

Donald Ducked

Global Matters Weekly

15 July 2024

– Alex Harvey, CFA – Senior Portfolio Manager & Investment Strategist

To turn around a blog for a Monday we are usually asked to deliver the final version on the preceding Friday, so that the relevant teams can perform the required reviews ahead of Monday's publication. So, with England on the cusp of football glory, I asked my colleagues "Can I wait until Monday and deliver it then?" knowing that a few days' grace would provide me the opportunity to champion our (inevitable) sporting success. "Why don't you write two blogs for Friday?" came the response. "One for if England win the Euros; one for if we lose." This sounded like a bad deal. And it was, because had I done that, I'd then need to deliver a third to cover the bigger talking point this weekend.

Around 4,000 miles west of Berlin is Butler, Pennsylvania, where on Saturday an unassuming 20-year-old Thomas Matthew Crooks opened fire at a Trump rally, injuring several people including the former president and Republican frontrunner, and tragically killing one rally attendee. The picture of Donald Trump with his fist pumped, blood on his face, surrounded by the Secret Service, will become an historic image. That the shooting even happened is itself remarkable and the lapses in security will be scrutinised in the coming days. Trump literally dodged a bullet – 'God alone' saved him – and the looming US election took another twist.

Whilst an assassination attempt is never in reality a zero percent probability, markets assign it as such because it cannot be forecast and would be such a left field event as to be deemed an unrealistic scenario. The effect of the attempted assassin's actions has, ironically, been to increase Donald Trump's chances of winning November's election with as much as a 10ppt swing higher over the weekend to a 67% probability today¹. What could have gone to zero in an instant, moves closer to 100. Despite his election success now seeming almost inevitable, we have to recognise that other outcomes do still exist, and

"What the weekend's remarkable US event means is that we should not be so blinkered as to disregard all alternative scenarios"

this event serves to demonstrate how there will always be alternative scenarios not previously considered. If markets moved to fully discount a Trump win – 100% - then they are failing to price the 'unknown unknowns'. What exactly 100% looks like however is another matter, and where ultimately Mr Market plays the arbiter.

What might appear on the face of it to have been a somewhat binary outcome (Trump wins; Trump loses) fails to recognise the alternative scenario that he never even runs as the Republican Presidential nominee (because he died, in which case you could say that he loses, badly). As investors, we are faced with seemingly binary outcomes quite regularly, particularly in financial markets. More specifically though, it's not the markets that appear binary; it's the data and decision flow behind them. Trump wins the US election (or not); the Federal Reserve (Fed) cuts the Fed Fund rate (or not). These events will either happen or they won't, which is true, but as we've demonstrated above, they fail to fully appraise the alternative scenarios which may play out.

Just a month ago the probability of a 25bps rate cut at the September Federal Open Market Committee (FOMC) meeting was around 50%² - an evenly balanced and seemingly 50/50 binary outcome. At last Friday's market open – after Thursday's US inflation downside surprise – that 25bps cut was 99% priced in. As close as you can get to a 'dead cert' wouldn't you think? Well, in January of this year the outcome was 100% priced, before that 'dead cert' retraced all the way back to 30% at the end of April, and then back up into the 90s where it is again today. The

Source:

¹ Predict, Bloomberg Finance L.P. ² Bloomberg Finance L.P.

danger here is thinking that there are just two outcomes - which would indeed be binary: that the Fed cuts by 25bps, or they do not. In reality though, they could cut by 50bps in September. They could raise by 25bps. Neither of these alternative outcomes have a zero percent probability. Unlikely? Yes. Impossible? No. [There are options contracts protecting a notional ~\$250bn against a rate rise in September.]

What this weekend's remarkable events means for us is that yes, we need to recognise the high and increased probability of Trump being the next President, and what that means for markets (yield curves are today steepening on fiscally expansive expectations), but not be so blinkered as to disregard all and every alternative scenario. If anyone can surprise us, (God alone) it's the Donald.

