TRUMP'S ELECTION WIN DRIVES EQUITIES HIGHER AS MARKETS LOOK TO POTENTIAL FOR HIGHER INFLATION

This week saw a big market reaction to Donald Trump's return to power. Republicans also retook control of the Senate and are set to keep their majority in the House of Representatives. The so-called Trump trades re-ignited as US growth stocks and the dollar rose strongly, and US government bonds tumbled. In contrast to 2016, when large parts of the Republican party were not 100% with him, the incoming president has much more scope to implement his policies. As Trump assembles his new government, investors will be keenly watching for indications of his policy priorities. How far his administration will go to deliver his promised tariffs and tax cuts, for example?

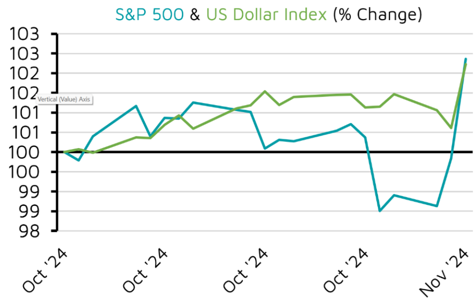
Some market reactions proved short-lived, however. US government bonds had recovered their losses and returned to pre-election levels by Friday morning after the US Fed delivered another interest rate cut. The UK also cut rates, but markets are much less positive about further rate cuts than they were only a few weeks ago as governments on both sides of the Atlantic have brought the potential for higher inflation.

THE MARKETS THIS WEEK

FTSE 100	S&P 500	Nikkei 225	MSCI Europe	Hang Seng	US 10 Yr	UK 10 Yr	Brent Crude	Gold	Iron Ore	GBP USD
-0.49%	+4.69%	+3.80%	-0.40%	+1.08%	-0.07%	+0.04%	-0.16%	+2.71%	+1.39%	+0.39%

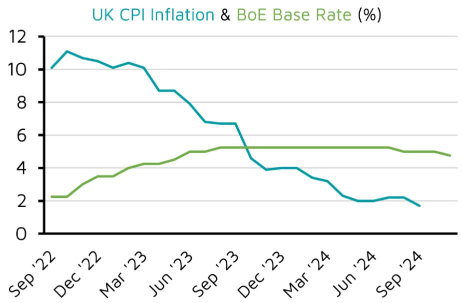
US: TRUMP'S BIG US ELECTION VICTORY DRIVES UP DOLLAR AND EQUITIES

Donald Trump is heading back to the White House after securing a second term as US president. He also led the Republicans to a majority in the Senate and likely control of the House of Representatives. The dollar saw its biggest daily rise in two years, and equities, particularly Wall Street banks and tech stocks, made big gains. Bitcoin also surged. European markets closed lower and the renewables sector slumped. Bonds fell as they priced in higher inflation and fewer oncoming rate cuts.



Trump has proposed to cut corporate taxes by 6% to 15%, ease regulations on banking and energy sectors and raise tariffs on US competitors. However, the outlook for China has deteriorated as Trump has threatened to impose a blanket 60% tariff on all Chinese imports. Higher US bond yields and a stronger dollar will make emerging market corporate and sovereign debt more expensive. If Trump imposes tariffs on all imports Europe's troubled manufacturers will be hit hard.

UK: BANK OF ENGLAND CUTS RATES BUT WARNS OF FEWER CUTS TO COME

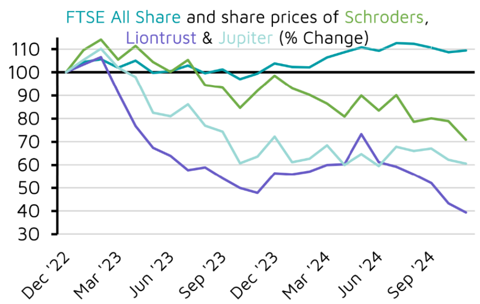


The Bank of England has cut its interest rate to 4.75%, following a decline in inflation to a three-year low in September. The Monetary Policy Committee voted eight to one in favour of the 0.25 percentage point cut, aligning with economists' expectations. Governor Andrew Bailey emphasized the need to maintain inflation close to the target, indicating that further rate cuts are unlikely before early 2025. The pound strengthened by 0.6% against the dollar, and the 10-year gilt yield remained stable at 4.54%.

The central bank's cautious approach reflects the potential impact of Chancellor Rachel Reeves' recent Budget, which has loosened fiscal policy and is projected to increase consumer price inflation by 0.5 percentage points at its peak. The BoE anticipates that inflation will rise in the coming quarters, reaching 2.2% in two years before falling to 1.8%. External factors such as Donald Trump's US election victory and his support for higher tariffs may influence the path of UK inflation and bond yields.

EQUITIES: ACTIVE ASSET MANAGERS STRUGGLE WITH INVESTOR OUTFLOWS

The UK's active fund managers continue to see fund outflows as many investors shift to cheaper index trackers. Schroders reported outflows of about £10bn this quarter, bringing its total assets under management down to £777bn. Liontrust also reported outflows and Jupiter experienced £5bn in outflows this year, partly due to the departure of star manager Ben Whitmore. Calastone reported that UK equity funds saw the biggest ever monthly outflows in October as many investors sought to crystalise profits in advance of a change to capital gains tax in last month's Budget.



In contrast, thematic investment funds, which focus on long-term trends such as artificial intelligence and clean energy, have reported growing interest among institutional investors. Pictet Asset Management has doubled its assets in the past five years, but assets in its thematic strategies have tripled due to institutional demand. Invesco has expanded its offerings this week with three new ETFs focused on AI, cyber security, and defence.

Data sourced from St Louis Fed, Investing.com and Bank of England