

Market Viewpoints

by Manish Singh - Chief Investment Officer

October 2024



“Whatever the outcome on November 5, the US remains the world’s most innovative economy, with a system capable of resetting and correcting its mistakes and excesses”

Summary

In the current US political landscape, Real Clear Politics’ (RCP) Battleground polling averages, place former President Donald Trump ahead in all seven key states, suggesting a potential Republican sweep of the Senate. Such an outcome could see the GOP controlling the White House, Senate, and House of Representatives, streamlining the advancement of their legislative agenda. Conversely, a win for VP Kamala Harris could face significant hurdles with a Republican Senate, possibly leading to policy gridlocks and challenges in appointments, further exacerbating political stalemate as the parties pursue divergent goals.

The US labour market showed signs of improvement in September’s jobs report. However, expectations for October, set to be released this Friday, are tempered by recent natural disasters—Hurricanes Helene

and Milton—and an ongoing Boeing strike, complicating Harris’ campaign for the presidency. These disruptions are also likely to pose challenges for the Federal Reserve as it deliberates over interest rate cuts. I expect the Fed to cut rates by at least 25 bps when it meets on November 7.

Whatever the outcome on November 5, the US remains the world’s most innovative economy, with a system capable of resetting and correcting its mistakes and excesses. Europe, on the other hand...resembles a pensioner gradually spending savings, with a little less money each day. In China, things rarely progress as expected. The next major policy shift is likely in Q1, but in the meantime, the People’s Bank of China (PBoC) will keep supporting asset prices, helping to maintain a floor under Chinese equities.

In financial markets, high-yield spreads have tightened to their narrowest in over 15 years relative to U.S. Treasuries. This trend typically supports rising equity markets, yet such narrow spreads also signal increasing risks, potentially indicating a looming market correction— but may take months or years to impact equities meaningfully.

The Final Week: Trump Takes the Lead as Republicans Poised for Senate Victory

As the US elections enter their final week, tensions are running high.

Over the weekend, thousands of readers cancelled their subscriptions to *The Washington Post* after the paper chose not to endorse a candidate in the 2024 Presidential race, marking the first time it has withheld an endorsement since 1976. Similarly, *The Los Angeles Times* recently decided against endorsing a candidate, provoking a backlash from both readers and staff.

In my opinion, if this trend continues, it must be seen as a positive development. The primary role of newspapers is to report the news, and readers should then reach their own conclusion.

Traditional media gained power through advertising, but that foundation has been disrupted by platforms such as TikTok, YouTube, and META. Now, news consumption is increasingly shifting toward podcasts, long-form posts on X (formerly Twitter), and various other social media platforms.

Interestingly, the rise of social media has also led to a significant increase in content creators. This statistic recently blew my mind:

- There are now approximately 27 million paid content creators in the US, with around 44% (a staggering 12 million) treating social media as their full-time job

This raises a question: Could these figures be inflating the U.S. jobs report? While I hope not, it’s likely that some of these roles are reflected in the employment data.

This election cycle seems to illustrate how traditional media is being pushed to the sidelines.

Brian Armstrong, CEO of Coinbase, captured this sentiment well in a post on X earlier this week.



Brian Armstrong ✓ C
@brian_armstrong



This seems like the first election where new media has fully flipped traditional media.

Long form podcasts, X/social, prediction markets etc deciding this election. Also holding traditional media accountable. Happened gradually then suddenly.

3:46 am · 27 Oct 2024 · **25.6M** Views

Shifting back to the US election, current betting markets give President Donald Trump an approximate 60% chance of winning, compared to 39% for Vice President Kamala Harris.

In contrast, at this point in 2020, President Joseph Biden was ahead of Trump by 64.7% to 35.2%.

According to the Real Clear Politics (RCP) Battleground polling averages, Trump currently leads in all seven key states, with Wisconsin and Michigan being the closest contests and Georgia showing the widest margin.

A quote from Bill May, a 71-year-old resident of Racine, Wisconsin, encapsulates Harris's challenges: *"Morally I think she's better, but when it comes to the economy, you can't keep buying votes."*

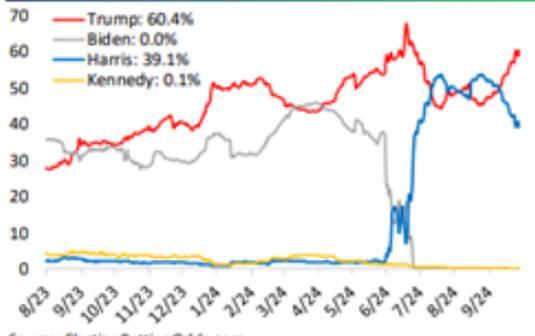
This sentiment highlights the uphill battle Harris faces, as voters weigh her policies against economic concerns.

