Rothschild & Co
Asset Management

Monthly Macro Insights — November 2024

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The outcome of the US election has increased the risks for the global economy, as trade wars and higher interest rates have the potential to derail the resilience of growth. Furthermore, regional divergences could widen as Europe and China will likely be facing a challenging environment, although policymakers have tools to mitigate the impact of Trump's agenda.

Economic exceptionalism is sometimes not sufficient

2024 has been the biggest election year in human history, and incumbent parties worldwide have been doing very poorly amid four years of successive crises – a global pandemic, a large-scale war in Europe for the first time in decades, and the most significant surge in inflation since the 1970s.

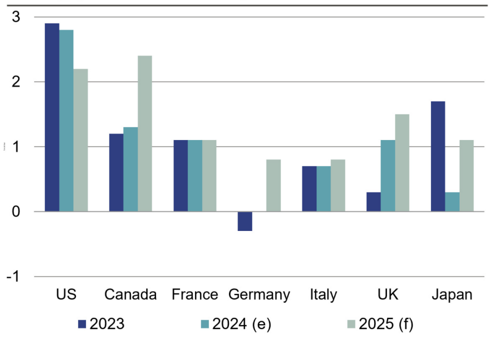
Indian Prime Minister Modi has been described as the most popular leader in the world, but his party lost its outright majority. In South Africa, the long-ruling African National Congress suffered its worst performance since the end of apartheid. UK Prime Minister Sunak and the Conservatives were wiped out in a landslide election loss, while French President Macron is facing a sharply divided parliament after his party lost the snap legislative elections. Japan's ruling Liberal Democratic Party has a parliamentary minority for the first time in 15 years, and polls show that Canadian Prime Minister Trudeau's party would be decimated if elections were held today. In that regard, a Harris win in the US would have been an astonishing exception of the rule.

The irony is that the US experienced the fastest GDP growth in all G7 countries in the past two years, and only Canada is expected to fare better in 2025 according to the IMF's latest World Economic Outlook. The unemployment rate remains close to the lowest level in the post-WWII era and while inflation hit a peak of 9.1 per cent in June 2022[1], it has abated significantly since. Yet, inflation has an impact on everyone whereas unemployment is a much more delineated prejudice, and voters are sensitive to price levels which remain much higher compared to pre-pandemic.

People experience different inflation rates and different levels of stress namely based on income, and economic research suggests that low-income households are the hardest hit for several reasons. For instance, they are likely to have smaller cash buffers to face a period of higher prices. Furthermore, they spend more of their income on necessities such as food, gas and rent, categories with exhibited greater-than-average inflation rates in the post-pandemic period. Although US data showed lower-wage earners have experienced higher wage growth than middle and higher-wage earners, this has not been sufficient to offset the impact of high inflation.

G7 - GDP growth

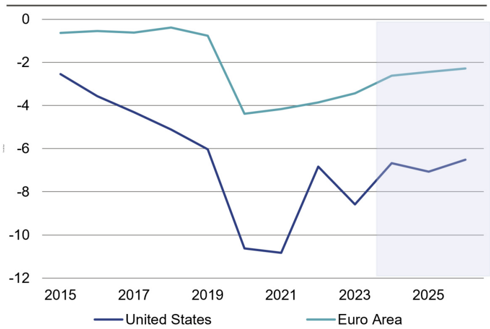
in %, y/y



Sources : IMF, Rothschild & Co Asset Management, October 2024.

World - Fiscal balance

in % of GDP, cyclically adjusted



Sources : Macrobond, Rothschild & Co Asset Management, October 2024.

Higher inflation, lower growth?

At the top of Donald Trump's agenda, three items are likely to be inflationary – raising trade tariffs, curbing immigration and prolonging expiring tax cuts - and their implementation could make it difficult for the Fed to ease.

A second Trump term could pave the way to a 60 per cent tariff on all Chinese imports, and a 10 per cent universal tariff on all imports. Tariffs act as a tax, hurting consumers in the country imposing them, as well as businesses that rely on imported raw materials and intermediate goods to make finished products. Although a complete pass-through to consumer prices is unlikely, the impact on inflation could nonetheless be significant, especially if it also complicates supply chains, a major source of inflation in the past years.

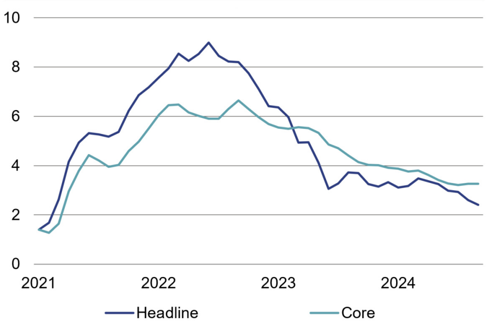
The inflationary impact of immigration is heavily debated as immigrants add to both labour supply and consumer demand, although some of the latter is crowded out via remittances to home countries. Still, most research shows that the rise in immigration in the post-pandemic period helped the US labour market to not overheat, thus helping the Fed in its fight to tackle inflation. Incidentally, inflationary pressures could reaccelerate as Trump has vowed to shut the southwest border and begin large-scale deportations of unauthorised immigrants already in the country. Trump's attempt to rein in the Fed's independence would also likely lead to higher inflation.

Regarding the fiscal outlook, the US debt level is sustainable, but its path is not. The next administration will immediately face the expiration of the corporate and personal tax cuts of the 2017 Tax Cut and Jobs Act (TCJA) at the end of 2025. Yet, Trump promised to extend all provisions and add more tax cuts, thus exerting an even higher pressure on the fiscal deficit.

The higher and more volatile inflation outlook, combined with a sharp rise in government debt, could increase the term premium investors require to buy Treasuries. In turn, higher interest rates would weigh on economic growth both domestically and abroad, since the US bond market has ripple effects well outside of its boundaries.

