MARKET VIEWS

Charts of the Week

November 18th, 2024

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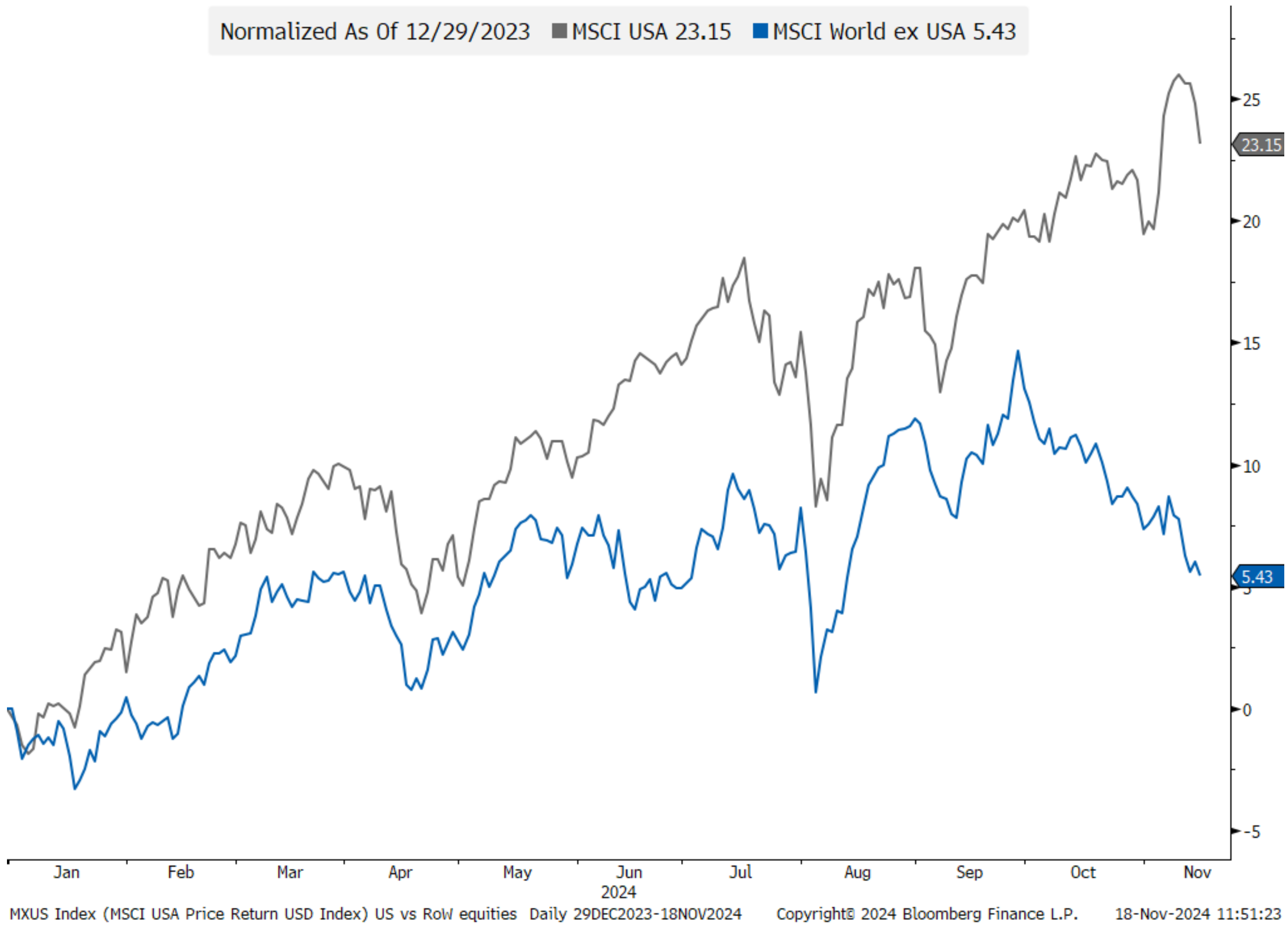
Trump's victory widens the gap between US and international equities