The US jobs report for the month of October is set to be released on Friday, November 1, and it will likely add to Harris' misery.

Hurricane Helene (Sept 24-29) marked the deadliest hurricane to strike the US mainland since Katrina, leaving many communities in recovery. Just two weeks later, Hurricane Milton followed, compounding the challenges for those affected. The October employment report is set to reflect the impact of these storms. Both storms resulted in temporary job losses and closures of stores, factories, and construction sites.

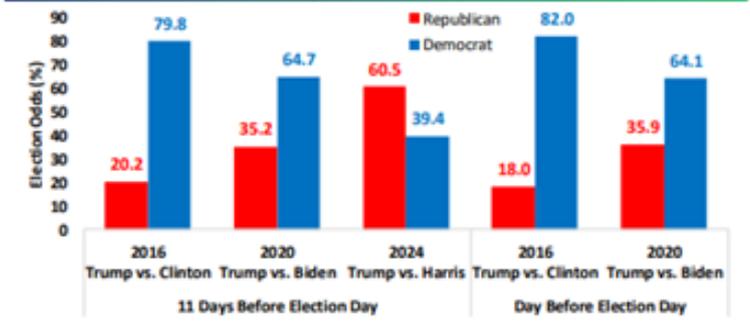
The jobs report for September had painted a more optimistic picture of the labour market with an increase of 254,000 jobs that month. However, October's figures are expected to reflect not only the disruptions caused by the hurricanes but also the ongoing Boeing strike. Economists predict that the report will indicate a gain of approximately 110,000 jobs for October. This could make the report especially vulnerable to political interpretation as candidates enter the final stages of their campaigns.

2024 US Presidential Election: Election Betting Odds



Source: ElectionBettingOdds.com

Election Betting Odds: Past Three Elections



RealClear Polling - Top Battleground States - RCP Average on Current Day of Election Cycle

| State | 2024 Election on 10/25/24 | | | 2020 Election on 10/21/20 | | | 2016 Election on 10/26/16 | | | | |
|-------|---------------------------|--------|--------|---------------------------|-------|--------|---------------------------|-------|---------|--------|----------------|
| | Trump | Harris | Spread | Trump | Biden | Spread | 15 Days Before | Trump | Clinton | Spread | 15 Days Before |
| AZ | 49.2 | 47.7 | 1.5 | 46.3 | 49.5 | 3.2 | [Bar] | 42.0 | 49.5 | 7.5 | [Bar] |
| NV | 47.8 | 47.1 | 0.7 | 43.8 | 49.0 | 5.2 | [Bar] | 43.8 | 49.0 | 5.2 | [Bar] |
| WI | 48.2 | 48.0 | 0.2 | 44.7 | 49.3 | 4.6 | [Bar] | 40.5 | 49.3 | 8.8 | [Bar] |
| MI | 47.9 | 47.7 | 0.2 | 42.6 | 50.4 | 7.8 | [Bar] | 37.8 | 50.4 | 12.6 | [Bar] |
| PA | 48.3 | 47.7 | 0.6 | 44.6 | 49.5 | 4.9 | [Bar] | 42.7 | 49.5 | 6.8 | [Bar] |
| NC | 48.6 | 47.8 | 0.8 | 46.5 | 48.8 | 2.3 | [Bar] | 44.7 | 48.8 | 4.1 | [Bar] |
| GA | 49.0 | 46.8 | 2.2 | 46.4 | 47.2 | 0.8 | [Bar] | 47.0 | 47.2 | 0.2 | [Bar] |

Potential Electoral College Votes



In the Senate race, Republicans are making significant inroads into the traditionally solid Democratic “blue wall” in Michigan, Wisconsin, and Pennsylvania. As the election season reaches its final stretch, the GOP is looking to destabilize a critical base of Democratic power.

The Republicans are favoured to take control of the Senate due to a favourable electoral map, with Democrats defending the majority of the approximately dozen competitive races.

The GOP anticipates a strong victory in West Virginia, where they are vying for the seat being vacated by centrist Senator Joe Manchin. Additionally, they are optimistic about their chances in Montana, where incumbent Democrat Senator Jon Tester faces tough competition amid the state’s Republican leanings. Just these two victories could potentially flip the current 51-49 Democratic advantage.

