Week in review
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In this week's update, Kevin Quinn discusses:

- US 'exceptionalism '
- Bessent as US Treasury Secretary and President-elect Trump on tariffs
- US data
- Soaring coffee prices
- Eurozone data
- French bond risk
- US Federal Reserve minutes
- European Central Bank's member comments

Latest update from markets (to 29.11.24)

	1 week	YTD
Global shares	-0.5%	+25.9%
US shares	_0.4%	+34.1%
European shares	+0.4%	+10.1%
European government bonds	+1.2%	+3.3%
Global commodities	-2.25%	+4.2%
Magnificent 7*	-0.2%	+64.8%

Source: Bloomberg, 29.11.24. All returns expressed in euros from 22.11.24 - 29.11.24.
*Apple, Alphabet, Amazon, Meta, Microsoft, NVIDIA, and Tesla.

The long and short

Investing requires a long-term focus but shorter term events can take most of our attention. In this series of updates, we place current events into a longer term perspective.

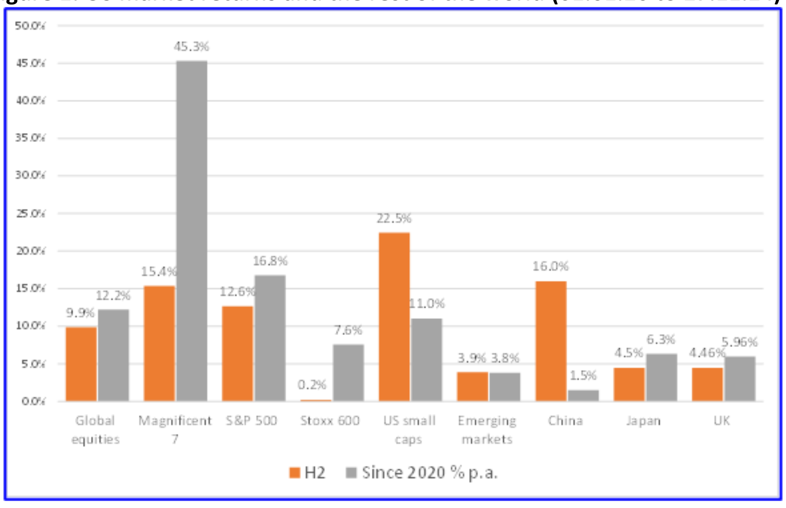
The long…

US 'exceptionalism'…

By historic standards, the gains made by US markets over the last two years relative to other parts of the world have been exceptional.

There is little doubt that the largest tech firms, all listed on US markets, have been the biggest driver of these. However, it still remains remarkable just how far ahead the US market is relative to others (Figure 1).

Figure 1: US market returns and the rest of the world (01.01.20 to 27.11.24)



Source: Bloomberg 29.11.24

Figure 1 shows the annualised returns of major global stock markets and the Magnificent 7 from 01.01.24 to 27.11.24 and the returns so far in H2 2024. Compared with the other regions, US outperformance is strongly in evidence in this period.

In the H2 2024 figures, we can see evidence of the rotation towards other sectors, with US small caps outperforming both the S&P 500, a measure of the US market, and the Magnificent 7 over those months. However, with the exception of a burst of performance from Chinese shares, the rest of the world has yet to participate in the so-called 'great rotation'.

What is happening at the moment is that 2024 appears to have seen the maximum returns in artificial intelligence (AI)-related stocks and we are starting to see a catch up occurring from elsewhere within the US.

Company valuations today

Looking at this through the perspective of company valuations we get another perspective. The powerful run in US stocks has also led valuations into an expensive range.

- Currently, the US market, as measured by S&P 500, is expensive – trading at 22 times forward company earnings, a measure used to show if a company is over or under valued. This is a 31% premium to the average ratio of 16.8 in the five years before the Covid-19 pandemic.
- What's more, forward company earnings estimates have increased 21.7% since the end of 2021, yet operating earnings (as of Q3 2024) are up only 8.8%.
- According to recent BCA Research, the S&P 500 has only been this expensive 2% of the time since 1960 (in late 1999/early 2000)[1].
- In contrast, European stocks currently trade broadly in line with long term averages[2].

Relative to their European peers, the premium being asked for US equities has widened and this has been hugely influenced by the impact of US AI leaders and the lofty valuations these companies have now sport.

While US economic data continues to be stronger than elsewhere, at these levels of valuation, future expected returns from US equities are likely to be lower than we have seen in the past few years.