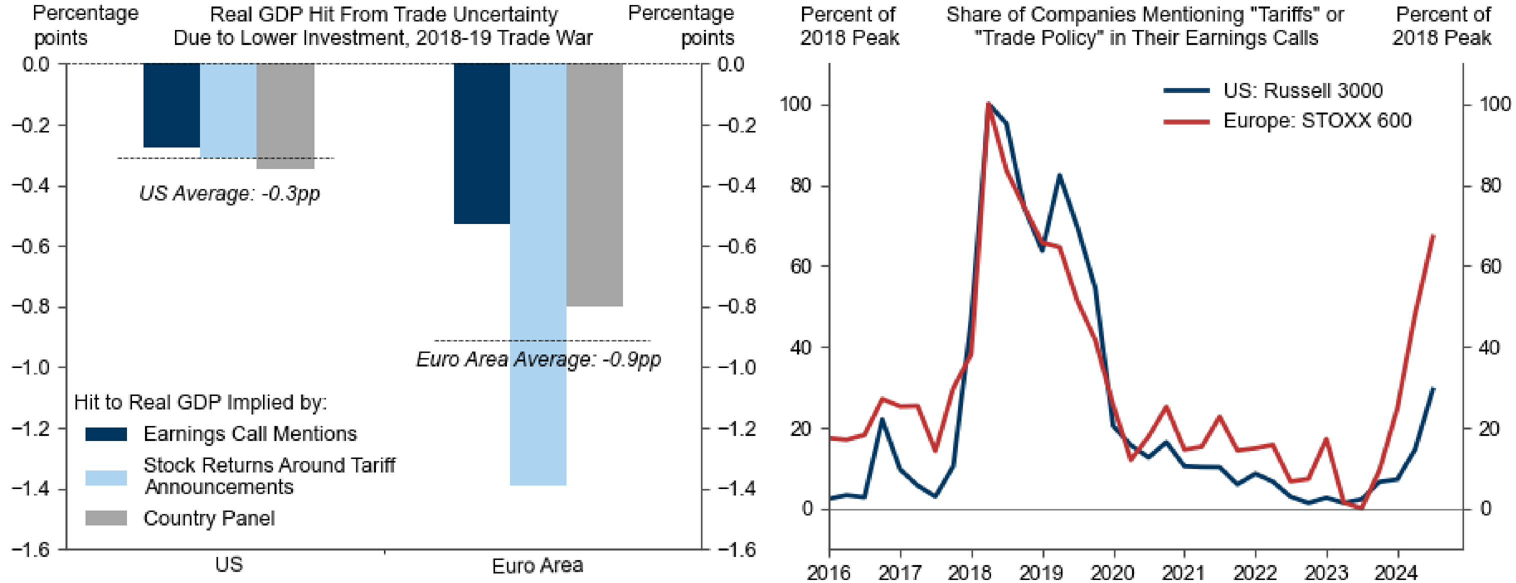
Trump's sweeping victory pushed US equities to new record highs, widening the gap with their international counterparts. While US equities are facing the prospect of deregulation and tax cuts, uncertainty around the extent of protectionism keeps international markets on edge.



The tariff threat

Goldman Sachs points out that EU GDP and equities are likely to be much more impacted than their US counterparts by trade policy uncertainty. The chart shows that EU companies are evoking trade policy and tariffs much more frequently than US firms in earnings calls. This has largely contributed to the recent pressure on EU equities.

Exhibit 4: Historical Evidence and Recent Trends Suggest Trade Policy Uncertainty Will Disproportionately Weigh on Euro Area GDP

