FE Investments

WEEKLY MARKET COMMENTARY BY ROB GLEESON
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DEMOCRATS SWEEP TO MIDTERM VICTORY BUT MARKET FEARS APPEAR MISPLACED

This week US voters delivered a rebuke of Donald Trump's political agenda. Midterm elections usually go against a sitting president's party, but this reversal was exceptional, with several states electing Democratic senators and governors for the first time in decades. Reasons include Trump's deeply unpopular war with Iran and the subsequent spike in petrol and diesel prices. Voter concerns over immigration enforcement and crony capitalism also played a part. For markets, AI is the key issue, and many winning candidates campaigned against its unchecked expansion.

Tech stocks are at the centre of the post-election equity slump as investors see a more hostile political environment. But while some AI-related businesses, such as neocloud services CoreWeave and Nscale, are exposed to local planning decisions, the outlook for other AI businesses is little changed. AI adoption continues to grow, and the biggest, best-funded tech platforms and AI labs can shift development to other parts of the US or overseas if local politics become inhospitable. Meanwhile, US economic growth is steady, and consumer spending has held up.

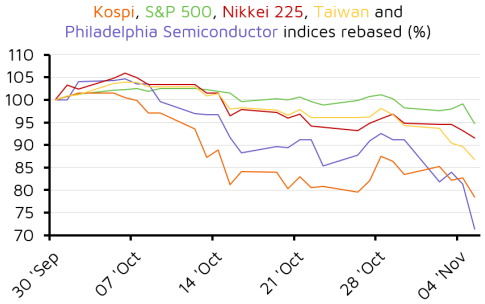
THE MARKETS THIS WEEK

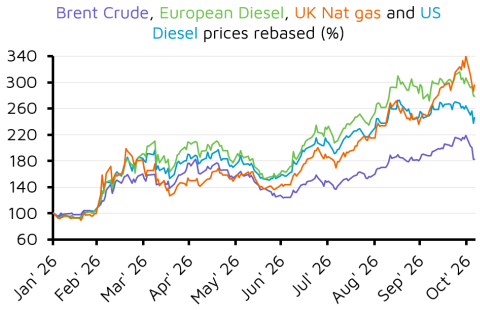
FTSE 100	S&P 500	Nikkei 225	STOXX 600	Hang Seng	US 10 Yr	UK 10 Yr	Brent Crude	Gold	Copper	GBP USD
-1.03%	-3.16%	-7.22%	+0.16%	+5.41%	-0.10%	-0.18%	-14.57%	+2.69%	-3.72%	-0.26%

US: DEMOCRATS' ELECTION WIN SINKS GLOBAL EQUITIES

America's Democratic party secured a sweeping victory in midterm Congressional and state elections. The scale of the win has significantly changed US domestic politics as the Democrats took control of the Senate and are on track for a much bigger majority in the House of Representatives than had been forecast. Usually solid Republican states like Texas, Ohio and Georgia elected Democratic governors.

A brief post-election rally quickly stalled and on Thursday investors dumped AI-linked shares on fears Democrats who campaigned against data centres will slow the spending boom behind this year's gains. The S&P 500 fell 4.4% and the tech-heavy Nasdaq 100 6.4%, its worst day since 2020. Chipmakers were hit hardest as Nvidia dropped 9.3% and Micron fell 17%. Selling spread to US defensive stocks and extended to Asia's chip-heavy markets as Japan's Nikkei index was pushed into a bear market. Europe, with little tech exposure, held up better and government bonds attracted haven buying.





ENERGY: PEACE HOPES CUT OIL BUT FUEL STAYS SCARCE

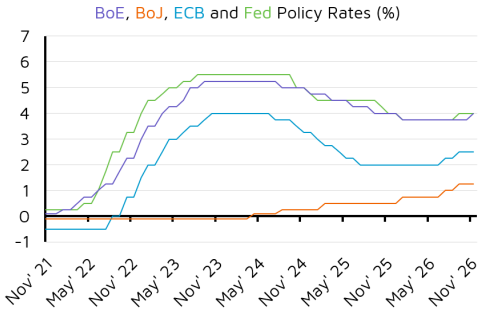
Brent crude has lost about a fifth of its value in four sessions, falling to $94 a barrel, a two-month low, before edging back towards $97. Iran's president first hinted that negotiators had more room to strike a deal. Then Democrats swept the US midterms and the vice-president blamed the war for his party's defeat, raising bets that Washington will seek a way out. Government bonds rallied. The 10-year Gilt yield fell 0.13 percentage points on Wednesday to 5.16%, the biggest daily drop since May.

Yet energy supply remains tight. Goldman Sachs has just raised its December Brent forecast to $105 from $90, and sees $140 possible next year if Gulf output stays depressed. US diesel stocks have fallen below 100m barrels, the lowest in over two decades, and Trump's plan to import Russian diesel is faltering. European gas topped €100 per megawatt hour last week for the first time since 2022, with storage thin and Qatar shipping under a third of its usual LNG, but has since fallen about 17% to around €87.

UK: BANK OF ENGLAND RAISES RATES AS INFLATION PICKS UP

Bank of England governor Andrew Bailey said the drop in the oil price will not stop inflation already in the pipeline as it raised interest rates by 0.25% to 4%. The hike was widely expected as UK inflation accelerated to 3.5% due to higher home energy, petrol and diesel prices. All but one member of the rate-setting Monetary Policy Committee voted for a rise. The one dissenting vote was for a larger hike of 0.5% as the bank new sees inflation hitting 5% in the second quarter of 2026 and raised its forecast for GDP growth. Bond investors see a high chance of another rate hike in December.

European inflation accelerated to 4% in October due to higher energy costs. The European Central Bank is expected to hike interest rates further this year due to higher than expected Eurozone GDP growth in the third quarter. UK and European government bond yields fell considerably, despite the outlook for higher rates, as the lower oil price and change in control of the US Congress have eased concerns about future inflation.



Data sourced from FE Analytics, BoE, BoJ, ECB and FRED

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