[1] Source: BCA Research "Valuations don't matter until they matter" 21.11.24
2. Source: Bloomberg 29.11.24

The short…

Market news

Scott Bessent's selection as President-elect Trump's Treasury Secretary has been cheered by markets. Markets have taken the view that the fiscally conservative hedge fund manager will bring a Wall Street mindset to the job and that this may help to soften the extent of tariffs and tax cuts. He is expected to be a moderating influence on policy measures like tariffs and will seek to minimise the expansion of the fiscal deficit.

President-elect Trump announced his intent to implement a 10% tariff on Chinese goods and a 25% tariff on Mexican and Canadian imports on day one of the new administration - showing the intent to clamp down on illegal immigration and drugs.

US data
- **Economic growth** grew by 2.8% per annum in Q3 2024 according to the second estimate by the Bureau for Economic analysis with consumer spending expanding by 3.5%, the most this year so far.
- **Purchasing manager index (PMI)**, a measure of business activity, rose again in November at the strongest pace since April 2022. The pattern of expansion in the services sector and contraction in manufacturing continued.
- **Inflation,** as measured by Personal Consumption Expenditure, increased in October to 2.8%, a 0.1% increase on the previous month. This aligns with a number of recent comments from Federal Reserve governors, suggesting that there is an increasing probability they may pause their interest rate cuts. In the equity market the large tech names were down as markets adjusted expectations about the pace of interest rate cuts.
- **Consumer confidence,** rose in the aftermath of the US election, perhaps reflecting a reduced uncertainty

Eurozone - consumer confidence remained steady in November, with the last reading coming in ahead of consensus estimates.

Irish inflation - showed consumer prices are 0.7% higher year-on-year in in the 12 months to end October 2024. Excluding energy and unprocessed food that number is 2.3%.
- **Eurozone inflation** rose to 2.3% year on year, up 0.3% on the October figure and in line with expectations

Coffee prices, which have been rising rapidly this year, hit a 27 year high, due to supply disruptions. Fears that supplies from Brazil in particular will be hit by a long drought may see a drop in next season's output.

French bond risk came to the fore again as a standoff over the country's budget threatened to topple the government. The premium for the French 10 year bond reached 0.86% higher than German Bunds, its highest since 2012, and on par with Greece. This comes after both Fitch and Moody's, rating agencies, placed French debt on a negative outlook last month.

US Federal Reserve minutes for the November meeting showed broadly supportive of a careful approach to interest rate cuts, as they view the economy as solid and inflation slowing cooling.

ECB Council member Isabel Schnabel indicated that she sees only limited room for further interest rate cuts in the eurozone. The market response was to pare back rate cut expectations into next year rather than at this December's meeting.

Sources: Bloomberg, BCA Research & PIMCO 25.11.24– 29.11.24

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Table 1: 5 year historic performances

	2019	2020	2021	2022	2023
Global equities	29.0%	6.7%	27.5%	-13.0%	18.1%
US equities (S&P 500)	33.9%	8.7%	38.2%	-13.0%	22.2%
European equities (Stoxx 600)	28.0%	-1.4%	25.8%	-9.9%	16.6%
Emerging market equities	21.8%	9.1%	4.9%	-14.9%	6.6%
Global bonds	5.4%	4.9%	-2.6%	-15.1%	4.5%
US government bonds	11.4%	8.3%	-2.0%	-12.5%	5.8%
European government bonds	6.9%	4.3%	-3.7%	-18.4%	7.2%
Emerging market debt	14.5%	-3.4%	6.4%	-9.8%	5.4%
Broad commodities	7.9%	-13.1%	37.0%	20.7%	-10.9%
US corporate bonds	11.2%	7.8%	-1.9%	-17.1%	5.8%
European corporate bonds	6.3%	2.4%	-1.2%	-14.0%	8.4%
Russell 2000 (US Small caps)	28.9%	9.8%	26.3%	-17.0%	13.2%
Magnificent 7	57.7%	102.2%	62.7%	-41.9%	100.4%
UK Equities (FTSE 100)	24.4%	-16.3%	26.0%	-0.6%	10.0%
Asia ex Japan	20.8%	15.3%	2.5%	-14.4%	2.9%
China (Shanghai 300)	40.1%	27.3%	6.4%	-21.5%	-14.6%
Japanese equities (Topix)	22.23%	3.34%	9.79%	-9.43%	15.52%

Source: Bloomberg 28.11.24. All returns expressed in euros.

Disclaimer

Warning: Past performance is not a reliable guide to future performance.

Warning: The value of your investment may go down as well as up.

Warning: If you invest in these funds you may lose some or all of your investment.

Warning: These funds may be affected by changes in currency exchange rates.

Warning: Forecasts are not a reliable indicator of future performance.

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