However, Republicans are also eyeing additional pickups that could further bolster their majority. Control of the Senate will be crucial for the next president in passing their legislative agenda and confirming key nominees, including potential Supreme Court appointments.

Senate outlook

DEMOCRATS

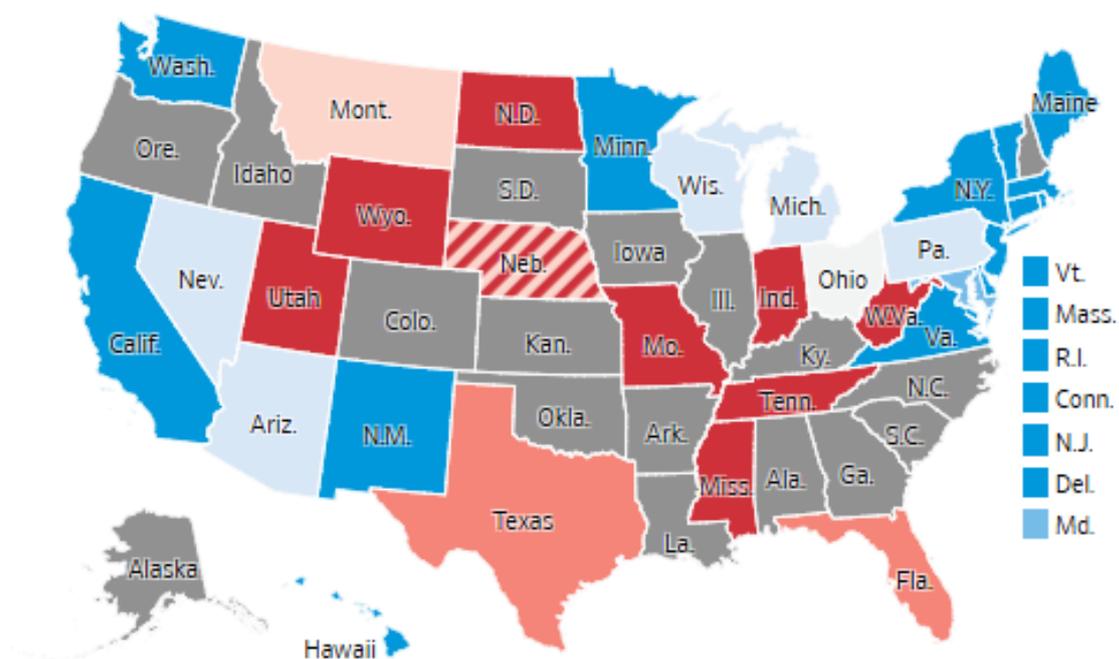
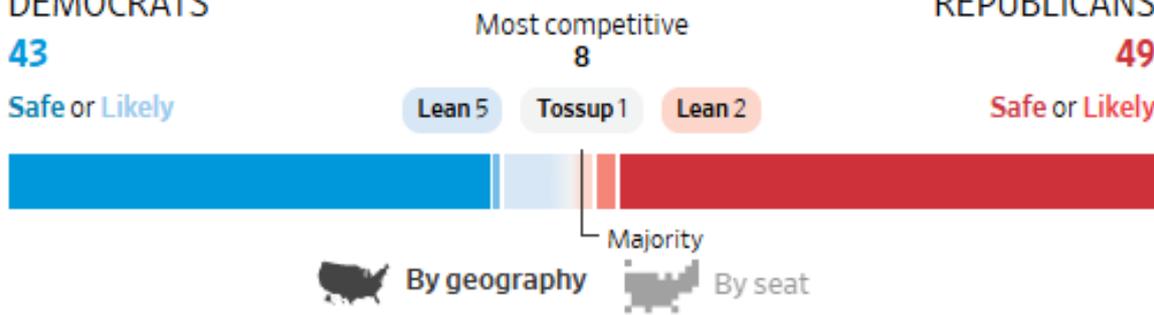
43

Safe or Likely

REPUBLICANS

49

Safe or Likely



Last updated Oct. 24

Note: Three independents caucus with the Democrats.

Sources: WSJ, Cook Political Report, Inside Elections and University of Virginia Centre for Politics

A Trump victory could lead to Republicans controlling all three branches of government—the White House, the Senate, and the House of Representatives. This consolidation of power would allow the GOP to advance its legislative agenda with fewer obstacles.

Conversely, if Harris wins, a Republican-controlled Senate could act as a significant impediment, potentially resulting in policy deadlocks and appointment challenges. This scenario may lead to increased political gridlock, as the two parties would have contrasting priorities and agendas, complicating efforts to pass legislation and confirm nominees.

