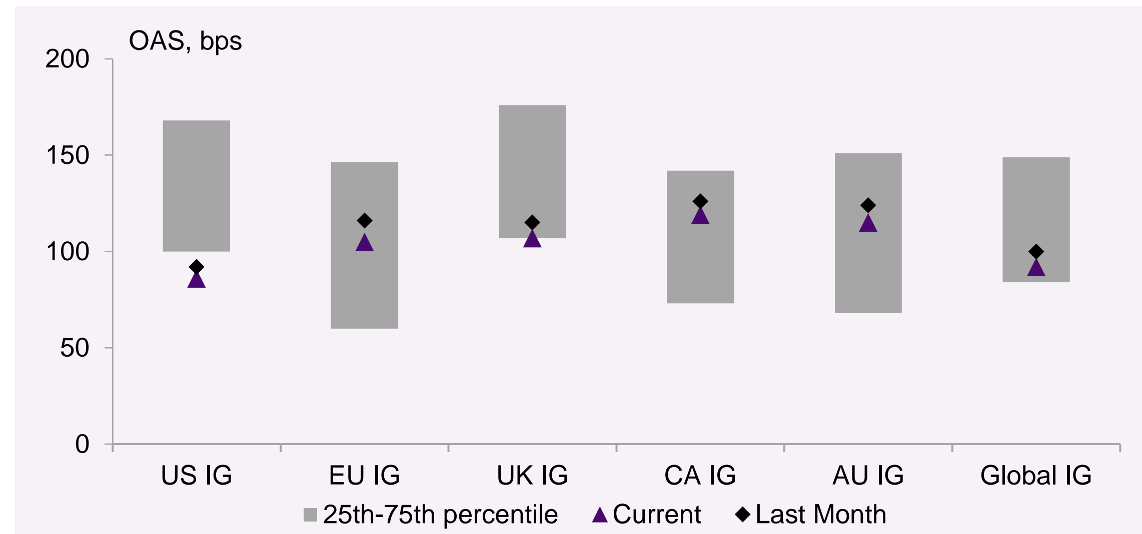
Relatively **healthy interest coverage ratios** and **a notable phase of corporate issuers terming out their debt maturities** prior to the recent rate hiking cycle has cushioned corporate credit markets from the slowdown in economic growth in some advanced economies (e.g., the Eurozone). The exceptional strength of the US economy has also been a notable support. Our outlook is for US growth to continue to provide support to credit markets throughout 2025, given the expansionary stance of new President-elect Trump's overall policy mix. As a result, the **non-financial corporate downgrade and default cycle has been relatively benign throughout 2024** and we expect this to continue through 2025.

Looking ahead:

Over a three-to-five year horizon, we expect global investment grade corporate credit to provide moderate returns above government bonds. Similarly, we expect global high yield credit to outperform government bonds and investment grade credit over the medium-term.

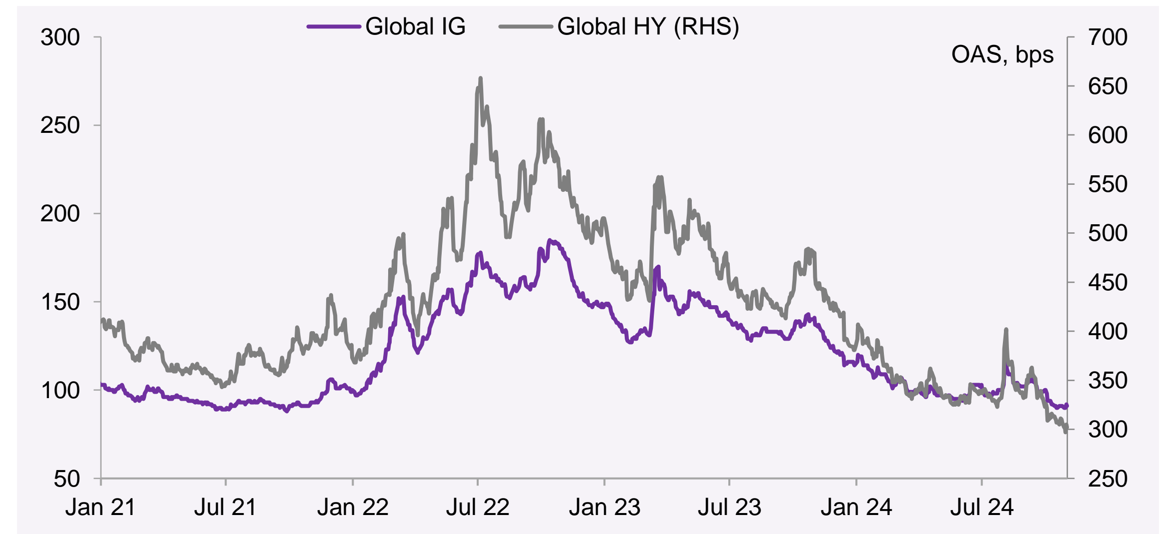
We are balanced over 2025, given good underlying macro and earnings conditions, in the US especially, which nets off against the narrowing of corporate credit spreads year-to-date and their low levels currently.

