MARKET FLASH: US PRESIDENTIAL ELECTION: AN UNCERTAIN OUTCOME

- **US growth proved resilient in the third quarter, but US employment data remain contradictory.**
- **The eurozone figures were a pleasant surprise with France expanding more than expected.**
- **Japan's ruling party failed to get a majority in the weekend elections, reinforcing political uncertainty.**

In the last week before the US, election, the polls are still divided even if investors tend to think Donald Trump will win. Meanwhile, markets were treated to a slew of persistently contradictory US statistics, including US jobs data. Job openings fell significantly short of expectations while the ADP survey said job creations beat projections and the previous month's figures were even revised up. The other statistics generally pointed to economic resilience in the US: consumer confidence rose, services and manufacturing both advanced in the Dallas advanced indicators and home sales also increased. In GDP for the third quarter, annualised growth in the US came in at 2.8%, with a plus for household spending and a negative for sharply lower exports, a reflection of consumers driving imports.

The eurozone figures were a pleasant surprise with France expanding more than expected thanks to the recent Olympic Games. Spain's upward momentum led to GDP rising 0.8% over the quarter. Germany was also positive but the previous quarter was revised lower. The surprise in Germany came from inflation which rose 0.4% in October, or more than the 0.2% increase expected. The news instilled uncertainty over interest rate trends.

Company results were reasonably good on average with pleasant surprises in Europe and the US but with disappointments from some large caps.

The UK's new budget headlined big tax rises but also increased spending on the back of more borrowing. Gilt yields rose as a result.

Equities lost ground due to pre-election nerves and another move higher in government bond yields on upbeat economic data and eurozone inflation. Japan's ruling party failed to get a majority in the weekend elections, reinforcing political uncertainty. As a result, we have returned to a neutral stance on Japanese equities.

EUROPEAN EQUITIES

Several economic data, including GDP figures, generally beat expectations. Europe's GDP rose 0.4% over the quarter as did France. Spain outperformed by growing 0.8%. However, German inflation rose 2% over 12 months, or more than expected. The UK budget turned out to be less severe for households than expected with no change to income tax brackets or VAT. The budget is to be funded 50% by increased levies and 50% by increased borrowing. The Stoxx was down 2% so far this week, dragged down by healthcare and agrifood while basic resources and construction edged higher.

In company results, **Schneider Electric** unveiled a robust 8% increase in growth and its finance director said its troubled Discrete Automation division looked like recovering in 2025, and especially in Europe.

Comments from **Philips** on the situation in China worried investors and the stock plummeted 17%. Management revised annual growth guidance lower to 1%, down from 3-5% previously.

Elsewhere, figures at **BNP Paribas** were generally in line with analysts' expectations while **Société Générale** did better than expected, notably in France, and announced executive management changes.

In beverages, sales and operating profits at Italy's **Campari** were both much lower than expected due to a marked slowdown in the US and falling sales in Europe and the Middle East. The stock plunged by close to 20% despite efforts by management to reassure markets on the outlook for next year.

There was more worrying news in the autos sector. **Volkswagen** told employee delegates that it was going to close at least 3 factories and also cut jobs in various sites.

US EQUITIES

In a busy week for quarterly results, the S&P 500 slipped 0.33% while the Nasdaq 100 edged 0.17% higher. The Russell 2000 small cap index shed 0.49%.

The fall in the S&P 500 was due mainly to semiconductor sector news. Figures at **AMD** were in line but the stock plunged 10.62% after repositioning annual guidance towards the low end of the spread. And **EY** tore up its auditing contract with **Super Micro** which promptly cratered by 30.70%, wiping out more than $8bn in market cap. **NVIDIA** and **Intel** also fell by 0.84% and 2.71%, respectively.

And yet **Alphabet** started the week by jumping 4.64% on a 35% YoY increase in its cloud division results, a 600bp outperformance of consensus expectations. **Microsoft** (+1.39%) confirmed the trend with a 34% rise in its Azure cloud offer. In cyber security software, **Check Point**'s figures were generally in line but the stock tumbled 16.38% on billing delays and growth in Remaining Performance Obligations (RPOs).

Elsewhere **Meta** gained 2.36% after revising CAPEX expectations for next year and 2026 by 4% and 8%, or additional outlay of $2 and $4bn. Expectations rose for an accelerated push into Cloud and AI services. The week's big surprise came from **Reddit** which rocketed 45.65% after reporting a positive GAAP net margin for the first time since it listed in early 2024.

In healthcare, effervescence over GLP-1 fell slightly after **Lilly** (-5.44%) reduced guidance by 1%. A revision of the addressable market in the coming months is also a possibility. The Biopharma sector showed more resilience. **Amgen** only slipped 0.51% thanks to stable results, an upward revision in the lower number in its guidance spread and a higher quarterly dividend.

Other consumer plays like **McDonald's** (-1.78%), **Chipotle** (-8.04%) and **Starbucks** (-0.71%) were affected by the food poisoning story at a McDonald's outlet. The house building sector is still struggling with high mortgage rates and figures at **D.R.Horton** (-6.15%) and **Pulte** (-2.70%) came in a little lower than expected. However, flooring specialist **Mohawk** (+2.72%) sees a recovery in 2025.

EMERGING MARKETS

The MSCI EM index was down 0.72% this week as of Wednesday's close. Mexico (-3.15%) underperformed other regions, followed by Taiwan (-2.34%) and China (-1.31%). Korea rebounded by 1.53% and India gained 0.61% while Brazil closed almost flat (-0.30%).