The Federal Reserve’s (the Fed) upcoming decision on interest rates will take place just two days after Election Day, adding to the complexity of the economic landscape. The impact of the hurricanes on recent economic data is likely to create challenges for the Fed, as it assesses whether to cut rates and by how

much. These storms have the potential to skew the data, complicating the Fed's task of maintaining economic stability while also managing inflation.

As policymakers navigate these uncertainties, they will need to weigh the immediate effects of the hurricanes alongside longer-term economic trends. The situation underscores the intricate balance the Fed must strike in its monetary policy decisions, especially in the context of an evolving economic environment.

I expect the Fed to cut rates by at least 25 bps when it meets on November 7.

Markets and the Economy

On Monday this week, Volkswagen, Europe's largest carmaker, informed its Works Council—the company's top employee representative body—that it plans to shut down at least three German plants, cut tens of thousands of jobs, and reduce pay by 10%. This restructuring marks an unprecedented move for Volkswagen, potentially leading to the first domestic plant closures in the company's 87-year history, underscoring the impact of high energy costs, slowing GDP growth, and intensifying competition from China.

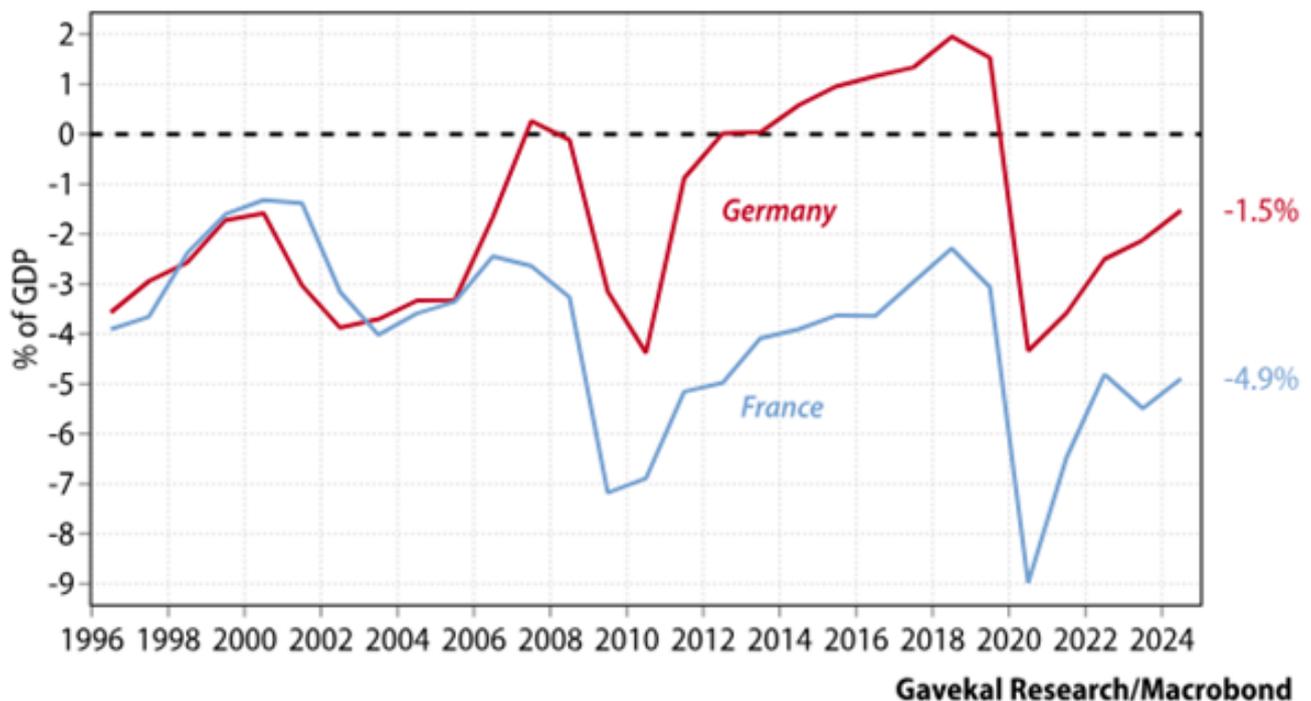
Meanwhile, across the Atlantic, the situation is markedly different. Boeing workers in the US recently rejected a contract offer that included a substantial +35% wage increase over four years—equivalent to an annual raise of more than +8%. This outcome reflects a tight labour market, where American workers have the leverage to push for even higher wages amidst robust job demand and steady economic growth.