Investment grade spreads by country



Sources: FactSet, WTW

Both credit spreads and company debt measures show little sign of corporate stress



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Equities

Tech Setbacks and Economic Struggles

What happened over the past month:

Global equity markets fell 1.1% in October, marking their second monthly loss of 2024, though they remain up 33% over the last 12 months in total return terms. US equities were impacted by results from some of the major tech companies disappointing against high market expectations and fell 0.7%. However, US markets have started November very strongly with former President Trump's election victory providing a boost. European equities also fell in October, with the bright spot in developed markets coming from Japan, which rose 2%, aided by a falling yen. Emerging Asia equities were weak in general, with Chinese stocks falling nearly 6%, after the size of their new economic stimulus measures disappointed expectations, and India the weakest performer in the region, falling 7.3%.

Broad market trends:

Looking to forward earnings, analysts forecast earnings picking up significantly in 2025, particularly in the US. However, our outlook for inflation remaining close to central bank targets, good economic growth in the US, and a gradual easing of monetary policy in advanced economies, should support stock prices. We remain balanced in our outlook for equity returns over the remainder of 2024 and 2025.

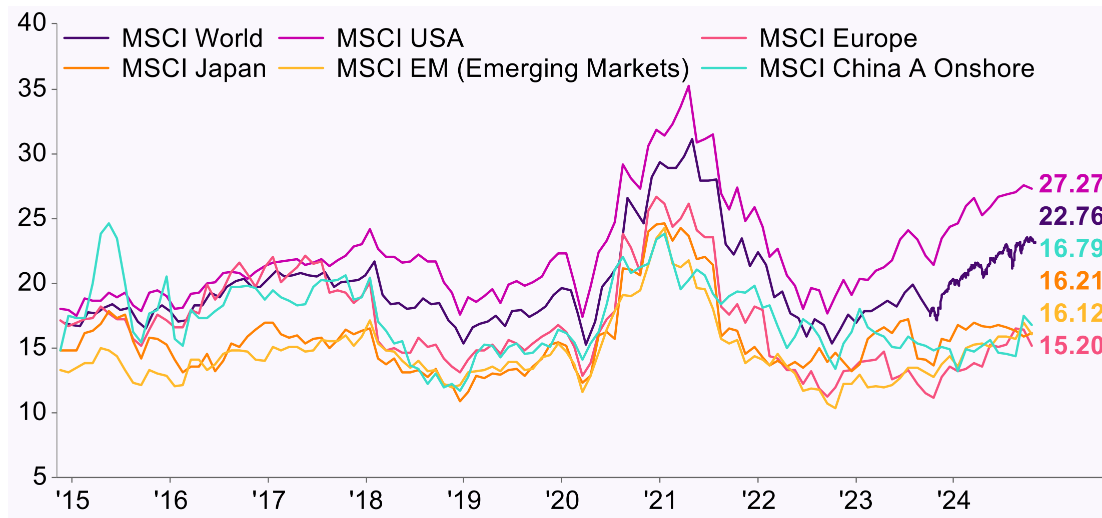
Over the last three months, the top performing sectors have been Communication Services (7.5%), Utilities (6.2%), and Financials (5.3%).

