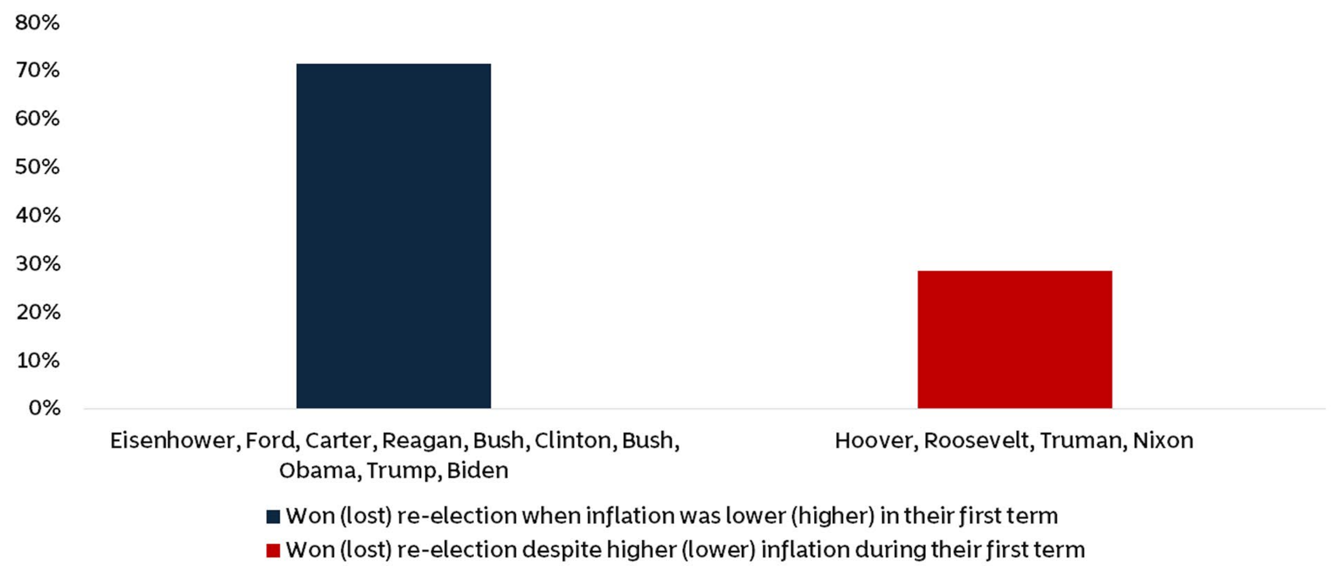
Chart of the Week

2 December 2024



Source: Bloomberg Finance L.P., 26 November 2024. Microsoft Copilot (Wikipedia, Britannica, 270 to Win)

Inflation kills US administrations

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Portfolio Manager

What this chart shows?

Using US inflation data going back to 1914 we can see whether inflation may have had a bearing on election results over the past century and a bit. Our prediction is that an incumbent president seeking re-election will be shown the door by voters if inflation during their term has been higher than compared to the previous term, and vice versa. It is a simple test for what is, of course, a very complex question – *What determines US election results?* – but nonetheless the results are interesting. An incumbent president has sought re-election on 14 occasions since 1914 and on 10 of those occasions, or 71% of the time, the result has conformed to our prediction. In the chart you can see the elections that followed the rule, and the four that didn't (Hoover in 1932; Roosevelt in 1936; Truman in 1948; and Nixon in 1972). The rule has now held nine times in a row since 1976.

Why is this important?

President-elect Trump has been talking up tariffs this week, pledging to impose an additional 10% tariff on Chinese imports as well as 25% on Mexico and Canada. Alongside his immigration policies and looser fiscal policy, markets are rightly concerned about the inflationary impact of Trump 2.0, and two-year inflation expectations implied by relative Treasury/TIPS pricing* have risen by 17bps to 2.54% since November 5 (as at the time of writing). Despite some eyebrow-raising nominations, it won't be lost on Trump and his inner circle that inflation tends to be the end for US administrations – it was a factor highlighted time and time again by voters in the most recent election campaign. That should then serve to temper their more inflationary preferences. Now one could argue this is a moot point, as Trump cannot run again for president under the two-term limit imposed by the 22nd amendment, but it will still be something the Republican party pays close attention to as it seeks to retain control for the long term. Consequently, while we should be prepared for somewhat higher inflation, a return to the really troublesome inflation that followed the pandemic is still unlikely.

**Treasury Inflation Protected Securities*

Weekly market update

week ending 29 November 2024

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The global economic outlook remains cautious, with inflation concerns persistently challenging growth prospects. Central banks, including the Fed and ECB, are adopting gradual approaches to policy normalisation, while geopolitical risks weigh on market sentiment.

US

- Federal Reserve minutes from November's meeting highlighted a gradual approach to monetary policy normalisation, with upgraded growth and inflation forecasts and diminishing downside risks to economic activity and the labour market.
- The Personal Consumption Expenditure inflation measures for October were mixed, with headline PCE at 0.24% month-on-month (highest in six months) and core PCE at 0.27%. Concerns persist over rising short-term inflation trends.
- Consumer confidence reached a 16-month high of 111.7 in November.
- Weekly initial jobless claims for the week ending 23 November came in at 213k (vs. 215k expected), the lowest since April, while continuing claims rose to 1.907m, the highest since November 2021.