This contrast in corporate strategies highlights the diverging economic landscapes: While Europe's manufacturing sector faces headwinds from energy and competitive pressures, the US continues to experience labour shortages and wage growth as part of its resilient post-pandemic recovery.

It's not just Germany, France is in bad shape too. France just manages to cover it with perennial borrowing. France hasn't run a balanced budget in over 30 years (see chart below).

The French budget deficit is running at almost 5% of GDP

Government fiscal balances, IMF estimates



France's newly appointed Prime Minister, Michel Barnier, has introduced his government's inaugural budget, featuring €60 billion in measures designed to reduce the national deficit. The goal is to bring the deficit to 5% of GDP by 2025 and down to 3% by 2029, moving toward EU fiscal targets.

Barnier's approach to fiscal tightening includes a temporary tax increase targeting corporations with annual revenues exceeding €1 billion, as well as households earning over €500,000. France, already the most heavily taxed economy in the OECD, risks further eroding its revenue base by edging onto the adverse side of the Laffer curve. Additional tax hikes, rather than boosting revenue, could likely deter investment, prompt more capital flight, and ultimately weaken France's tax receipts.

Barnier's budget now faces the challenge of navigating France's fragmented National Assembly before year-end. The New Popular Front—a left-wing coalition that recently gained the most seats—is pushing for increased taxation on financial transactions, higher inheritance taxes, and the reinstatement of the wealth tax eliminated by President Emmanuel Macron. Marine Le Pen's far-right National Rally advocates that budget cuts should prioritize anti-fraud measures and reduced spending on immigration. Macron's pro-business party, typically opposed to substantial tax hikes, has shown wavering support, underscoring the difficult path Barnier faces in securing approval for his budget plan.

The unfolding budget and political crisis in France sheds light on why yields on 10-year French government bonds are now higher than those for Portuguese and Spanish equivalents. Market concerns over France's ability to implement fiscal discipline, compounded by political fragmentation, are driving investors to seek stability elsewhere in Europe.

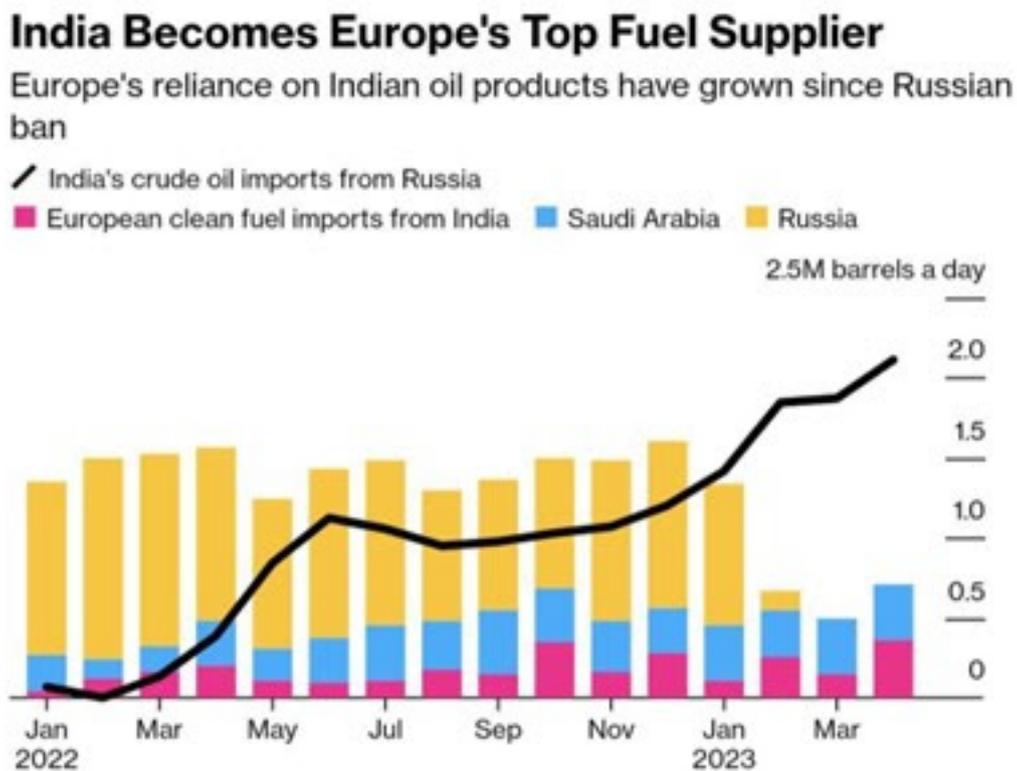
Separately - How bizarre is this—India, which imports 82% of its oil needs, has become Europe's top fuel

supplier (see chart below).