The Marketplace

- Global equities rose 1.3%
- The US political landscape has been rocked following a failed assassination attempt on Donald Trump. Pollsters now show the probability of a Trump victory has increased
- Brent crude fell 1.7% to \$85.03 per barrel
- Gold rose 0.8% to \$2,411.43 per ounce

Market Focus

US

- US equities rose 0.9%
- US President Joe Biden wrote a letter to congressional Democrats confirming that he was committed to staying in this race for presidency stating that “any weakening of resolve or lack of clarity about the task ahead only helps Trump”
- New York Fed’s Survey of Consumer Expectations, for June showed 1-year inflation expectations down to 3.0%, while 3-year expectations ticked up to 2.9%
- Month-on-month headline CPI (Consumer Price Index) for June fell by 0.1% (vs a 0.1% increase expected), the biggest outright decline in prices since May 2020 during the Covid-19 pandemic. Core CPI came in with a 0.1% increase (vs a 0.2% increase expected), the weakest month for core inflation since January 2021
- Headline PPI (Producer Price Index) increased 0.2% month-on-month (vs 0.1% expected) and 2.6% year-on-year (vs 2.3% expected)

Europe

- European equities rose 1.5%
- Results from the second round of French parliamentary elections left the National Assembly with no party close to reaching a majority and no clear path to how a government will be formed

UK

- UK equities rose 0.6%
- Bank of England chief economist Huw Pill stated that “it’s still an open question of whether the time for that cut is now or not,” casting doubt on the prospect of a cut at their next meeting in August
- UK GDP grew 0.4% in May (vs 0.2% expected), driven by upticks in services and construction output

Asia/Rest of The World

- Global emerging market equities rose 1.8%
- Japanese equities rose 0.4% and Chinese equities rose 3.2%
- China’s latest inflation data for June, showed PPI in deflationary territory, falling 0.8% year-on-year as expected, while CPI was up just 0.2% (vs 0.4% expected)
- Japanese core machinery orders unexpectedly fell 3.2% month-on-month (vs a 0.8% increase expected)
- China’s GDP grew 4.7% year-on-year in the second quarter (vs 5.1% expected), down from 5.3% in Q1, hampered by weak consumer spending and demand
- China’s retail sales growth slowed to 2.0% year-on-year in June (vs 3.4% expected and the worst since December 2022)
- China’s industrial output rose 5.3% year-on-year (vs 5.0% expected) in June, slowing from 5.6% in May

Global Matters Weekly

15 July 2024

Asset Class/Region	Currency	Currency returns			
		Week ending 12 July 2024	Month to date	YTD 2024	12 months
Developed Market Equities					
United States	USD	0.9%	2.9%	18.3%	26.9%
United Kingdom	GBP	0.6%	1.1%	9.0%	16.3%
Continental Europe	EUR	1.5%	2.5%	11.4%	17.0%
Japan	JPY	0.4%	3.0%	23.8%	33.3%
Asia Pacific (ex Japan)	USD	1.9%	3.9%	12.7%	15.8%
Australia	AUD	1.8%	2.5%	6.8%	16.0%
Global	USD	1.3%	3.3%	15.5%	23.3%
Emerging markets equities					
Emerging Europe	USD	1.7%	3.6%	19.5%	30.1%
Emerging Asia	USD	1.6%	3.7%	15.2%	17.3%
Emerging Latin America	USD	4.3%	6.7%	-10.1%	-0.4%
BRICs	USD	2.1%	3.6%	10.1%	10.8%
China	USD	3.2%	4.4%	9.3%	0.3%
MENA countries	USD	1.2%	0.9%	-2.6%	-1.6%
South Africa	USD	2.5%	4.1%	8.9%	11.4%
India	USD	0.7%	2.0%	13.3%	25.7%
Global emerging markets	USD	1.8%	3.8%	11.5%	14.6%
Bonds					
US Treasuries	USD	0.7%	1.4%	0.5%	2.8%
US Treasuries (inflation protected)	USD	0.5%	1.1%	1.8%	3.6%
US Corporate (investment grade)	USD	0.8%	1.7%	1.8%	6.8%
US High Yield	USD	0.9%	1.1%	3.8%	10.8%
UK Gilts	GBP	0.2%	0.6%	-2.0%	6.5%
UK Corporate (investment grade)	GBP	0.3%	1.0%	0.9%	12.1%
Euro Government Bonds	EUR	0.6%	1.0%	-1.0%	4.5%
Euro Corporate (investment grade)	EUR	0.3%	0.7%	1.2%	7.1%
Euro High Yield	EUR	0.3%	0.7%	3.9%	11.3%
Global Government Bonds	USD	1.1%	1.8%	-2.6%	-0.4%
Global Bonds	USD	1.1%	1.9%	-1.0%	2.4%
Global Convertible Bonds	USD	2.2%	2.6%	1.4%	3.1%
Emerging Market Bonds	USD	1.1%	1.6%	3.0%	9.6%

