CONSUMER AND BUSINESS CONFIDENCE DENTED BY SHORT-TERM POLITICAL DECISIONS

This week we received another lesson in the law of unintended consequences. In the UK, GDP growth stagnated in the third quarter as manufacturing and industrial production fell sharply. Meanwhile, retail sales growth slowed in September, employers have scaled back hiring plans and the housing market slowed. The reason given for some or all of the slowdown in activity is the Treasury's attempt to pave the way for tax rises in the budget by warning of a dire financial position and the need for belt tightening. It is easy to see why the government wants to justify the breaking of a key manifesto promise, but this is the second time it's messaging appears to have had a chilling effect on business and consumer confidence.

The US has also felt the effect of unintended consequences as the bitter divisions which caused the government shutdown seem to have dented consumer confidence in the run-up to the key holiday shopping season. Any downturn in activity may turn out to be fleeting, as was the case with the UK last year, but it is a good example of how short-term political expediency can trump our national long-term interests.

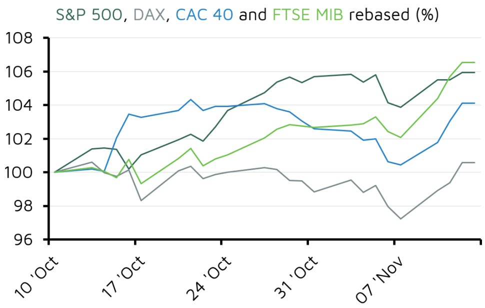
THE MARKETS THIS WEEK

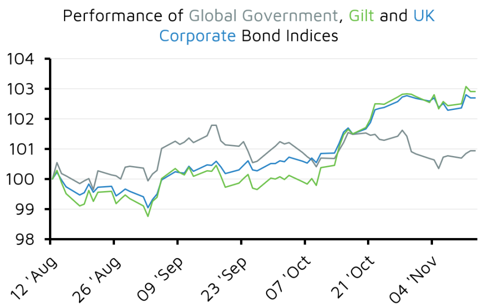
FTSE 100	S&P 500	Nikkei 225	STOXX 600	Hang Seng	US 10 Yr	UK 10 Yr	Brent Crude	Gold	Copper	GBP USD
+0.08	-0.02%	-0.05	-0.21%	+1.64%	+0.02%	+0.03%	-0.45%	+3.41%	+1.57%	+0.43%

US: EQUITIES GAIN AS LONGEST US GOVT SHUTDOWN ENDS

The US federal government has begun to reopen after president Donald Trump signed a short-term funding bill. The bill was passed by the House of Representatives on Wednesday after receiving Senate approval on Monday and it ends the 43-day closure of non-essential federal government services and means a return to work for around 900,000 furloughed workers.

The end of the longest US government shutdown was welcomed by equity markets. US gains were led by technology stocks and European markets also joined the rally with Italian, Spanish and German equities recording big gains. However, UK equities missed out due to a lack of technology stocks in the index and some weakness in the price of oil. The end of the shutdown means US government economic data will resume but markets are already confident of more rate cuts from the Federal Reserve following private sector redundancies and a sharp drop in US consumer confidence, and this caused the dollar to slide.





UK: DREARY DATA EXPECTED TO FORCE BOE'S HAND IN CUTTING RATES

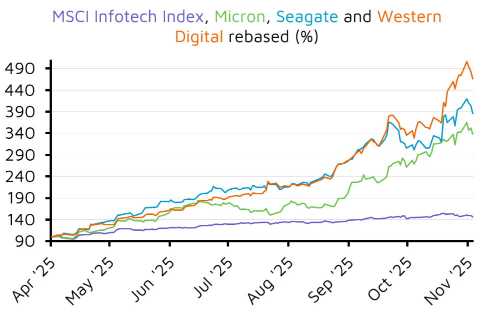
Gilts extended their gains this week as a slew of dreary data made rate cuts by the Bank of England far more likely in December. The UK economy contracted by 0.1% in September, bucking three months of slow expansion. The cyber-attack which halted production at Jaguar Land Rover may be partly to blame as industrial production took a hit. Unemployment also rose to 5% from 4.8% in August. Wage growth slowed by 0.1% to 4.6%. AI is adding fuel to the fire—just as rising taxes and sluggish growth darken the outlook—as 26% of large businesses expect to cut jobs as they use it to streamline operations. In contrast, only 9% of small and medium-sized firms say the same. Despite the recent miserable data, GDP is on track to grow at 1.4%, just as the OBR had forecast.

These developments will weigh on the BoE's rate decision, though earlier, Governor Andrew Baily said cuts would be gradual and the bank's base rate is close to where it wants it to be. The bank expects its benchmark rate to fall from the current 4% to 3.5% in three years' time.

EQUITIES: MEMORY CHIPMAKERS OUTPACE OTHER TECH STOCKS

The AI investment boom has driven huge gains for the makers of computer memory chips. Makers of the most powerful processing chips such as Nvidia and TSMC have captured the limelight of the AI boom, but memory chipmakers have gained far more this year. Over the last 12 months, US-listed firms Seagate, Western Digital and Micron have gained 190%, 160% and 136%, respectively. The broad US semiconductor industry has gained 44% and the S&P 500 is up 16% over this period. Returns for these stocks have been supercharged in the last two months by astronomical data centre demand.

This week AI firm Anthropic announced a further $50bn investment in new data centres in the US, while Foxconn's third quarter profits rose 17% to almost $2bn due to demand for its AI-capable computer servers. However, the yield on bonds issued by Google, Meta, Microsoft and Oracle, among others, have risen considerably in recent weeks due to rising concerns among bond investors about the level of expenditure on AI infrastructure.



Data sourced from FEA and Investing.com