Before the Russia-Ukraine war, Russian oil made up less than 1% of India's total oil imports. Now, reports indicate that Russian imports account for nearly 40% of India's oil purchases. Previously, the EU purchased little to no oil from India, but now they are buying Russian oil indirectly through Indian suppliers.

Next, EU nations might as well join BRICS and abandon the Euro.

Basing foreign and economic policy on faux morality only leads to mounting costs.



Source: Kpler data, compiled by Bloomberg
April volumes include vessels in transit

For equity investors, 2024 has been a great year to be risk-on

US equities are on track for annual gains of over +20%, a strong rebound that only tells part of the story.

As you can see in the table below, the S&P 500 (SPX) is up +22.4% YTD and +21.2% for the nearly three-year period (2022-2024 YTD) due to the sharp 2022-2023 sell-off when the index fell by -25%.

Looking ahead, the question remains: Can US equities continue to climb?

Market conditions and recent trends suggest there may be further upside potential.

Global Equity Index Performance (2024 YTD, 2022-2024 YTD and 2022 Performance)

| Ticker | Name | Country | 2024 Performance Year-To-Date (Ld Ccy) | Cumulative 2022-2024 YTD Performance (Ld Ccy) | 2022 Performance (Ld Ccy) |
|---------------|-----------------------|------------------|---|--|------------------------------|
| MXTR Index | MSCI TURKEY | Turkey | 25.5% | 352.6% | 155.6% |
| CCMP Index | NASDAQ COMPOSITE | US | 24.1% | 17.5% | -33.4% |
| SPX Index | S&P 500 INDEX | US | 22.4% | 21.2% | -19.4% |
| HSI Index | HANG SENG INDEX | Hong Kong | 20.8% | -10.8% | -14.6% |
| IBEX Index | IBEX 35 INDEX | Spain | 17.4% | 36.2% | -4.5% |
| MXIN Index | MSCI INDIA | India | 16.3% | 43.0% | 2.9% |
| DAX Index | DAX INDEX | Germany | 16.2% | 22.8% | -11.4% |
| NKY Index | NIKKEI 225 | Japan | 15.4% | 31.2% | -9.4% |
| FTSEMIB Index | FTSE MIB INDEX | Italy | 14.8% | 27.2% | -12.0% |
| INDU Index | DOW JONES INDUS. AVG | US | 12.6% | 15.4% | -8.7% |
| SHCOMP Index | SHANGHAI SE COMPOSITE | China | 11.7% | -8.3% | -15.1% |
| MXEF Index | MSCI EM | Emerging Markets | 10.9% | -6.8% | -21.7% |
| SXSE Index | Euro Stoxx 50 Pr | Europe | 9.4% | 15.4% | -10.6% |
| UKX Index | FTSE 100 INDEX | Great Britain | 6.7% | 11.2% | 1.5% |
| CAC Index | CAC 40 INDEX | France | -0.2% | 4.7% | -8.4% |
| IBOV Index | BRAZIL IBOVESPA INDEX | Brazil | -2.5% | 24.8% | 4.7% |

Source: Bloomberg

High-yield spreads—based on the Bank of America/Merrill Lynch High Yield Master Index—have reached their narrowest levels, relative to US Treasuries, in over 15 years.

At 260 basis points above Treasuries, these spreads are near their historical low, sitting in the 5th percentile of values dating back to 1970. While extremely low spreads can eventually pose risks to equities, history suggests that the adverse effects may take considerable time to fully manifest.

The last time spreads were this low, was in June 2007, just before the SPX hit a peak, ahead of the 2007-2008 financial crisis.

Tightening high-yield spreads generally confirm rising equity markets, however, spreads cannot narrow indefinitely without increasing risk. Extremely low spreads may indicate a potential market correction but may take months or years to impact equities meaningfully.

A historical analysis shows that when high-yield spreads have reached the bottom 5% range, the SPX has typically experienced mixed performance over the next one to three months (see table below). However, six to twelve months later, the index was consistently higher, with gains ranging between +7.4% and +27.2% across three previous occurrences.