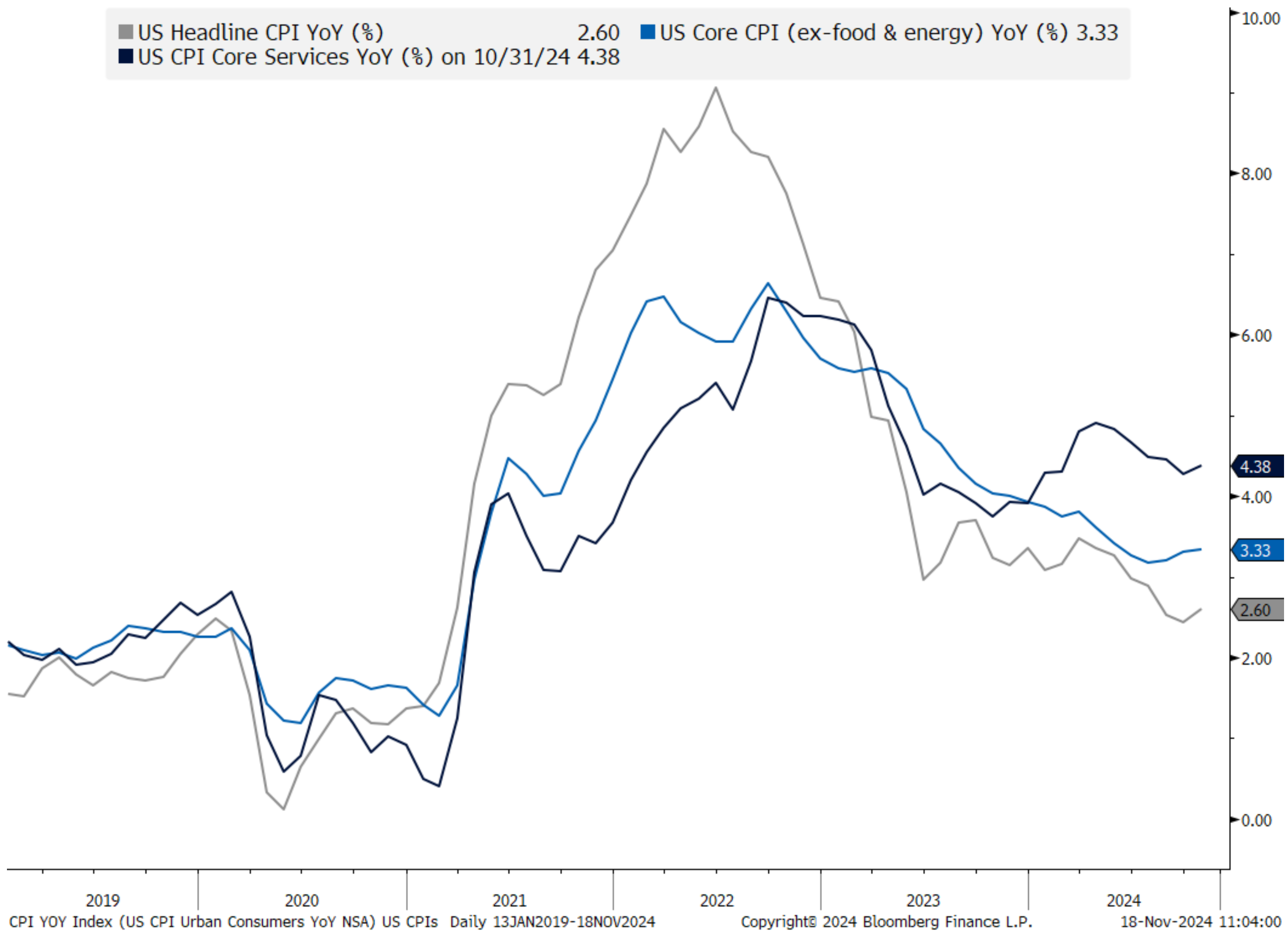


Note: Indices are normalized so that 0 corresponds to the sample minimum, 100 to the sample peak. Data through 2024Q3.

Source: LSEG Data & Analytics, GS Data Works , Goldman Sachs Global Investment Research

