

**GLOBAL EQUITY MARKETS RECEIVE A REMINDER THAT US AND CHINA TENSION HAS NOT GONE AWAY**

This week markets were reminded that the power struggle between the US and China remains unresolved. Markets have ignored tariffs over the last few months, with sentiment being driven by the growth of AI/tech stocks, despite growing concerns over valuations in this sector. However, a deterioration in US/China relations is a real possibility, with potential adverse effects for the global economy.

The US has used a combination of blunt tariffs with targeted measures, such as restrictions on the most powerful microchips, as it tries to limit China's influence. This has only been partially successful, as trade data shows China is weathering higher tariffs, whilst reducing its reliance on US chip imports. Chinese dominance of rare-earth minerals production is harder to replace. The rapid de-escalation by the Trump administration reflects a weaker bargaining position. Further easing of tensions is still likely as better trade links would help Chinese growth and reduce US inflation. Erratic US policy making means further escalation cannot be ruled out, as the recent spat spilled over into equity markets.

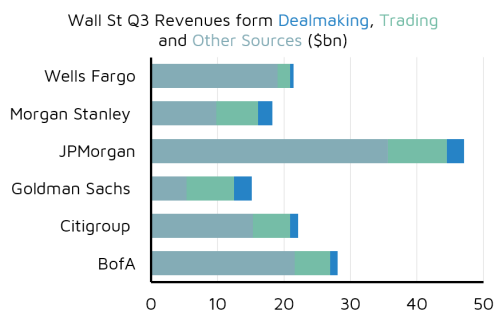
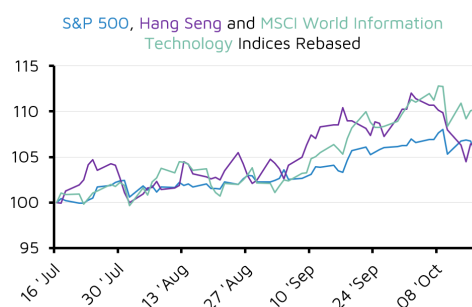
THE MARKETS THIS WEEK

FTSE 100	S&P 500	Nikkei 225	STOXX 600	Hang Seng	US 10 Yr	UK 10 Yr	Brent Crude	Gold	Copper	GBP USD
-2.34%	-2.76%	-0.32%	-1.60%	-3.71%	-0.16%	-0.24%	-6.62%	+7.58%	-4.43%	+1.03%

**GLOBAL: US-CHINA LOCK HORNS ONCE MORE**

Tensions between the world's two superpowers sent global equity markets lower. Washington and Beijing are still renegotiating their trade terms as disputes this year have pushed US tariffs on Chinese goods to 50% and China imposed 30% tariffs on US imports. The US has also restricted China's access to the latest microchips and AI technology, while China placed some restrictions on the export of rare earth elements. Rare earths are essential for most high-tech civilian and military electronic devices and China controls 70% of their production and 90% of their processing globally.

Trade restrictions appeared to be relaxing ahead of President Trump's planned meeting with Premier Xi this month. However, Beijing enacted sweeping export controls on rare earths last week. In response, Trump threatened 100% tariffs on China and said he may cancel his meeting with Xi. This sent the S&P 500 down 2.7% on Friday, its steepest one-day drop since the April. He later struck a more conciliatory tone, which calmed markets.

**WALLSTREET: JUMP IN DEALS AND TRADING BUMP UP PROFITS**

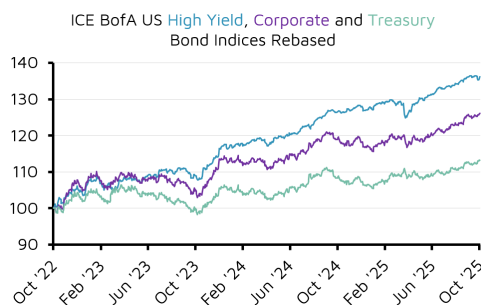
Wall Street banks kicked off the third quarter earnings season with rising revenues from all their activities. Banking shares were higher with the KBW index gaining 4.2% for the week. Retail banks gained more in markets however, with Wells Fargo shares jumping 11.4% as it outperformed estimates and raised guidance.

Dealmaking has picked up over the third quarter with the top five banks generating over \$9.7bn in investment banking fees. This is still lower than the \$13.4bn earned in the final quarter of 2021. Goldman Sachs performed better than its rivals with deals earning \$2.7bn—a 43% year-on-year jump. Trading revenues have been strong throughout the year as market volatility earned \$33bn for banks in Q3 alone. JPMorgan dominated trading, earning \$8.9bn—25% more than the same period last year. Most of JPM's income was from bond trading, while Morgan Stanley beat its rivals in equity trading, earning over \$4.1bn. Morgan Stanley also recorded the highest profit increase—a 47% jump.

**BONDS: POTENTIAL FOR RATE CUTS DRIVE UP GOVERNMENT BONDS**

UK and European government bonds made substantial gains as investors expect further interest rate cuts. US government bonds also gained as part of the rally in global government bonds. The IMF warned that inflation in the UK will likely be higher than other G7 countries over the next two years. However, economic growth remains modest and Bank of England governor, Andrew Bailey, said that rising unemployment remains a concern as wage inflation slows. Government bonds gained as the French prime minister who lost a no-confidence vote, was reappointed as he attempts to pass a budget.

In the US, Federal Reserve chair Jerome Powell said the fed will slow the sale of US treasuries that it bought as part of Covid-era market stimulus. This helped push up treasury prices. Powell said the cooling US jobs market is still a concern. Meanwhile, many Wall Street banks have begun cutting exposure to riskier high yield bonds following this year's rally and have started moving into government bonds and high-quality investment grade corporate bonds.



Data sourced from FE Analytics and SEC Filings

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