Looking ahead:

Overall, we retain a neutral view on equities over a five-year horizon. We see value in Japanese equities, given the positive impact on fundamentals of a push to improve corporate governance, stimulative policy, and good cyclical economic growth conditions.

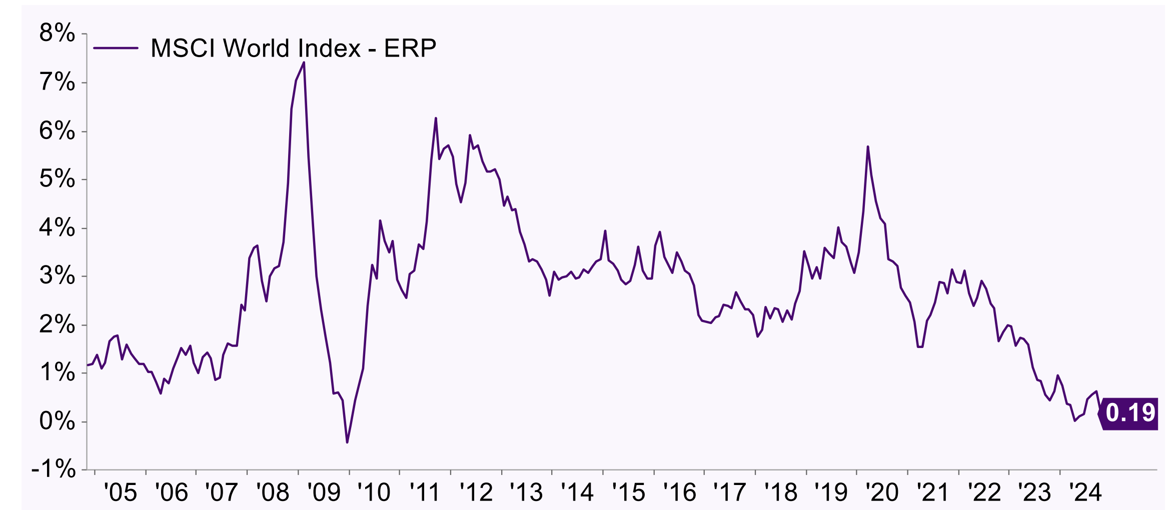
Global equity valuations

Trailing price to earnings ratio



Sources: FactSet, WTW

The Equity Risk Premium fell in October, primarily due to rising bond yields



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FX

We hold a positive view on most developed currencies relative to the US dollar over the long term

What happened over the past month:

The US dollar has strengthened significantly in recent weeks. Since the middle of September, the dollar has appreciated against most of the major currencies that we follow. The biggest moves have occurred against the yen which has depreciated over 7%, followed by the euro which has fallen 3.5%.

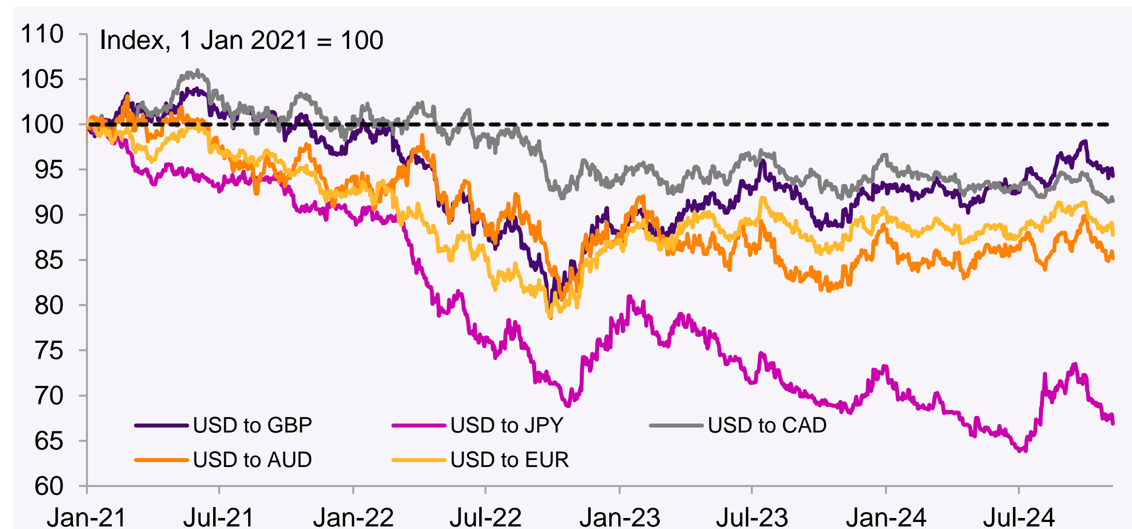
Factors influencing market trends:

Interest rate differentials help to explain these currency moves. The recent strengthening of the dollar has coincided with a large rise in US Treasury yields over and above most other bond markets. This has helped draw capital towards the US from other markets where rates have risen less. Since the middle of September 2-year interest rate differences between US and Japanese and euro government bonds have widened over 60bps. **Other factors also play a key role**. Growth and innovation has been better in the US than other markets, attracting investment and supporting the currency. **Over a three-year period, the US dollar has appreciated versus all major advanced economy currencies, particularly the yen.**

Looking ahead:

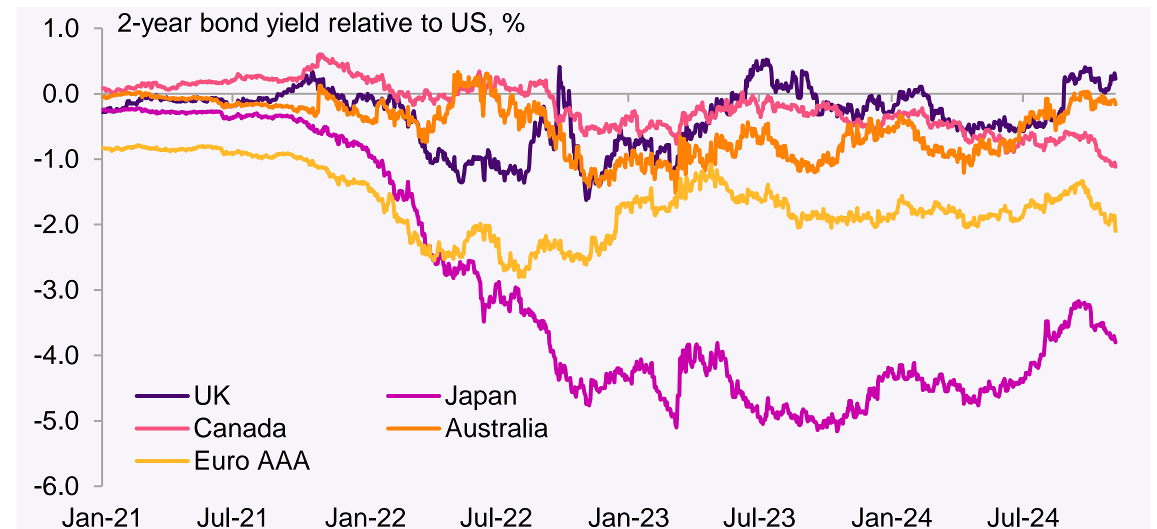
Following a sustained period of appreciation, the US dollar has become more expensive and less competitive against other major currencies on our preferred medium-term fair value metrics. This suggests downward pressure over a 3-to-5-year horizon and **a positive view on most developed market currencies against the dollar**. In the near term, however, the relative strength of the US economy, its safe-haven status, and the potential for additional trade tariffs by president-elect Trump could lead to further appreciation. In the shorter term, we are neutral on most currencies except for a positive view on the Japanese yen.

Developed exchange rates versus the US dollar



Sources: LSEG Datastream, WTW

Short term exchange rate dynamics have been influenced by differences in interest rates between countries



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