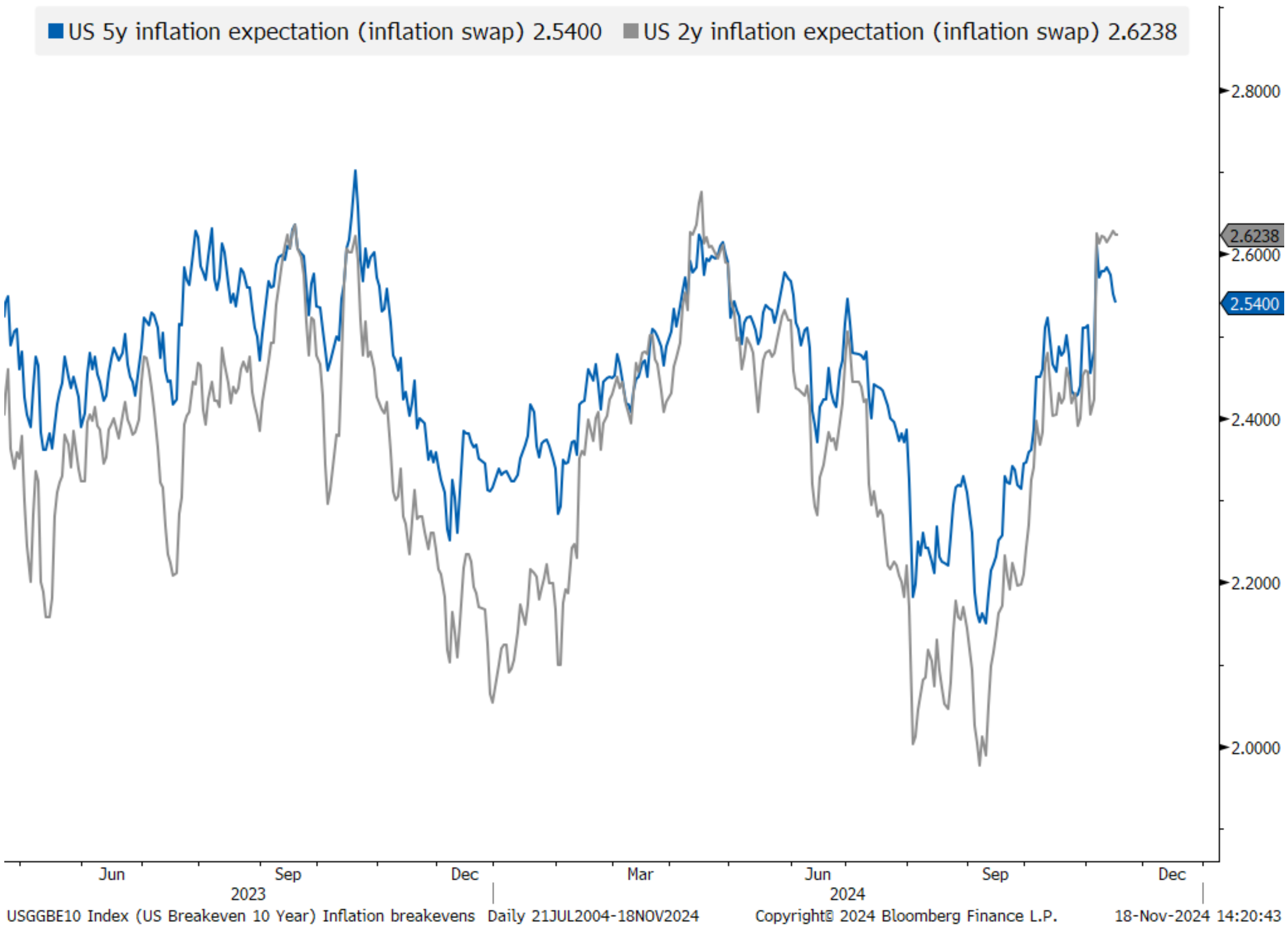
Inflation bottoming out

Even before integrating the stimulatory effects of Trump's policies, US inflation ticked up in October. This is complicating the Fed's upcoming decisions, leading to increasingly mixed messages. After stating recently that a few months of higher CPI would not derail the cutting cycle, Powell hinted last week that recent economic data could warrant a pause…Markets currently price a 60% probability of a 0.25% cut in December.