US - Inflation rate

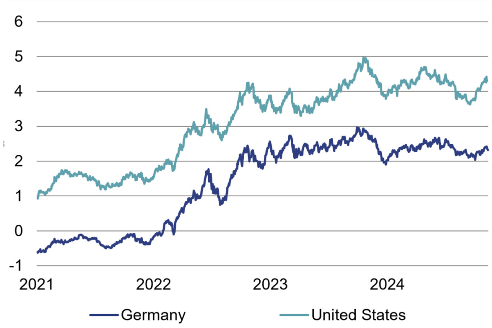
in %



Sources : Macrobond, Rothschild & Co Asset Management, October 2024.

World - 10-year bond yield

in %



Sources : Macrobond, Rothschild & Co Asset Management, October 2024.

Challenges for China and Europe

Trump's return to power will certainly bring greater risks, but also opportunities. In China, the authorities are bracing for what could be a volatile and highly unpredictable path ahead, as tariffs could weigh heavily on an economy already beset by a property crisis, flagging consumer demand, falling prices, and mounting local government debts.

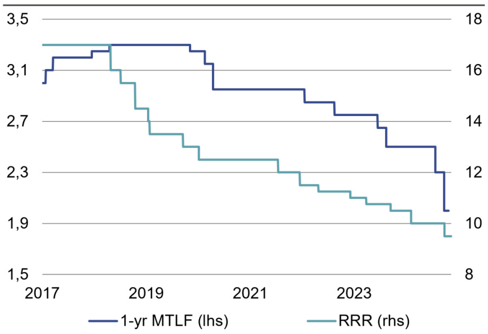
However, monetary and fiscal easing has already been put in place in September, and China recently announced more measures taking into considerations the US election results, with a 10 trillion yuan (USD1.4 trillion)[2] program to refinance local government debt. No details on additional support for property and consumption were laid out and is a near-term disappointment, but the Finance Minister gave forward guidance that there is still ample space to increase government bond issuance and/or fiscal deficits. Initial signs that the latest round of supportive measures may have had some effect are emerging. Home sales posted their first rise this year in October, while economic activity data surprised on the upside in September, suggesting Q3 2024 ended on a better foot. Meanwhile, Trump's longstanding distain for international alliances and institutions threatens to weaken American alliances, creating an opening for China to fill the void and further spread its influence.

The election of Donald Trump also implies the need for European remobilisation. On the geopolitics front, the most urgent priority is Ukraine, and the end of US financial and military support could lead to a defeat on the battlefield, with an immediate Russian threat to Europe's east and NATO. On the economic front, Europe is approaching this new political and protectionist era with obvious weaknesses, namely its technological gap.

The Draghi report gave a lucid diagnosis, but also the roadmap to the win the challenge. The report estimates the need for additional investment to make the digital, climate and defence transitions at €800 billion per year, or close to 5 per cent of GDP[3]. In the face of these needs, Europeans are fortunate to have abundant savings. While €300 to €400 billion of European private savings are invested abroad[4], the aim would be to build a strong, stable, pan-European capital market. It remains to be seen if countries unite rather than scramble to individually win Trump's favour, but Europe has major assets, including a market as large as the US on top of significant excess savings.

China - Rates

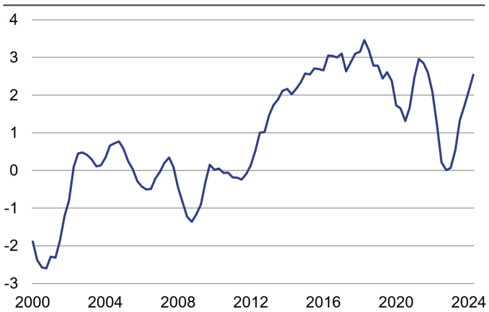
in %



Sources : Macrobond, Rothschild & Co Asset Management, October 2024.

Eurozone - Current account balance

in % GDP



Sources : Bloomberg, Rothschild & Co Asset Management, October 2024.

Performance of the indices and interest rate levels

	Price as of 31/10/2024	1 month % change	2024 % change
Equity markets			
CAC 40	7 350	-3.7%	-2.6%
Euro Stoxx 50	4 828	-3.5%	6.8%
S&P 500	5 705	-1.0%	19.6%
Nikkei 225	39 081	3.1%	16.8%
Currencies			
EUR/USD	1.09	-2.3%	-1.4%
EUR/JPY	165.48	3.5%	6.3%

Interest rates	Price as of 31/10/2024	1 month bp(1)	2024 bp(1)
3 month			
Eurozone	3.08%	-21	-54
United States	4.54%	-8	-79
10 years			
Eurozone	2.39%	27	37
United States	4.28%	50	41

(1) Basis point.
Source: Bloomberg. data as of 31/10/2024. Performances in local currency.
Past performance is not a reliable indicator of future performance and is not constant over time. Index's performance is calculated on the basis of net dividend reinvested

Completed writing on 12 November 2024.

Check this document on our website

(1) Source : US BLS, 31/10/2024
(2) Source : Bloomberg, november 2024.
(3) Draghi report, november 2024
(4) Source : Eurostat, november 2024

About the Asset Management's division of Rothschild & Co

As the specialised asset management division of the Rothschild & Co group, we offer personalised asset management services to a broad client base of institutional investors, financial intermediaries and distributors.

Our development is focused on a range of open-ended funds, marketed under five strong brands: Conviction, Valor, Thematic, 4Change and OPAL, leveraging our long-term expertise in active management with conviction as well as in delegated management. Based in Paris and established in 9 European countries, we manage more than 38billion euros and employ nearly 170 people.

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