High Yield Spreads Drop Below 5th Percentile of Historical Range

| Date | S&P 500 Performance (%) | | | | One Year Extremes | |
|----------|-------------------------|--------------|------------|----------|-------------------|----------|
| | One Month | Three Months | Six Months | One Year | Max Gain | Max Loss |
| 2/24/97 | -2.39 | 4.54 | 13.98 | 27.19 | 27.64 | -8.96 |
| 2/24/05 | -2.40 | -0.51 | 0.78 | 7.43 | 7.83 | -5.22 |
| 5/11/06 | -4.11 | -3.00 | 5.74 | 15.31 | 15.82 | -6.30 |
| 10/18/24 | | | | | | |

First day in each period when high yield spreads dropped below the 5th percentile of historical range with no other occurrences in at least a year.

Source: Bespoke Invest

While these patterns suggest potential short-term volatility, the longer-term outlook has historically remained positive, provided the market can absorb short-term adjustments.

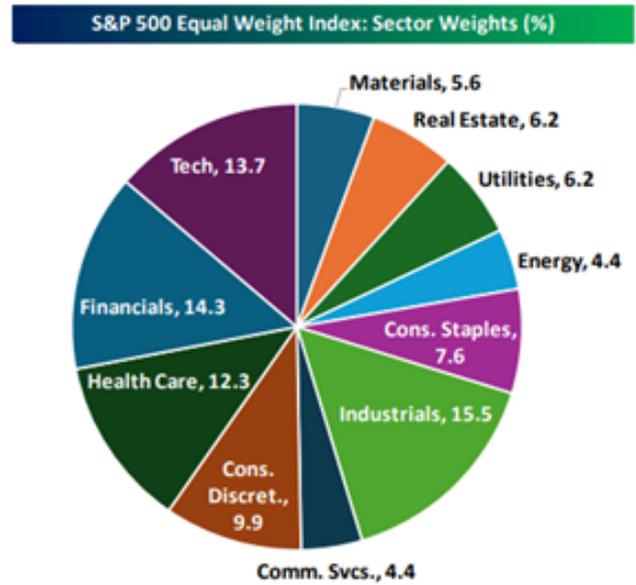
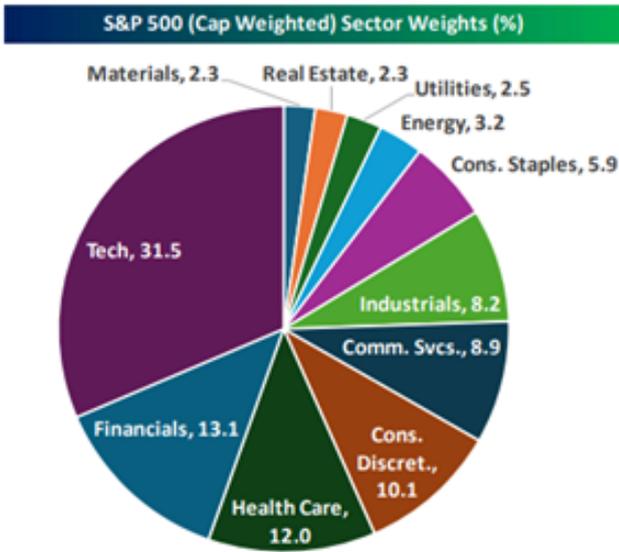
Also, there's a growing debate, if one should move to the equally weighted index when investing in the S&P 500 index, given the high weight of technology in the market-cap weighted index.

Below, is a look at the differences in sector weightings for the SPX (cap-weighted) and SPX Equal Weight indices. By default, the sectors with the largest number of stocks in the index will have the highest weightings in the equal-weight index.

While the Tech sector makes up nearly one third of the cap-weighted index, it's only 13.7% of the equal-weight index. Industrials and Financials each have a larger weight than Tech in the equal-weight index, while they combine for a weighting that's just 2/3 of Tech's weighting in the cap-weighted index.

When looking at the pie charts below, it's the equal-weight version that appears more balanced and diversified now.

No sector has a weighting below 4.4% in the equal-weight index, while the cap-weighted index has four sectors with weightings below 3.3%. Movements in Materials, Real Estate, Utilities, and Energy have virtually no impact on the cap-weighted index these day.



Source: Bespoke Invest

Since 1990, the equal-weighted SPX has outperformed its cap-weighted counterpart (see chart below).

Notably, during the late 1990s dot-com bubble, the cap-weighted index surged well above the equal-weighted version as tech mega-caps soared. However, after the bubble burst and the 2003-2007 bull market unfolded, the performance dynamic shifted, allowing the equal-weighted index to take the lead as broader sectors recovered.

Today, while mega-caps have driven market gains in recent years, a prolonged period of underperformance among these giants could shift favour back to the equal-weighted index.