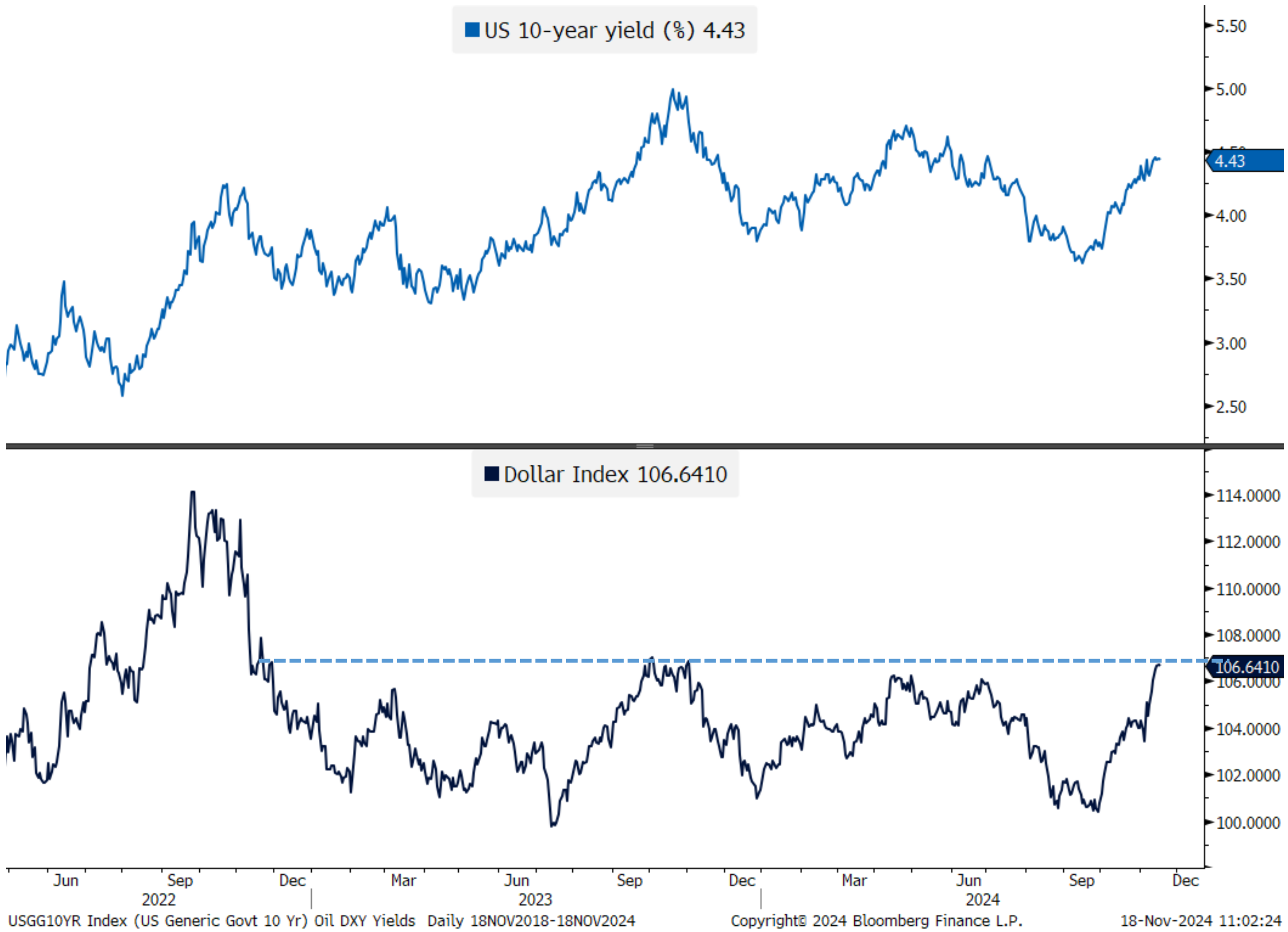
Inflation expectations have risen sharply in the last 2 months

The Fed is likely paying close attention to market-based inflation expectations, which have rebounded sharply since the September 50bps rate cut and continued moving higher following Trump's victory. A continuation of this move above the 2-year range, would become problematic for the Fed and markets.



A much-needed pause for the USD and yields

The dollar index has rallied significantly in the last couple of months, supported by the sharp rebound in US yields, themselves driven by solid data and expectations of less aggressive rate cuts. The DXY is now back at the top of its 2-year range, a level that should see some consolidation. An extension of these sharp moves would open the door to more downside for US equities.