In **China**, both manufacturing PMI (50.1) and non-manufacturing PMI (50.2) improved sequentially in October, ahead of expectations. Industrial profits fell by a significant 27% YoY in September (after falling 18% in August), mainly on falling output prices. China's Steel Industry Association plans to roll out measures to consolidate production capacity. The authorities issued the "Guiding Opinions on Vigorously Implementing Renewable Energy Substitution Actions," The government also introduced a series of new birth support policies to address population concerns. **Moutai's** third-quarter results were largely in line with revenues up 15% and profits 13% higher. **BYD** posted robust third-quarter results on new product launches. **AIA** reported better-than-expected results and also received approval to establish new branches in 2 mainland China provinces. **Midea** saw revenue up 8% and earnings 15% better for the first nine months. The figures were ahead of expectations and were driven by exports while domestic remained resilient.

In **Taiwan**, **MediaTek**'s third-quarter results were ahead of forecasts and the gross margin came in stronger.

In **Korea**, **LG Chem**'s third-quarter operating margin missed expectations and a capex cut plan was announced.

In **India**, Diwali festival demand lagged expectations for both 2-wheelers and passenger vehicles. PVs fell 3-4% YoY while 2W growth moderated to 5-7%. EV adoption is rising in the 2W segment, while hybrid and Compressed Natural Gas (CNG) models are gaining ground in PVs. **ICICI Bank** beat high expectations on healthy NII, higher trading gains and fee revenues plus credit growth (outperforming rivals) and asset quality. **DLF** beat its pre-sales guidance: consolidated revenue increased 48% YoY and 26% QoQ. **Sunpharma** results also beat: second-quarter sales were in line while EBITDA and PAT were ahead of our estimates on lower R&D costs.

In **Brazil**, **Vale**, together with federal and state authorities announced the final and definitive compensation agreement for the Mariana dam collapse in 2015. **Weg** posted a solid 22% rise in sales with good profitability.

In **Mexico**, **Walmex** missed expectations and sales growth decelerated, ahead of the COFECE resolution. For FEMSA's third-quarter result, **Oxxo** were flat, missing expectations and a contrast with the 4% rise in the previous quarter. below consensus. The average ticket increased more than inflation (6% versus 5%). **Banorte**'s results missed consensus expectations due to a lower contribution from insurance.

In **Peru**, **Credicorp**'s third-quarter EPS beat expectations as the cost of risk declined. Loan growth remained soft at -2.5% YoY, but fees were 30% higher.

CORPORATE DEBT

CREDIT

Credit markets remained highly resilient in the face of interest rate volatility. Macroeconomic data continued to reflect buoyant economic conditions but the looming US election and the UK budget led to 10-year sterling, euro and Treasury yields rising to 4.41%, 2.41% and 4.28% respectively. As a result, investment grade slipped 0.41% over the period (+3.64% YTD) while high yield gained 0.14% (+7.09%).

Strong fixed income inflows continued and the dynamic new issues market helped companies refinance with longer maturities. The end-October to December period is generally favourable for the asset class and so all these technical factors form a positive groundswell for the corporate debt market

In high yield, Portugal's **Tap Air** sold a BB- maturity at 5.125% due 2029. Germany's **Techem**, the leading energy and metering service provider, issued a B+ bond at 5.3% due 2029. In sector trends, property continued to outperform and autos underperform.

There were more bank results over the period, most of them upbeat with no real credit worries. In new issuance, there were AT1 issues from **SEB**, in USD, and in euro from **Belfius** and **LBBW**. The Belfius and LBBW deals were to refinance maturities whose call dates had long been uncertain. Markets stalled a little over these new deals as they had tight spreads so trading was soft in the aftermarket. In the UK, a landmark ruling on car loan misselling hit major banks in the car financing segment like **Lloyds** and **Santander UK** as well as more specialised players like **Close**.

GLOSSARY

• Investment Grade: bonds rated as high quality by rating agencies.

• High Yield: corporate bonds with a higher default risk than investment grade bonds but which pay out higher coupons.

• Senior debt benefits from specific guarantees. Its repayment takes priority over other debts, known as subordinated debt.

• Debt is considered to be subordinated when its redemption depends on the earlier payment of other creditors. To offset the higher risk, subordinated Senior debt has priority over other debt instruments.

• Tier 2 / Tier 3 : subordinated debt segment.

• Duration: the average life of a bond discounted for all interest and capital flows.

• The spread is the difference between the actuarial rate of return on a bond and the rate of return on a risk-free loan with the same maturity.

• The so-called "Value" stocks are considered to be undervalued.

• EBITDA: Earnings before Interest, Taxes, Depreciation, and Amortization.

• Quantitative easing describes unorthodox monetary policy from a central bank in exceptional economic conditions.

• Stress Test: a process which simulates extreme but possible economic and financial conditions so as to assess any impact on banks and measure their resilience to these events.

• The PMI, for "Purchasing Manager's Index", is an indicator of the economic state of a sector.

• AT1s belong to a family of bank capital securities known as contingent convertibles or "Cocos". Convertible because they can be converted from bonds to shares (or depreciated entirely) and contingent because this conversion only occurs if certain conditions are met, such as the issuing bank's capital strength falling below a predetermined trigger level.

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