Markets attentive to Trump's – cabinet picks

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With geopolitics on a knife edge, European economies last week continued to lose ground following the release of disappointing PMIs, confirming that an economic slowdown is in the making.

As reporting season draws to a close, the market mood has been impacted by these nominations, sometimes positively, at other times negatively. The most recent appointment – Scott Bessent at the Treasury – reassured Wall Street. This hedge fund honcho, who knows the markets like the back of his hand, advocates an ultra-liberal policy and using customs duties as a bargaining chip. His nomination offsets some of the negative fallout from the appointment of Robert F. Kennedy Jr., at the head of the Department of Health and Human Services, and Peter Hegseth, a Fox News host with no military or national security leadership experience, who has been propelled to the head of the Pentagon at a time when geopolitical tensions are at fever pitch. In any case, all these choices reflect the President-elect's intention to show his base that he will stop at nothing to keep his campaign promises.

The markets are anticipating Trump's manifesto to stoke inflation. Simply witness the trend in the US 10-year yield, which has been trading in a range of 4.38-4.45% since the election result.

Trump's manifesto is inflationary

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Despite the uncertainties surrounding the implementation of Trump's political programme, investors are favouring the US markets more than ever. There is good reason for that. Composite PMIs were in line with forecasts in the US (55.30 vs. 54.30 forecast), but showed surprising weakness in Europe (48.10 vs. 50), confirming the different economic paradigms on either side of the Atlantic (if proof were ever needed). The political backstory in the EU's two powerhouse economies is not helping matters. The French government lacks stability, while Germany is due to hold a snap election. In addition, the prospect of US import tariffs is stoking uncertainty and weighing all the more heavily on an economic outlook that is soft by all standards.

Last week the S&P 500 and Nasdaq advanced by 1.28% and 1.15% respectively, while the Stoxx Europe 600 added 1.12%.

This coming week, there will be a fuller range of macroeconomic news with the release of PCE inflation and the minutes of the latest Fed meeting, plus Germany's initial inflation estimate for November

Investors favouring US markets more than ever

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The Fed and ECB will next month make their final rate decisions for 2024. At the Fed, fewer and smaller rate cuts are likely. The FedWatch tool tells us that the probability of a 25 basis point (bp) cut at the next meeting has fallen from almost 75% a month ago to 55% today. We now estimate a total rate cut of between 120bp and 150bp over the next 12 months.

For the ECB, the scenario is different. A more aggressive easing policy will most likely be needed to galvanise the economy. The market-assigned odds of a 50bp cut at the next meeting on 12 December rose to 60% in the wake of the PMI numbers.

The prospective rate cuts could give a boost to the equity market despite the global instability, which ordinarily would call for a more cautious stance.

Swiss Market Index (SMI)

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A technical rebound is in the pipeline, with retracement to 11890 the first target, followed by 11950. Momentum is still weak.

Key data

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	USD/CHF	EUR/CHF	SMI	EURO STOXX 50	DAX 30	CAC 40	FTSE 100	S&P 500	NASDAQ	NIKKEI	MSCI Emerging Markets
Latest	0,89	0,93	11 716,50	4 789,08	19 322,59	7 255,01	8 262,08	5 969,34	19 003,65	38 283,85	1 087,27
Trend	↑	→	→	→	→	↓	↑	↑	→	↓	↓
YTD	5,85%	-0,93%	5,20%	-0,80%	15,35%	-2,61%	-0,20%	5,97%	8,02%	14,40%	0,12%

(values from the Friday preceding publication)

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