S&P 500 (Cap Weight, SPY) Index vs. S&P 500 Equal Weight (SPT) Index: 1994-Present



Source: Bloomberg

That said, with artificial intelligence and related innovations still in early stages, I expect the cap-weighted index to continue delivering strong returns in the near term, supported by the tech sector's growth potential.

Just consider the capital expenditure plans of the hyperscalers, which are essentially checks written to Nvidia (NVDA).

Last week, Tesla announced its capital expenditure plan for the upcoming year, setting it at \$11 billion.

- Meta's expected CapEx ranges from \$35 billion to \$40 billion
- Microsoft's CapEx has seen a significant jump to \$58 billion, up from \$28 billion two years ago
- Google plans to allocate \$50 billion for CapEx in 2024, up from \$30 billion just two years ago

These substantial increases underscore the tech giants' aggressive investment in AI and infrastructure, particularly in relation to NVIDIA's advanced Blackwell chips.

Notably, a Blackwell GB200 CPU+GPU combo chip can cost between \$60,000 and \$70,000, reflecting the high stakes and costs involved in this tech race.

Gold has risen over +30% year-to-date, while the SPX has gained more than +20%. If both assets maintain these gains through the end of the year, it will mark the first time since 1976—when the US fully left the gold standard—that both assets achieved such simultaneous strength.

Gold's recent rise aligns with a technical "cup and handle" formation, a bullish pattern that has developed over a decade for the gold ETF (GLD). This long-term pattern suggests further upside potential, as longer formations tend to lead to more substantial and extended gains once a breakout occurs.

While it looks good for Gold to rally more. What's the bear case?

There are several scenarios where demand for gold as a safe-haven asset could weaken. A more stable trade environment with reduced market uncertainty would likely make gold less attractive as a hedge. Additionally, if fears about the US deficit are exaggerated and Trump's policies emphasize spending cuts rather than expansion, this could bolster confidence in the US dollar and overall economic stability, further reducing gold's appeal. Improved US-China relations would similarly boost market optimism, potentially steering risk-averse investors away from gold.

Finally, if China's stimulus efforts successfully fuel stronger growth, Chinese investors—who are significant buyers of gold—might shift toward growth-focused assets like domestic equities, making gold less appealing, especially since it performs best in times of economic uncertainty or downturns.



Source: Bespoke Invest

Bloomberg News reported that, Taiwan Semiconductor Manufacturing Co. (TSMC) has achieved early production yields at its first Arizona plant that surpass those at comparable facilities in Taiwan, marking a key milestone for TSMC’s US expansion—a project initially plagued by delays and workforce challenges.

This development holds significant, if understated, implications for US strategic positioning and Taiwan’s role in global tech supply chains.

Potential Implications:

- **Strengthened US Chip Manufacturing:** With high production yields in Arizona, the US could secure a critical foothold in semiconductor manufacturing, reducing reliance on imports
- **Taiwan’s Strategic Value Shift:** As the US builds local capacity, Taiwan’s strategic importance to the US might lessen, potentially altering the region’s geopolitical dynamics
- **Taiwan-China Relations:** Taiwan could see increased pressure to integrate with China through non-military means, as its unique strategic leverage diminishes

Investor Relief: TSMC shareholders may find reassurance in the successful launch of US operations, despite previous hurdles

TSMC Arizona Chip Yields Surpass Taiwan's, a Win for US Push (1)

- Production yields in Arizona are 4 percentage points higher
- The Phoenix plant began trial production earlier this year

By Mackenzie Hawkins

Source: Bloomberg

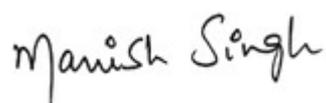
This shift will be gradual, but the path forward is clear. Both TSMC and ASML remain central to the US, in securing advanced chip technology. Although ASML, a Dutch company, is subject to US export restrictions due to the inclusion of American-made parts, this reinforces the US approach to securing semiconductor technology through both domestic production and international controls.

Whatever the outcome on November 5, the US remains the world's most innovative economy, with a system capable of resetting and correcting its mistakes and excesses. Europe, on the other hand...resembles a pensioner gradually spending savings, with a little less money each day.

In China, things rarely progress as expected. The next major policy shift is likely in Q1, but in the meantime, the P The People's Bank of China will keep supporting asset prices, helping to maintain a floor under Chinese equities.

If Chinese policymakers succeed in boosting China's consumption and asset prices start growing again, gold could face significant downward pressure.

Best wishes,



Manish Singh, CFA