UK

- Mortgage approvals rose to £68.3k in October, the highest since August 2022, indicating resilience in the housing market despite inflation fears.
- UK retailers reported a 4.5% decline in footfall in November (four weeks to 23 November) compared to the previous year, driven by weak consumer confidence, bad weather, and post-budget jitters. Despite this, retailers are optimistic about the holiday season trading period.
- Large UK listed stocks rose slightly, boosted by energy stocks and corporate earnings.
- The Bank of England's Financial Policy Committee highlighted increased global economic risks due to geopolitical tensions, global trade tensions and elevated government debt levels.

Europe

- Economic confidence remained subdued in November (95.8 vs. 95.7 prior), showing limited optimism across the region.
- ECB officials emphasised a cautious approach to monetary policy amid market expectations of rate cuts in December.
- Eurozone inflation rose to 2.3%, exceeding the ECB's target, while core inflation (which excludes volatile items like energy, food, alcohol, and tobacco) remained steady at 2.7%. Analysts forecast core inflation to trend downward, bolstering the case for further ECB easing in 2024.
- French bond yields briefly surpassed those of Greece for the first time, reflecting fears over France's fiscal stability amid budget disputes and political uncertainty.

Rest of the World/Asia

- Tokyo CPI rose to 2.6% year-on-year in November (vs. 2.2% expected), reinforcing expectations of Bank of Japan tightening in December.
- Japan's Industrial Production grew by 3.0% in October, though below expectations of 4.0%, pointing to a moderate recovery in manufacturing.
- Reports of an Israel-Hezbollah ceasefire eased geopolitical tensions, pulling crude oil prices lower.
- The unemployment rate in Japan ticked up slightly to 2.5% in October, maintaining overall labour market stability.

Weekly market data

week ending 29 November 2024

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Asset Class / Region	Currency	Cumulative returns Week ending 29 November	Month to date	YTD 2024	12 months
Developed Markets Equities					
United States	USD	1.1%	5.8%	27.6%	33.9%
United Kingdom	GBP	0.3%	2.6%	10.9%	15.7%
Continental Europe	EUR	0.3%	0.1%	7.3%	12.0%
Japan	JPY	-0.6%	-0.5%	15.8%	16.1%
Asia Pacific (ex Japan)	USD	-0.2%	-2.2%	11.4%	17.2%
Australia	AUD	0.5%	3.8%	15.1%	24.3%
Global	USD	1.2%	4.6%	21.8%	28.3%
Emerging Markets Equities					
Emerging Europe	USD	0.5%	1.1%	4.1%	5.6%
Emerging Asia	USD	-0.5%	-3.7%	11.7%	15.9%
Emerging Latin America	USD	-3.9%	-5.5%	-21.6%	-14.7%
BRICs	USD	0.4%	-3.2%	10.5%	13.4%
China	USD	0.7%	-4.4%	16.3%	14.4%
MENA countries	USD	-0.8%	-1.2%	-0.7%	5.0%
South Africa	USD	-1.9%	-4.5%	13.0%	18.5%
India	USD	0.8%	-0.8%	10.6%	19.7%
Global emerging markets	USD	-0.8%	-3.6%	7.7%	12.3%
Bonds					
US Treasuries	USD	1.4%	0.8%	2.2%	5.3%
US Treasuries (inflation protected)	USD	1.0%	0.5%	3.5%	6.0%
US Corporate (investment grade)	USD	1.5%	1.2%	4.6%	8.5%
US High Yield	USD	0.4%	1.1%	8.7%	12.6%
UK Gilts	GBP	1.1%	1.6%	-1.2%	3.4%
UK Corporate (investment grade)	GBP	0.9%	1.8%	2.7%	7.4%
Euro Government Bonds	EUR	1.2%	2.3%	3.3%	6.7%
Euro Corporate (investment grade)	EUR	0.7%	1.6%	5.1%	8.0%
Euro High Yield	EUR	0.1%	0.5%	7.9%	11.3%
Global Government Bonds	USD	1.9%	0.3%	-0.6%	3.0%
Global Bonds	USD	1.8%	0.3%	0.7%	4.4%
Global Convertible Bonds	USD	1.2%	3.2%	8.6%	14.3%
Emerging Market Bonds	USD	1.1%	1.3%	7.1%	12.5%

Asset Class / Region	Currency	Cumulative returns Week ending 29 November	Month to date	YTD 2024	12 months
Property					
US Property Securities	USD	1.7%	4.3%	16.3%	28.6%
Australian Property Securities	AUD	2.0%	2.5%	22.9%	35.5%
Asia Property Securities	USD	1.6%	-3.6%	-6.3%	-0.7%
Global Property Securities	USD	1.9%	1.9%	10.1%	20.4%
Currencies					
Euro	USD	1.4%	-2.7%	-4.5%	-3.7%
UK Pound Sterling	USD	1.5%	-1.1%	-0.3%	0.2%
Japanese Yen	USD	3.4%	1.7%	-5.9%	-1.6%
Australian Dollar	USD	0.3%	-0.7%	-4.6%	-1.5%
South African Rand	USD	0.6%	-2.0%	1.4%	3.6%
Swiss Franc	USD	1.4%	-1.8%	-4.7%	-0.7%
Chinese Yuan	USD	0.0%	-1.8%	-2.0%	-1.6%
Commodities & Alternatives					
Commodities	USD	-1.2%	0.1%	4.6%	1.6%
Agricultural Commodities	USD	0.5%	0.9%	3.6%	2.5%
Oil	USD	-3.0%	-0.3%	-5.3%	-12.2%
Gold	USD	-2.7%	-3.5%	28.1%	29.2%

Source: Bloomberg Finance L.P. Past performance is not indicative of future returns.

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