Global Matters Weekly

15 July 2024

Asset Class/Region	Currency	Currency returns			
		Week ending 12 July 2024	Month to date	YTD 2024	12 months
Property					
US Property Securities	USD	3.9%	3.7%	2.8%	7.5%
Australian Property Securities	AUD	3.3%	4.7%	13.2%	26.3%
Asia Property Securities	USD	5.0%	6.6%	-5.7%	-3.3%
Global Property Securities	USD	4.0%	4.9%	2.4%	8.9%
Currencies					
Euro	USD	0.7%	1.8%	-1.4%	-2.0%
UK Pound Sterling	USD	1.5%	2.7%	1.8%	-0.1%
Japanese Yen	USD	1.9%	1.9%	-10.8%	-12.3%
Australian Dollar	USD	0.7%	1.7%	-0.7%	-0.1%
South African Rand	USD	1.0%	1.3%	1.5%	0.9%
Swiss Franc	USD	0.3%	0.4%	-6.2%	-3.0%
Chinese Yuan	USD	0.2%	0.2%	-2.1%	-1.2%
Commodities & Alternatives					
Commodities	USD	-1.7%	-0.1%	7.5%	7.0%
Agricultural Commodities	USD	-2.0%	-0.3%	-0.1%	-1.2%
Oil	USD	-1.7%	-1.6%	10.4%	6.1%
Gold	USD	0.8%	3.6%	16.9%	23.1%

Important notes

This document is for information purposes only and does not constitute any investment advice. This document is only intended for use by Newport Distribution Ltd and their clients. This does not constitute an offer or solicitation to any person in any jurisdiction in which it is not authorised or permitted, or to anyone who would be an unlawful recipient.

Prospective investors should take appropriate advice regarding applicable legal, taxation and exchange control regulations in countries of their citizenship, residence or domicile which may be relevant to the acquisition, holding, transfer, redemption or disposal of any investments herein solicited.

Any opinions expressed herein are those at the date this document is issued. Data, models and other statistics are sourced from our own records, unless otherwise stated. We believe that the information contained is from reliable sources, but we do not guarantee the relevance, accuracy or completeness thereof. Unless otherwise provided under UK law, Momentum GIM does not accept liability for irrelevant, inaccurate or incomplete information contained, or for the correctness of opinions expressed.

The value of investments in discretionary accounts, and the income derived, may fluctuate and it is possible that an investor may incur losses, including a loss of the principal invested. Past performance is not generally indicative of future performance. Investors whose reference currency differs from that in which the

underlying assets are invested may be subject to exchange rate movements that alter the value of their investments.

Under our multi-management arrangements, we selectively appoint underlying sub-investment managers and funds to actively manage underlying asset holdings in the pursuit of achieving mandated performance objectives. Annual investment management fees are payable both to the multimanager and the manager of the underlying assets at rates contained in the offering documents of the relevant portfolios (and may involve performance fees where expressly indicated therein).

Momentum Global Investment Management (Company Registration No. 3733094) has its registered office at The Rex Building, 62 Queen Street, EC4R 1EB

Momentum Global Investment Management Limited is authorised and regulated by the Financial Conduct Authority in the United Kingdom.

© Momentum Global Investment Management Limited 2024