US equities likely consolidating due to excessive positioning

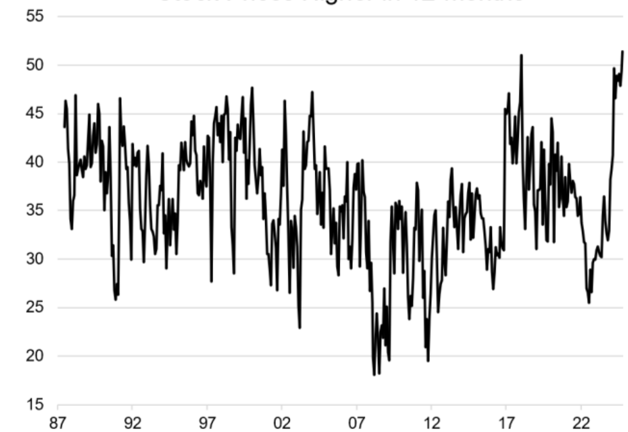
The 2016 Trump victory saw many investors wrong-footed by the magnitude of the rally; a mistake they seem determined not to repeat. Following the election, sentiment and positioning on US equities have reached extremes; this likely explains the current phase of consolidation, as recent buyers are shaken out.

Chart 1: US equity positioning surges to 11-year high post-Trump election victory

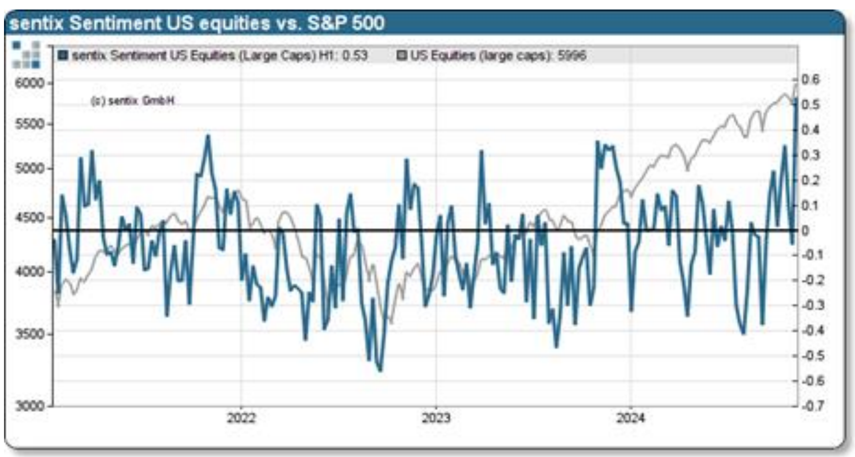
Net % overweight US equities

Source: BofA Global Fund Manager Survey. *Trump 2.0 indicates only the responses recorded after the US election

US Consumer Confidence: % Expecting Stock Prices Higher in 12-months

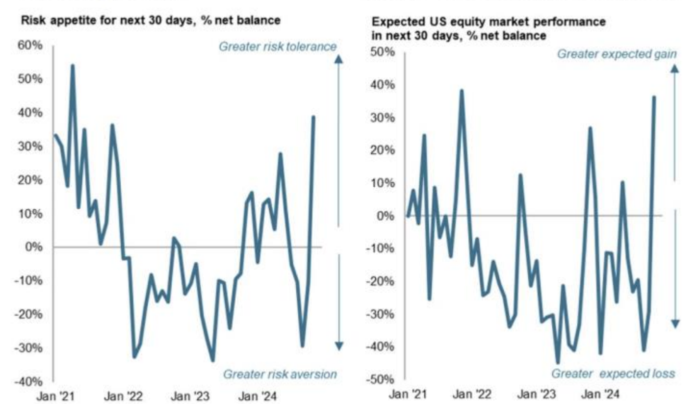


Source: Topdown Charts, LSEG, Conference Board topdowncharts.com



Risk appetite

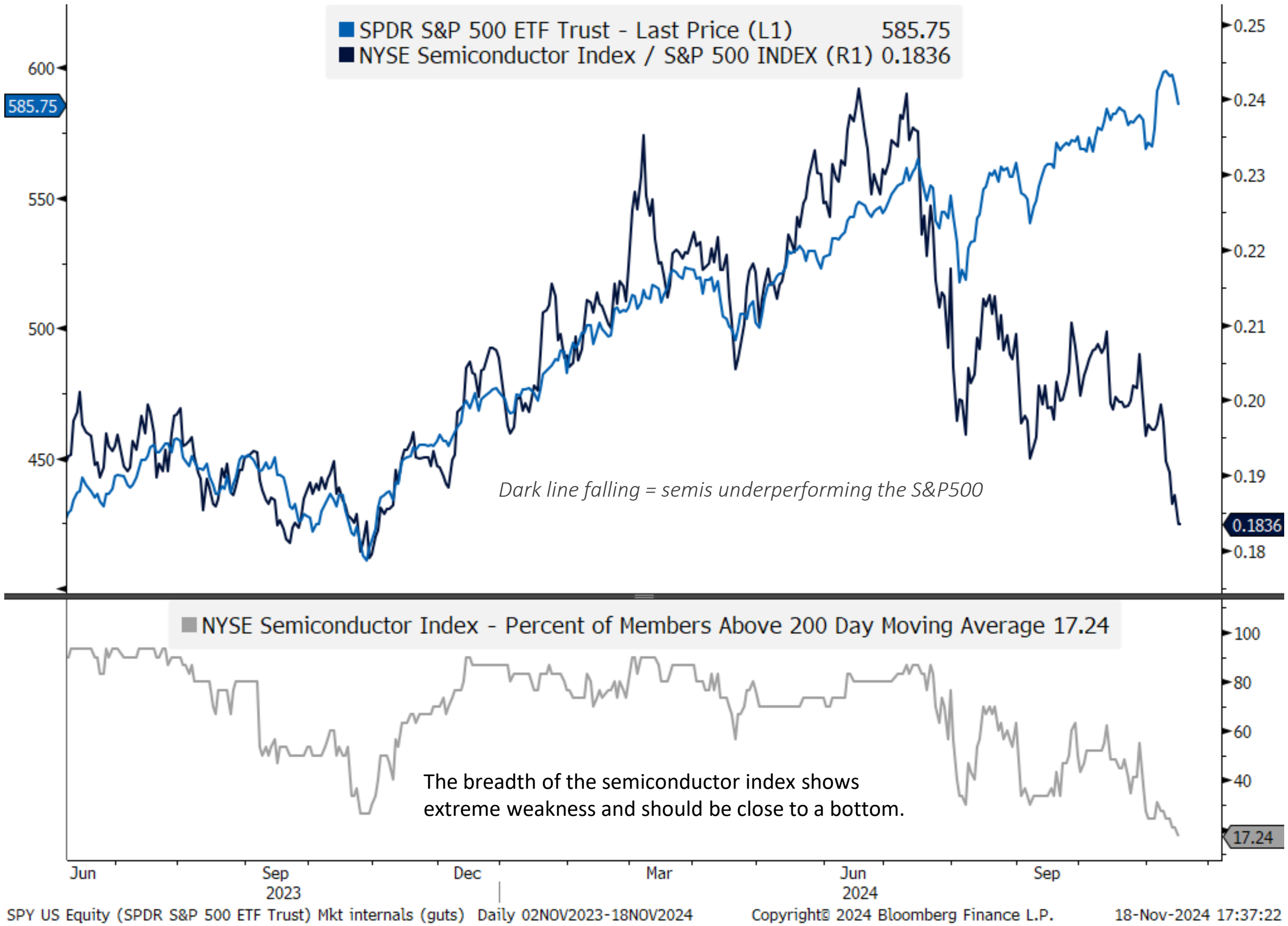
Near-term market outlook



Source: S&P Global IMI survey.

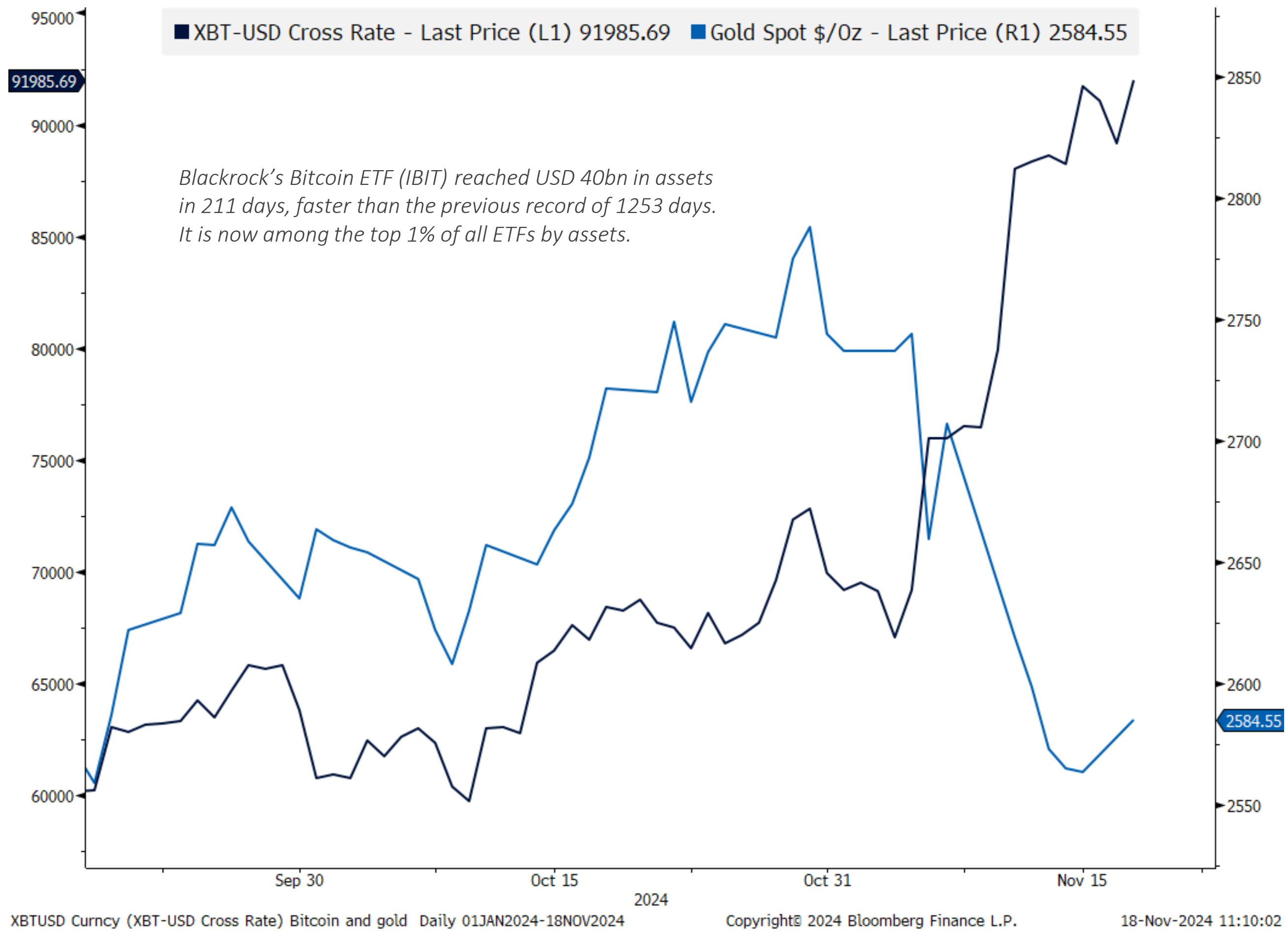
Semiconductors’ lost leadership

Investors eagerly await Nvidia’s earnings this week to assess the state of the AI boom. Interestingly, semiconductors have stopped leading the market since July. While broadening participation has been a good feature of this rally, the relative weakness of semiconductors is starting to look concerning. NVDA’s earnings will be key to see if the sector can regain some strength.



Bitcoin takes some shine away from gold

Since the election, Bitcoin has stolen gold's thunder, breaking out to record highs and rallying 20%. Gold, on the other hand, has retraced around 8%. The environment has indeed favored BTC given the expected positive regulatory changes, which effectively reduce the career risk of owning it. Although short-term overbought, Bitcoin likely has months of (very volatile) upside ahead. Gold is still attractive and should soon regain its footing, with significant support around USD 2500-2550.



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